FY2004 ODA Loan Package for Indonesia

--Supporting Improvement in Investment Climate and Measures against Disaster for Economic and Social Development--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today ODA loan agreements with the Republic of Indonesia in the aggregate total of 104.035 billion yen for nine projects.

2. The Indonesian government led by former President Megawati Sukarnoputri moved forward democratization and a range of reforms and achieved a certain measure of success in achieving macroeconomic stability (in terms of the growth rate, exchange rate and stock prices) and regaining political stability. As a result, the IMF program instituted in the wake of the Asian currency crisis came to an end at the end of 2003. Sanguine macroeconomic performance continues, and especially the high growth rate in private consumption at 4.6 percent has been driving economic growth. Real GDP is projected to grow 5.1 percent in 2004 and 5.4 percent in 2005 under President Susilo Bambang Yudhoyono's government, newly installed in October 2004 following the country'fs first direct elections. Despite these developments, private capital investment still falls short of a full-scale recovery. Thus President Yudhoyono's government has set about improving the investment climate to facilitate private investment as one of the objectives of its economic policy. Indonesia sustained devastating human losses and physical damage from the earthquake off the coast of Sumatra and the subsequent tsunami disaster in December 2004. This has highlighted the importance of disaster recovery and prevention as part of the government's policy agenda. On another front, the government is making a positive effort to reduce poverty under the policy of "Equitable and Democratic Indonesia".
   The ODA loan package for fiscal 2004 is intended to support such policy, thereby contributing to the country's economic and social development.

3. ODA loans in this package will finance the projects addressing the following policy themes.
   (1) Development of the Economic Infrastructure that will serve to improve the investment climate.
   Given that JBIC has placed one of its priorities of its ODA loans on economic infrastructure development that will help improve the country's investment climate, the package will support a total of five projects in the power and transport (road network) sectors. These projects are expected to improve the investment climate, which, in turn, will promote private investment, thereby contributing to private sector-led sustainable economic growth.
   In the power sector, the package supports three projects undertaken to meet growing power demand (which is projected to rise at an average annual rate of 6.4 percent) and stabilize power supplies. The Ulubelu Geothermal Power Plant Project consists of the construction of a 110 MW-capacity geothermal power plant, which will be connected to the South Sumatra system. The Keramasan Power Plant Extension Project aims to expand the existing Keramasan thermal power plant complex that is also connected to the South Sumatra system by constructing an 80 MW-capacity combined-cycle power plant. The package also supports Engineering Services for the Asahan No.3 Hydroelectric Power Plant Construction Project, under which a 154 MW-capacity run-off-river hydropower generation facility will be constructed and connected to the North Sumatra system.
   In the transport (road network) sector, the package supports two projects for improving the arterial roads that will become major cargo transport routes: The North Java Corridor Flyover Project which aims to improve cargo traffic by constructing an overpass at major congested intersections of the national highway that runs east to west across North Jakarta linking Jakarta and Surabaya, and its alternate roads; and the Tanjung Priok Access Road Construction Project (I) which aims to alleviate traffic congestion in the Jakarta metropolitan region, especially the vicinity of Tanjung Priok Port by constructing an access road from the Jakarta outer ring road to Tanjung Priok Port.
   Since these two projects are implemented in areas of heavy traffic, there is a need to minimize the impact of construction work on the traffic flow by drawing on specialized Japanese technology. For this reason, Special Terms for Economic Partnership (STEP) apply on the loans for these projects.[1]

   (2) Development of Disaster-Resistant Infrastructure
   In view of devastating human losses and physical damage caused by the earthquake off the coast of Sumatra and the subsequent tsunami disaster, JBIC staff helped conduct damage assessment and put together a rehabilitation and reconstruction plan. The whole experience has led the Indonesian government to recognize the importance of disaster prevention and reduction measures. The package supported infrastructure development intended for disaster prevention or as an urgent measure to prevent or reduce disasters. The Lower Solo River Improvement Project (II) aims to reduce flood damage in the downstream of the Solo River in East Java by constructing drainage systems, dams and flood control reservoirs. The Urgent Disaster Reduction Project for Mt. Merapi/Progo River Basin and Mt. Bawakaraeng is aimed at disaster prevention in the Merapi Mountain and the Progo River basin both by installing physical facilities and by imparting know-how, such as taking erosion control measures, developing the warning system and improving the control of sand and gravel mining. Furthermore, in the Jeneberang River Basin of South Sulawesi Province, the project also aims to prevent sand erosion caused by major partial destruction of Bawakaraeng Mountain by erosion control facilities and dredging to improve the function of dam downstream (including a stable water supply) and prevent mud flow damage.

