

Ex-Ante Evaluation (for Japanese ODA Loan)
Southeast Asia Division 1, Southeast Asia and Pacific Department, JICA

1. Name of the Program

(1) Country: The Republic of Indonesia (Indonesia)

(2) Project Site/Target Area: All of Indonesia

(3) Program: COVID-19 Crisis Response Emergency Support Loan (Competitiveness, Industrial Modernization and Trade Acceleration Program)

Loan Agreement: February 20, 2023

2. Background and Necessity of the Program

(1) Current State and Issues regarding the Response to COVID-19 and the Establishment of Investment and Trade Environments, and the Priority of the Program in Indonesia

In Indonesia, the spread of the novel coronavirus infection (COVID-19) has had serious effects on several industries, mainly tourism, transport, and construction. In 2020, the country registered its lowest economic growth rate since the Asian monetary crisis (-2.1%) and saw a rise in both the unemployment rate and the poverty rate (from 5.3% in 2019 to 7.1% in 2020 and from 9.4% in 2019 to 10.4% in 2020, respectively) (ADB, 2021). As a result, although it ranked among upper/middle-income countries in 2019, Indonesia became a lower/middle-income country again in 2020 with its gross national income per capita falling to \$3,870 (from \$4,050 in 2019).

With the easing of COVID-19, the Indonesian government has emphasized encouraging industries to resume economic activities, but the country's economic growth depends mainly on the export of primary products. During the past decade, the average net foreign direct investment (FDI) has remained at 1.9% of GDP (The OECD average is 2.3%; FDI totaled 423 trillion IDR in 2019). In addition, FDI in Indonesia is concentrated in the resource and digital fields and has only limited ripple effects on the creation of employment. Other challenges include trade barriers and divided and inefficient logistic systems in particular. In 2018, the World Bank's Logistics Performance Index ranked Indonesia 46th, which is a low level of performance even among the Southeast Asian and Oceanic countries, and the percentage of logistic costs to GDP was 23.9% (ADB, 2019). Furthermore, micro, small, and medium enterprises (MSMEs), which account for 99.9% of total enterprises and employ 97% of the working population, are less productive, and in 2019, they represented only 57% of GDP in terms of output. Moreover, they fail to serve as suppliers for foreign businesses in FDI. Low expenditure for research and development as well as worker ability development are issues that especially need to be addressed for productivity growth.

Taking into consideration these circumstances as well as the effects of COVID-19, including the rising unemployment rate and the growing poverty rate, the Indonesian government intended to increase employment in the country by inviting investment from overseas as a result of the global post-COVID-19 supply chain review, establishing the Job

Creation Law (also known as the Omnibus Law) in November 2020 when the pandemic was still raging, and enacting related detailed regulations (government orders and presidential regulations) in February 2021. The Job Creation Law aimed to invite foreign investment and create jobs by revising 77 related laws in eleven areas, such as relaxing regulations on foreign investments, business licensing requirements, and restrictions on the employment of workers as well as promoting activities in special economic zones, supporting small and medium enterprises (SMEs), and advancing research and development and innovation. In particular, the relaxation of restrictions on the employment of workers has been welcomed by overseas investors, such as Japanese businesses, because it contributes to the reduction of investment barriers, although objections have been heard from around the country. It has been decided for the first time that permission and authorization should be granted to activities in the health and healthcare fields in special economic zones. In addition, the pharmaceutical industry is now included as a priority business area for investment, and the pharmaceutical and medical device industries are covered by the preferential tax system. As typified by these and other initiatives, the reduction of investment barriers in the health and healthcare fields is expected to strengthen the country's health and healthcare industry.

