

JBIC EXTENDS THREE ODA LOANS TO THE REPUBLIC OF INDONESIA

--Supports for Development of Irrigation Facilities and Rural Area Basic Infrastructure--

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1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) decided to extend ODA loans totaling up to 46,354 million yen for three projects to the Republic of Indonesia, and signed today loan agreements with the government of the Republic of Indonesia in Jakarta.
 2. These loans provide financing for the following three projects: "Batang Hari Irrigation Project (II)"; "Project Type Sector Loan for Water Resources Development (II)"; and "Rural Areas Infrastructure Development Project (III)". The objective of the "Batang Hari Irrigation Project (II)" is to construct irrigation facilities in West Sumatra and Jambi provinces, Sumatra Island, aiming to increase rice and other food production. "Project Type Sector Loan for Water Resources Development (II)" shares the similar purpose and is implemented in West Indonesia (Sumatra Island) and Central Indonesia (Java Island and Kalimantan Island). "Rural Areas Infrastructure Development Project (III)" aims to develop basic infrastructures such as transportation facilities, water supply and sanitation facilities and production facilities in rural villages of Indonesia, thereby contributing to poverty reduction through autonomous development of regional economy.
 3. JBIC laid out "the Mid-Term Strategy for Overseas Economic Cooperation Operations" in December 1999, which focuses assistance for Indonesia on the following two areas: (1) In the short term JBIC will, with the collaboration of multilateral agencies, provide support for improving the country's balance of payments, helping the socially vulnerable and reforming economic structures in order to support recovery from economic crisis and promote social and economic stability. (2) In the medium term JBIC will target social stabilization through reduction of the population in poverty, environmental conservation measures, education and human resource development, economic development focusing on social and economic infrastructure improvement and structural adjustment, with due consideration for the country's debt repayment capacity. In line with this Strategy, these three loans are provided for the projects that will contribute to laying a foundation for medium to long-term development of Indonesia, thus helping the country to achieve sustainable growth.

(See Appendix for details.)

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1. Loan Amount and Conditions

| Project Name | Amount (Mil. Yen) | Interest Rate (% per annum) | | Repayment Period/ Grace Period (Year) | | Tying Status | |
|---|----------------------|--------------------------------|------------------------|--|------------------------|-----------------------|------------------------|
| | | Goods and Services | Consulting Services | Goods and Services | Consulting Services | Goods and Services | Consulting Services |
| Batang Hari Irrigation Project (II) | 7,639 | 1.80 | 0.75* | 30/10 | 40/10 | General Untied | Bilateral tied |
| Project Type Sector Loan for Water Resources Development (II) | 18,676 | 1.80 | 0.75* | 30/10 | 40/10 | General Untied | Bilateral tied |
| Rural Areas Infrastructure Development Project (III) | 20,039 | 1.80 | 0.75* | 30/10 | 40/10 | General Untied | Bilateral tied |

*Interest rate for special environmental project

2. Background and Necessity of the Loan

Indonesia is one of the countries that were hardest hit by the Asian currency crisis triggered by the depreciation of the Thai Baht in July, 1997. The real GDP growth rate for FY1998 dropped to -14.1%, dealing a major social and economic blow to the country. To address such situation, JBIC has extended assistance for the past three years to help improve the balance of payments and build up social safety net, which is designed to cover the socially disadvantaged who are the most vulnerable to the recession. Meanwhile, the Wahid administration established in October 1999 pushed ahead with economic recovery efforts, and the real GDP growth rate made a positive turn in 1999 and achieved 4.8% in 2000, due to brisk exports that were mostly bolstered by an increase in oil prices. However, with depreciation pressure on Rupiah and fear of inflation becoming more prominent, Indonesia still faces an uphill battle before achieving stable development. Under these circumstances, and upon request from the government of Indonesia, JBIC decided to support these three projects that are deemed sufficiently effective to contribute to laying a foundation for medium to long-term development of Indonesia.

3. Brief Description of Project

(1) Batang Hari Irrigation Project (II)

Production of rice, staple food of Indonesia, continued to increase due to the introduction of high-yield types of rice by the government and expansion of irrigated land until 1984 when the government declared the country had achieved self-supply of rice. Nonetheless, rice output growth has fallen short because consumption continues to escalate along with the population increase, while growth of the rice planting acreage is constrained. In recent years, supply and demand of rice has become out of balance. In 1994 and 1997, rice crop was severely damaged by drought caused by El Nino. In 1998, because of depreciation of rupiah, prices of agricultural materials shot up and dragged the rice output. Then, in 1999, self-supply ratio of rice dropped to 84.2%, attesting difficulty for Indonesia to sustain the self-supply system. Under the circumstances, Indonesia may have no choice but resort to rice import.

To address this situation, "Batang Hari Irrigation Project (I)" is being implemented in the region stretching across two provinces and three districts, including West Sumatra and Jambi in the central part of Sumatra Island, for which JBIC signed a loan agreement of 650 million yen in December 1996. The purpose of this project is to help achieve self-supply of rice by enhancing rice output in the central area of Sumatra Island, which is deemed to have the largest potential for rice paddies.