   (3) Poverty Reduction
   JBIC has made poverty reduction one of the pillars of its development assistance to Indonesia. The package supported projects aiming to increase the quality of life for the poor people living in rural areas. The Komering Irrigation Project (II-2) aims to increase rice crops and thereby increase income of farmers in South Sumatra and Lampung Provinces by improving irrigation facilities and their operation and maintenance for the ultimate goal of reducing poverty in these regions. Development of the Faculty of Medicine and Health Sciences of Syarif Hidayatullah State Islamic University is intended to expand the opportunity for higher medical education for the poor in provincial regions and by improving the Faculty of Medicine and Health Sciences in Syarif Hidayatullah State Islamic University to supply doctors and nurses in provincial regions with physical equipment and facilities as well as knowledge assistance. Through this, the Project ultimately aims to reduce poverty through provision of basic healthcare services in the provincial regions.

   (4) Global Environmental Issues
   In addition to contributing to the above objectives, the Ulubelu Geothermal Power Plant Project and the Engineering Services for Asahan No.3 Hydroelectric Power Plant Construction Project will lead to developing and harnessing renewable energy resources that will help curb greenhouse gas (GHG) emissions. Going forward, JBIC also intends to move forward discussions with the Indonesian government for the use of the Kyoto Mechanisms.

(Click here for details)

[1] Special Terms for Economic Partnership (STEP) were introduced in March 2002 with the aim of transferring technologies that draw on advanced Japanese knowledge and know-how to developing countries, and thereby promoting development assistance with a distinct Japanese profile.

1. Loan Amount and Terms in the FY2004 ODA Loan Package for Indonesia

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period(Years)	Procurement
Lower Solo River Improvement Project (II)	9,345	1.30	30/10	General Untied
Komering Irrigation Project (II-2)	13,790	1.30	30/10	General Untied
Urgent Disaster Reduction Project for Mt. Merapi/Progo River Basin and Mt. Bawakaraeng	16,436	1.30	30/10	General Untied
Ulubelu Geothermal Power Plant Project	20,288	0.75*	40/10*	General Untied
Engineering Services for Asahan No.3 Hydroelectric Power Plant Construction Project	864	0.75*	40/10*	General Untied
Keramasan Power Plant Extension Project	9,736	1.30	30/10	General Untied
North Java Corridor Flyover Project	4,287	0.40**	40/10**	Japan tied
Tanjung Priok Access Road Construction Project (I)	26,306	0.40**	40/10**	Japan tied
Development of Faculty of Medicine and Health Sciences of Syarif Hidayatullah State Islamic University	2,983	1.30 0.75*	30/10 40/10*	General Untied
Total	104,035			

* Preferential Terms are applied to environmental projects and human resource development projects. Preferential Terms are more concessionary than the ordinary Terms in order to support developing country efforts to address environmental issues and to develop human resources. (In the Development of Faculty of Medicine and Health Sciences of Syarif Hidayatullah State Islamic University, these preferential terms only apply to the fellowship program component and its related consulting services.)
** Special Terms for Economic Partnership (STEP)

(1) Lower Solo River Improvement Project (II)

The project is carrying out river improvement (including the provision of a ring dike and associated drainage channels) in the lower reaches of the Solo River in East Java Province. It will contribute to the economic development of East Java by alleviating flood damage and promoting a stable water supply in the region.

Indonesia has a tropical monsoonal climate with distinct wet and dry seasons, and about 80% of its rainfall is concentrated in the wet season. The Solo River, where this project is located, is the biggest river in Java, and it flows through the provinces of Central Java and East Java. Due to the imbalance in the volume of rainfall in the wet and dry seasons, the river basin suffers from human, social and economic loss because of severe water shortages in the dry season and frequent flooding in the wet season. Moreover, Surabaya, Indonesia'fs second largest city, and other cities such as Gresik, are situated in East Java, which is located on the lower reaches of the Solo River, and, in addition to the current water shortages, demand for water is expected to rise.

The Indonesian government has been promoting the comprehensive development of water resources in the Solo River basin since 1966. In fiscal 1995, JBIC disbursed the Phase 1 portion of the ODA loan (about 10.8 billion yen) for improvement on the lowest reaches of the river, and the current loan is the Phase 2 portion of the loan.

Loan funds will be allocated to the construction of a ring dike and a barrage(including drainage facilities), the establishment of a flood warning system, and consulting services (including detailed design, tendering assistance, supervision of work, and training for the personnel of the executing agency).