In 2020, in order to respond to the spread of COVID-19, the Indonesian government eased the provisions of the State Finance Law, which set a maximum budget deficit limit of 3% of GDP, as a temporary measure only valid until the end of 2022. It also formulated the National Economic Recovery Program (PEN), a public-spending package that included (1) protecting the socially vulnerable mainly through conditional cash payments, (2) strengthening healthcare systems to cope with the spread of the pandemic, and (3) supporting industries by taking measures involving corporate financing. The economic recovery program was worth approximately 700 trillion rupiahs (¥5.4 trillion), which represented 5% of GDP. Since the increased expenditure and decreased revenue due to sluggish economic activities caused fiscal deficits to grow substantially in 2020 (initial budget: -1.8% of GDP resulting in -6.3%), Japan assisted the COVID-19 Active Response and Expenditure Support Program or CARES (¥50 billion; loan agreement in August 2020; co-financing with ADB) in order to help the Indonesian government spend for PEN and other measures to cope with COVID-19. PEN continued in fiscal 2021 and thereafter (about 744 trillion rupiahs (¥5.9 trillion) in fiscal 2021 and 414 trillion rupiahs (¥3.3 trillion) in fiscal 2022) with fiscal deficits in fiscal 2021 at -5.7% on the initial budget basis and those in fiscal 2022 at -4.85%. The approved FY2022 budget requires 868 trillion rupiahs (¥6.9 trillion) to finance fiscal deficits, and plans call for 28.7 trillion rupiahs (¥220 billion) to be covered by donor program loans. In May 2021, the Indonesian government requested its Japanese counterpart for financial assistance totaling ¥50-60 billion. The COVID-19 Crisis Response Emergency Support Loan ("Program") is positioned as part of the response to the request together with the Disaster Resilience Enhancement and Management Program Loan (Phase III), which is currently being formed and is expected

to be used as part of the general fiscal fund for 2023.

Taking Indonesia's development issues and financial needs into account, through ADB's financial assistance based on co-financing for CITA¹, this Program is intended to support the Indonesian government in taking measures to improve the investment and trade environment with post-COVID economic activities in mind. It is assumed that as a whole, the CITA program will improve the series of policies and systems that are expected to be achieved by June 2025, and this Program is viewed as its Phase I.

(2) Japan's and JICA's Cooperation Policy and Operations in Relation to the Response to COVID-19 and the Establishment of Investment and Trade Environments

Japan's Country Development Cooperation Policy for Indonesia (September 2017) identifies helping establish business and investment environments as a priority in the area of "assistance for enhancing international competitiveness," supporting the improvement of quality of life as a priority in the area of "assistance for realizing a safe and fair society through balanced development," and assisting in raising the ability to cope with infectious diseases as a priority in the area of "assistance for raising the ability to meet challenges for Asia and the international society." Meanwhile, taking the effects of COVID-19 on ASEAN countries into account, Japan announced at the Special ASEAN+3 Summit on April 14, 2020, that it would assist mainly to enhance the ability to tackle infectious diseases and increase economic resilience.

The JICA Country Analysis Paper for Indonesia (June 2018) aims to develop the private sector and enhance industrial competitiveness and develop industrial human resources by strengthening links among businesses, such as the promotion of foreign direct investments and trade with foreign businesses, within a program for improving systems related to the business environment. It states that in order to help establish an investment environment and promote trade, JICA will assist in promoting local SMEs and supporting industries, and establishing industrial foundations—initiatives essential to achieve its goals. In addition, in the program for supporting Asia and the international society in meeting challenges, the Paper states that JICA will continue to help increase the ability to cope with new infectious diseases. Furthermore, it points out the necessity of cooperation in spending when financial or other crises occur. Moreover, from the viewpoint of helping address the global effects of COVID-19, this Program contributes to maintaining peace and stability in the Free and Open Indo-Pacific.

(3) Other Donors' Activities

In June 2021, the Board of Directors of the World Bank (WB) approved the Investment and

¹ CITA refers to the COVID-19 Crisis Response Emergency Support Loan (three phases scheduled for implementation) with ADB as its lead donor. With CITA, ADB plans to provide assistance in three phases: Phase I (June 2021), Phase II (June 2023), and Phase III (June 2025). This Program covers Phase I. For Phase II and thereafter, JICA will again consider assistance in accordance with future requests made by the Indonesian government.

Trade Reforms DPL (\$800 million) to review the attraction of investment and trade policy. It also assisted in increasing the ability to test for and handle COVID-19 and in strengthening public health systems as part of the Emergency Response to COVID-19 (\$750 million in 2020) and the Emergency Response to COVID-19 Additional Financing (\$500 million in 2021).

ADB has approved its plan to provide a \$3 million grant for the procurement of medical equipment and has granted loans related to the procurement and logistics of vaccines as part of the Responsive COVID-19 Vaccines for Recovery Project under the Asia Pacific Vaccine Access Facility (\$450 million in 2021). As for CARES, to which JICA also extended co-financing, ADB provided co-financing along with KfW Bankengruppe (KfW) (€250 million), Asian Infrastructure Investment Bank (AIIB) (\$750 million), and the Australian government (\$1,500 million). Furthermore, as the lead donor in this Program, ADB, which led the formulation of the Program's policy matrix and other efforts, plans to grant a loan of \$1,500 million in three phases (\$500 million in each phase). KfW and the Export-Import Bank of Korea (KEXIM) are also scheduled to join the Program, planning to contribute \$354.25 million and \$100 million, respectively.