The newly signed Project is the second phase of "the Batang Hari Irrigation Project", which follows up the previous project's development of main and secondly canals by improving irrigation facilities. In addition, constructing tertiary canals and cultivating rice paddies shall be covered within the scope of this second phase. The objective of the project is to expand paddy fields, introduce Agricultural Extension Service Programs (AESPs), and disseminate high-yield varieties and agricultural techniques, thereby promoting productivity of rice and other food.

The proceeds of the loan will be used for the civil work to update and construct irrigation facilities and the fields, AESP, procurement of materials and equipment as well as consulting services (including detailed designing and construction coordination).

The Project is executed by following agencies: for irrigation facilities, Directorate General of Water Resources, Ministry of Settlements and Regional Infrastructure (Address: Jl. Pattimura No. 20 Jakarta Selatan 12110, Indonesia; Phone: +62-21-7222804, Fax: +62-21-7261956). For ASEPs, Directorate General of Food Crops Production, Ministry of Agriculture (Address: Jl. Harsono RM No. 3, Ragunan Pasar Minggu, Jakarta Selatan 12550, Indonesia; Phone: +61-21-7806262, Fax: +61-21-7802930.)

(2) Project Type Sector Loan for Water Resources Development (II)

Production of rice, staple food of Indonesia, continued to increase due to the introduction of high-yield types of rice by the government and expansion of irrigated land until 1984 when the government declared the country had achieved self-supply of rice. Nonetheless, rice output growth has fallen short because consumption continues to escalate along with the population increase, while growth of the rice planting acreage is constrained. In recent years, supply and demand of rice has become out of balance. In 1994 and 1997, rice crop was severely damaged by drought caused by El Nino. In 1998, because of depreciation of the rupiah, prices of agricultural materials shot up and dragged the rice output. Then, in 1999, self-supply ratio of rice dropped to 84.2%, attesting difficulty for Indonesia to sustain the self-supply system. Under the circumstances, Indonesia may have no choice but resort to rice import.

The objective of the Project is to construct and improve medium-sized irrigation facilities (that are designed to benefit the average land space of some 5,000 ha), which can not be covered by a single large-scale irrigation project, in Java and Sumatra Islands, Western Indonesia and Kalimantan Island, Central Indonesia. The project is expected to improve rice production system in both quality and quantity, and establish a stable and sustainable production method that is not largely influenced by the weather condition, thereby enhancing self-supply system of food and reducing poverty.

The proceeds of the loan will be used for construction of irrigation canals and dams in Western and Central Indonesia, procurement of related materials and equipment as well as consulting services including bidding support and EIA review.

The loan for this Project follows up the "Project Type Sector Loan for Water Resources Development", for which JBIC signed a loan agreement totaling 11,797 million yen in December 1996.

The project is executed by Directorate General of Water Resources, Ministry of Settlements and Regional Infrastructure; (Address: Jl. Pattimura No. 20 Jakarta Selatan 12110, Indonesia; Phone: +62-21-7222804, Fax: +62-21-7261956)

(3) Rural Areas Infrastructure Development Project (III)

The number of population under poverty-line stood at some 37.5 million as of 1999 in Indonesia, which remains higher than the pre-Asian Currency Crisis level, although somewhat improved from the days immediately following the crisis. The government of Indonesia designated poverty reduction as one of the major pillars of "the National Development Program" (2000 - 2004), and laid out measures that are two-fold: the short-term assistance for the people who were thrown into poverty in the wake of the crisis; and the medium to long-term assistance for the chronic poor by expanding chances to acquire self-help capability. Poverty reduction was not only included as one of the programs under Letter of Intent signed with IMF in September 2000, but was conceived as the top priority of the Indonesian government at the latest Consultative Group for Indonesia meeting held in October 2000 as well.

The objective of the project is to develop bridges, roads and other basic infrastructure necessary for upgrading access in rural villages, taking into account its impact on regional economy and on the basis of needs of residents in the community. The project also aims to improve basic infrastructure including water supply and sanitation facilities and small-

sized irrigation facilities. The project is expected to contribute to poverty reduction in Indonesia, by promoting autonomous development of rural economy and helping the government in its effort to push forward with the medium to long-term poverty reduction measures.

The proceeds of the loan will be used to construct roads, bridges and other access-related infrastructure, water supply and sanitation facilities, and small-sized irrigation facilities. They will also finance the consulting services including bidding support and construction coordination.

This loan follows up "Rural Areas Infrastructure Development Project", for which JBIC signed a loan agreement of 21 billion yen in November 1994, and "Rural Areas Infrastructure Development Project (II)", for which JBIC made a loan commitment totaling 29,738 million yen and signed an agreement in January 1998.

The project is executed by: Directorate General of Rural Development, Ministry of Settlements and Regional Infrastructure, Directorate General of Regional Developments, Ministry of Home Affairs and Regional Autonomy. The coordination of the overall project is the responsibility of: Deputy for Regional Development and Natural Resources, National Development Planning Agency; (Address: Jl. Taman Suropati No.2, Jakarta Pusat, Indonesia; Phone: +62-21-3905650; Fax: +62-21-334195).