The executing agency is the Directorate General of Water Resources (DGWR), Ministry of Public Works (Address: Jl. Pattimura No. 20, Kebayoran Baru Jakarta Selatan 12110, Indonesia; Tel: +62-21-722-2804, Fax: +62-21-726-1956).

(2) Komering Irrigation Project (II-2)

The project is providing irrigation facilities and establishing an operation and Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed on March 29, an ODA loan agreement totaling 19,092 million yen with the Cabinet of Ministers of Ukraine for the Boryspil State International Airport Development Project. This is the first ODA loan that JBIC has extended to Ukraine.

maintenance system in the Komerang River basin in South Sumatra Province, thus raising production of rice and other crops, and so improving the incomes of farmers and contributing to economic growth and poverty reduction in the region.

The Indonesian agriculture, forestry and fisheries sector is an important industry, accounting for 16.6%of GDP (2003), and 46.3% of the working population (2003). The Indonesian rice harvest suffers from a fragile production structure in which supply deteriorates sharply due to external factors (including abnormal weather and price hikes for fertilizers and agricultural chemicals after the Asian Currency Crisis), and also the Indonesian rice consumption depends on imports. Moreover, with a decrease in agricultural land also forecast in the future due to urbanization and industrialization on the island of Java, which is the main area of production for rice, it is considered necessary to increase rice production in other regions.

A total of 18,947 million yen in ODA loans has been provided so far for the Komering Irrigation Project to support engineering services and the construction of irrigation facilities, including intake dams, intakes, and primary water channels, and JBIC is going to assist the project continuously from the perspective of achieving project outcomes.

Loan funds will be allocated to the provision of irrigation facilities and consulting services (including detailed design, tendering assistance, supervision of work, and farm management support).

The executing agency is the Directorate General of Water Resources, Ministry of Public Works (DGWR) (Address: Jl. Pattimura No. 20 Kebayoran Baru Jakarta 12110, Indonesia; Tel: +62-21-722-2804, Fax: +62-21-726-1956).

(3) Urgent Disaster Reduction Project for Mt. Merapi/Progo River Basin and Mt. Bawakaraeng

<Mt. Merapi/Progo River Basin>
The project is providing countermeasures that include preventative measures for volcanic debris, strategies to address the lowering of the river bed, and improvements in the management of sand and gravel mining in terms of both facilities and technical cooperation at the foot of Mt. Merapi, which is located about 30 km north of Yogyakarta, the main city in central Java, and in the lower Progo River Basin. This will promote the protection of human life and public and private property and create a sustainable disaster reduction system in the region, thus contributing to regional development.

Prompted by a 1969 disaster, the Indonesian government designated the area around Mt. Merapi a top priority region in its national disaster management program. It formulated the Basic Plan for Disaster Reduction for Mt. Merapi based on a development study carried out by the Japan International Cooperation Agency (JICA) in 1980, and a project to reduce sediment was been implemented using ODA loans from JBIC in two phases from 1985 to 2001.

Mt. Merapi is one of the most significant active volcanoes in the world, and there have been recurrent eruptions once every two to three years since 1992. A large volume of unstable debris has built up and the possibility of mudflows has also increased. In addition, sand and gravel have been mined extensively in the area around Mt. Merapi in recent years. Environmental problems such as the lowering of the river bed, noise and dust, and other problems such as the destruction of roads due to the operation of overloaded trucks have arisen as a result of uncontrolled mining of sand and gravel.

Loan funds will be allocated to measures to counter volcanic debris, strategies to address the lowering of the river bed of the Progo River, the management of sand and gravel mining, regional development at the foot of Mt. Merapi (including the repair of irrigation facilities), and consulting services (including detailed design, tendering assistance, supervision of work, assistance with operation, maintenance and management, studies needed for the establishment of a public corporation to manage sand and gravel mining, and assistance with the establishment and improvement of public awareness of disaster reduction).

<Mt. Bawakaraeng>
This project is rehabilitating existing infrastructure (including bridges), and establishing sediment control facilities and a mudflow warning system in the Jeneberang River basin, where a landslide occurred due to a major collapse on Mt. Bawakaraeng in South Sulawesi in March 2004[1]. The project is expected to protect human life and public and private property, including agricultural land, from mudflows. At the same time, it will improve the dam function in the lower reaches of the river by preventing further debris flows from the disaster area, thus contributing to the maintenance of social and economic activity in Makassar, the provincial capital of Southern Sulawesi, and the surrounding area, through the stable supply of dam water to the city and surrounding area, for example.

Loan funds will be allocated to measures to counter mudflows, regional and community development, and consulting services (including detailed design, tendering assistance, supervision of work, assistance with operation, maintenance and management, and improvement of public awareness of disaster reduction).