3. Program Description

(1) Program Description

1) Program Objective

By providing financial assistance to Indonesia, whose economy was significantly affected by the spread of COVID-19, this Program aims to promote investment in the private sector primarily through the improvement of the business and investment environment with post-COVID economic activities in mind, thus contributing to the stability of the country's economy and society and encouraging of its development efforts.

2) Program Components

Through financial assistance, this Program is intended to support the improvement of policies and systems and the steady implementation of such improvement efforts in the below-listed three major areas that Indonesia's related government agencies agreed on and set in order to promote the investment and trade needed for economic reconstruction after having suffered from the effects of COVID-19. Pillars of policies and actions whose degree of contribution to the project's goals are considered as high are set in the eleven areas covered by the Omnibus Law which contribute particularly to accelerating corporate activities and establishing the investment environment. The entire initiative ("Plan") consists of Phase I (June 2021), Phase II (June 2023), and Phase III (June 2025) with policy actions set to be achieved in each phase. In this Program, a total of nine policy actions were set for Phase I, and it has been confirmed that all of them were attained. The major goals achieved were (i) the construction of the OSS-RBA online system, which integrated all procedures for business permissions and authorizations, (ii) the expansion of the National Single Window (NSW), including the linkage to SEZ, joint customs and quarantine inspections along with the

streamlining of operations through the single submission of products transported by sea, and (iii) the preferential tax system for corporate R&D and skills training.

Programs	Major components
(a) Improvement of the investment environment	<ul style="list-style-type: none"> ● Improvement and simplification of the investment application and permission/authorization systems ● Promotion of investments in the manufacturing industry, including high technology ● Improvement of land development-related procedures ● Simplification of procedures related to new development in special economic zones
(b) Reduction of trade barriers	<ul style="list-style-type: none"> ● Improvement of logistics-related procedures ● Expansion of the National Single Window (NSW) ● Expansion of exports through the signing of FTA and RCEP agreements
(c) Corporate growth	<ul style="list-style-type: none"> ● Growing and modernizing MSMEs ● Preferential tax system for corporate R&D and skills training

3) Beneficiaries of the Program (target group)

Final beneficiaries: About 270 million people (Indonesia's population)

(2) Estimated Program Cost (¥30,000 million covered by loan in yen)

(3) Schedule (cooperation period): The target date for the achievement of this Program's policy actions was June 2021. Financial assistance will begin with a loan agreement in January 2023, and the Program will be completed upon loan disbursement (scheduled for March 2023).

(4) Program Implementation Structure

1) Borrower: The Government of the Republic of Indonesia

2) Executing Agency: Coordinating Ministry for Economic Affairs (CMEA)

(5) Cooperation and Sharing of Roles with Other Donors

1) Japan's Assistance Activities

In terms of improving the investment environment, Investment Promotion Policy Advisor is being dispatched to enhance the ability of the Indonesia Investment Coordinating Board to form policy, promote investments, and provide investment information (cooperation period: January 2020 to July 2023). These Advisors are expected to extend cooperation in policy actions in Phase II and thereafter by putting information regarding Japanese businesses' requests, etc. for investment-related procedures in such actions. The Project for Capacity Development for Land Appropriation System Improvement in Indonesia (technical cooperation for the period from March 2018 to October 2022) contributed to the achievement of policy actions in Phase II and thereafter through

technical transfers such as the establishment of standard work procedures and information management systems for land acquisition as well as land surveys, drawings, registration, and confirmation of real estate appraisals as the Ministry of Agrarian and Spatial Planning strove to improve its ability to acquire land.

In terms of reducing trade barriers, Port Development Policy Advisor is being dispatched to improve the technical capabilities of the Ministry of Transportation and its ability to formulate and implement policy (cooperation period: October 2021 to October 2024). In addition, JICA is supporting infrastructure development to make logistics in the capital area efficient through the Patimban Port Development Project (Japanese ODA loan; ¥118.9 billion loan agreement for Phase I in November 2017 and ¥70.195 billion loan agreement for Phase II in May 2022). From the viewpoint of logistic improvement, this project is expected to coincide with the actions to be taken in Phase II of this Program and thereafter.