The executing agency is the Directorate General of Water Resources, Ministry of Public Works (DGWR) (Address: Jl. Pattimura No. 20, Kebayoran Baru Jakarta Selatan 12110, Indonesia; TEL: +62-21-722-2804, FAX: +62-21-726-1956).

(4) Ulubelu Geothermal Power Plant Project

The objective of the project is to meet power demand and improve the stability of power supply of the South-Sumatra System and thereby contributing to the improvement in the investment climate and the economic development in the region by constructing a geothermal power plant of 110MW in Ulubelu, and to reduce the emission of air pollutant and carbon dioxide, and negative impact on the environment by adopting renewable energy.

Peak demand in the South-Sumatra System to which the geothermal power plant will be connected, is 1,132 MW (actual demand for 2003), and this is expected to reach 2,429 MW by 2013, with an average annual growth of about 7.9%. However, the capacity of the generating facilities in the grid is 1,607 MW, and actual supply capacity is expected to decline by 273 MW by 2007, due to operational stoppages caused by the ageing of existing facilities. The development of new power sources is an urgent matter. Moreover, this project, which utilizes renewable geothermal resources, is compatible with energy conservation and environmental preservation policy around the world, including in Japan and Indonesia.

Loan funds will be allocated to the construction, including generating facilities, and consulting services (including a review of existing resource development study (steam-related), detailed design, tendering assistance, supervision of work, and assistance in operation and maintenance).

The executing agency is the PT. PLN (Persero) (Address: Jl. Trunojoyo Blok M 1/135, Jakarta 12160, Indonesia; TEL: +62-21-726-1122, FAX: +62-21-722-1330).

(5) Engineering Services for Asahan No. 3 Hydroelectric Power Plant Construction Project (E/S)

The objective of the project is to meet the power demand and improve the stability of power supply of the North-Sumatra System, and thereby contributing to the improvement in the investment climate and the economic development in the region by constructing the Asahan No. 3 Hydroelectric Power Plant (154MW, run-off-river type) and related transmission lines in North Sumatra Province in the north of the island of Sumatra. Prior to the construction project, engineering services (E/S) will be provided by the current loan.

Peak demand in the North-Sumatran System to which the hydroelectric power plant will be connected is 1,034 MW (actual demand for 2003), and this is expected to reach 1,944 MW by 2013, with an average annual growth of about 6.5%. In addition, the grid is connected to Aceh Province, and demand for power in the province is also expected to rise following the conflict and rehabilitation and reconstruction. On the other hand, the capacity of the generating facilities in the grid is 1,313 MW (2003, actual figures), and actual supply capacity is expected to decline by 146 MW by 2007, due to operational stoppages caused by the ageing of existing facilities. The development of new power sources is an urgent matter.

Loan funds will be allocated to consulting services (on-site study, basic and detailed design, preparation of tender documents, etc., and support for strengthening the planning function of PLN and the North Sumatra local government).

The executing agency is PT. PLN (Persero) (Address: Jl. Trunojoyo Blok M 1/135, Jakarta 12160, Indonesia; Tel: +62-21-726-1122, Fax: +62-21-722-1330).

(6) Keramasan Power Plant Extension Project

The objective of the project is to meet power demand and improve the stability of power supply of the South-Sumatra System and thereby contributing to the improvement in the investment climate and the economic development in the region by constructing gas fired combined cycle system with total capacity of 80MW class in Keramasan Power Plant.

Peak demand in the South-Sumatra System to which the power plant is connected is 1,132 MW (actual demand for 2003), and this is expected to reach 2,429 MW by 2013, with an average annual growth of about 7.9%. However, the capacity of the generating facilities in the grid is 1,607 MW, and actual supply capacity is expected to decline by 273 MW by 2007, due to operational stoppages caused by the ageing of existing facilities. The development of new power sources is an urgent matter.

Loan funds will be allocated to the construction of generating facilities and consulting services (including detailed design, tendering assistance, supervision of work, assistance in operation, and maintenance, and support for strengthening the planning function of PLN and the South-Sumatra local government).

The executing agency is PT. PLN (Persero), (Address: Jl. Trunojoyo Blok M 1/135, Jakarta 12160, Indonesia, Tel: +62-21-726-1122, Fax: +62-21-722-1330).

(7) North Java Corridor Flyover Project

The project involves the construction of flyovers at six locations on the North Java Corridor, which connects the northern part of the island of Java from east to west, and its alternate routes. This will increase transport capacity on the North Java Corridor and alleviate traffic congestion, thus contributing to the economic development of Java by improving the investment climate in the region.