As far as corporate growth is concerned, the Project for Automotive Industry Development (technical cooperation for the period from April 2022 to April 2025) plans to carry out system improvement plans aimed at upgrading worker skills in the automotive industry. This project is expected to work with this Program through inputs for policy actions in Phase II and thereafter. Cooperation based on surveys to create an environment for start-up support and impact investments is also under consideration.

2) Other Donors' Assistance Activities: Co-financing with ADB, KfW, and KEXIM (parallel method)

(6) Environmental and Social Consideration

1) Category: C

2) Reason for Categorization: The Program is likely to have a minimal adverse impact on the environment under the JICA Guidelines for Environmental and Social Considerations released in April 2010.

(7) Cross-cutting Issues

1) Consideration given to poverty and poverty reduction: In this Program, program (c) is likely to contribute to encouraging impoverished people (youths and other persons who are unemployed due to COVID-19) to enter the labor market through the support for SMEs, including by helping entrepreneurship and expanding existing businesses.

(8) Category of Gender: GI (S) gender informed (Significant)

<Description of activities and reason for classification>

Support for women-owned MSMEs is included in (c) of this Program: Corporate growth "Growing and modernizing MSMEs."

(9) Other Important Issues

This Program is expected to contribute to the recovery and maintenance of the economic activities of Japanese businesses that operate in Indonesia through measures

implemented in programs (a) and (b). By supporting the Indonesian government in taking measures to quickly curtail COVID-19 through this financial assistance, this Program also contributes to stabilizing the Indonesian economy and society, ensuring the safety of Japanese people in Indonesia, and restoring the movement of people between Japan and Indonesia.

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicators)

Indicator	Baseline (Actual value in 2019)	Target (by 2026) [One year after the completion of Phase III]
FDI (trillion IDR/year)	423	800
Percentage of logistic costs to GDP (%)	23.9	20.0
Percentage of MSMEs' output to GDP (%)	57	65

(Note) The Program plans to use the same operation and effect indicators as CITA of ADB, its co-financing partner. While ADB has planned up to Phase III, the Program sets 2026 as its target year, which comes after Phase III will have been completed.

(2) Qualitative Effects: Stability of the Indonesian economy and society, creation of employment, and reduction of trade barriers. In particular, with respect to the reduction of trade barriers, it is expected that the Program will examine qualitative effects using the following indicators:

- Amount of trade (export and import amounts, balance on goods, and balance of current account)
- Trade structure (breakdown of export destinations, breakdown of exporters/countries by product)
- Time and cost required for trade procedures
- Number and quantities of documents and information submitted by exporters/importers for trade-related procedures
- Degree of exporters' and importers' satisfaction with trade procedures in Indonesia
- WB's and IFC's investigative reports and data on the trade environment and procedures
- Annual number of applicants for trade procedures

(3) Internal Rate of Return: Not calculated because the Program is a program loan.

5. External Factors and Risk Control

(1) Preconditions

As prerequisites for implementing policy actions, budgets are appropriately allocated, and personnel is assigned, to related government agencies.

(2) External Factors

Measures to bring COVID-19 under control are globally maintained to avoid a rapid

deterioration of the situation. Relaxations of worker employment regulations have been accepted in Indonesia. Fluctuations in trade due to COVID-19 have been reduced to a certain extent.

6. Lessons Learned from Past Programs

The lesson learned from documents such as the 2014 ex-post evaluation for the Climate Change Program Loan and the Disaster Recovery and Management Sector Program Loan, both for Indonesia, is that in order to ensure that the effects of policy improvement are evident, it is important to establish a system for policy consultations based on a thorough evaluation of what the situation will be like after the project is completed. Taking the lesson mentioned above into consideration, the Program has confirmed that it will work with ADB and other donors to build a CMEA-led system for policy consultations and monitoring.

7. Evaluation Results

The Program is consistent with the development issues and policies of Indonesia as well as Japan's and JICA's cooperation policies and analyses. Also, it will likely contribute to four SDGs: Goal 1 (No poverty), Goal 3 (Good health and well-being), Goal 5 (Gender equality), and Goal 8 (Decent work and economic growth). All these aspects suggest that it is highly necessary for JICA to support the implementation of this Program.

8. Plan for Future Evaluation

(1) Indicators to be Used

As indicated in Section 4

(2) Timing

Ex-post evaluation: One year after the completion of Phase III

ADB, the lead donor, will conduct monitoring and evaluation throughout the Program, including the goals set for 2026, with JICA participating in the monitoring as well.