In Indonesia, both passenger and freight transport rely on the roads[2]. In the context of this high level of dependence, the road network has seen tremendous expansion both in terms of transport capacity and distance over the past few decades, and access to major economic centers and regions has been improved. On the other hand, this dependency has brought about chronic traffic congestion in recent years. In particular, the North Java Corridor is a major national highway that connects the Jakarta metropolitan area with Surabaya, the country's second largest city. Along with the volume of traffic that has been on the rise in recent years, bottlenecks caused by road and railway crossings, congestion at intersections, and commercial activity at roadside stalls are reducing transport capacity on this road.

Loan funds will be allocated to the construction of flyovers on the North Java Corridor and its alternate routes, and consulting services (including detailed designing, tendering assistance, supervision of work, and traffic safety measures).

The executing agency is the Directorate General of Regional Infrastructure (DRGI), Ministry of Public Works (Address: Jl. Pattimura No. 20, Kebayoran Baru Jakarta Selatan 12110, Indonesia, Tel: +62-21-720-0281, FAX: +62-21-720-1760).

(8) Tanjung Priok Access Road Construction Project (I)

The project involves the construction of the Tanjung Priok access road (planned total length: 12.1 km) to connect the northeastern section of the Jakarta outer ring road with the Jakarta harbor road, and the introduction of a traffic information system. It will improve access to Tanjung Priok Port from the suburbs of Jakarta, and improve the network of toll

road and the bypass function, thus contributing to the economic development of Java by improving the investment climate in the region through the mitigation of traffic congestion in the Jakarta metropolitan area, especially around Tanjung Priok Port.

The construction of the section from the northeastern section of the Jakarta outer ring road to Tanjung Priok Port (8.1 km), which is considered to be the most urgent part of the project, will be covered by the current loan.

The number of vehicle registrations in the Jakarta metropolitan area, which is the economic and commercial center of Indonesia, has recorded a sharp increase from about 3.05 million in 1998 to about 4.86 million in 2002, an annual growth of around 12%, or about 1.6 times in four years. With this, traffic congestion has become severe, and it was pointed out in the "Study on a Comprehensive Traffic Plan for the Jakarta Metropolitan Area" conducted by the Japan International Cooperation Agency (JICA) in March 2004 that access to the port at Tanjung Priok, the international gateway for the import and export of raw materials and products needed for the local economy, which is located to the northeast of the Jakarta metropolitan area, takes an extremely long time due to traffic congestion, and this is a factor in the stagnation of economic growth in the region.

Loan funds will be allocated to the construction of the Tanjung Priok access road and consulting services (including detailed design, tendering assistance, supervision of work, assistance with operation, maintenance and management, and detailed design of the Phase 2 section and the traffic information system).

The executing agency is the Directorate General of Regional Infrastructure (DRGI), Ministry of Public Works (Address: Jl. Pattimura No. 20, Kebayoran Baru Jakarta Selatan 12110, Indonesia; Tel: +62-21-720-0281, FAX: +62-21-720-1760).

(9) Development of Faculty of Medicine and Health Sciences of Syarif Hidayatullah State Islamic University

The project involves the development of Faculty of Medicine and Health Sciences at Syarif Hidayatullah State Islamic University, which is located in the province of Banten, adjoining western Jakarta, both in terms of facilities (including the construction of buildings) and other less tangible aspects (including the fellowship program). It will provide better opportunities for higher medical education for students from regional and rural areas and from poor backgrounds, and doctors and nurses for regional and rural areas, thus contributing to poverty reduction by filling the need for medical personnel in Indonesia and providing basic health and medical services to regional and rural areas.

Health and medical indicators in Indonesia have generally been improving with the infant mortality rate down from 104 deaths per thousand in 1970 to 33 deaths per thousand in 2001, and average life expectancy at birth up from 49.2 years in 1975 to 66.8 years in 2001, for example. Nevertheless, the medical infrastructure in the country remains in poor condition, and there is also a shortage of doctors with 13 doctors per 100 thousand people in 2001. The shortage of medical personnel is particularly serious in regional and rural areas. Therefore, the training of personnel to work in regional healthcare is an urgent matter.

Since Syarif Hidayatullah State Islamic University has accepted many of its students from rural and regional areas and poor backgrounds in the past, it is expected that through this project'fs support for the developmentof Faculty of Medicine and Health Sciences at the university, students who receive medical training at the university will contribute to providing medical services in regional and rural areas.

Moreover, the university intends graduates from Faculty of Medicine and Health Sciences to actively promote to work in rural and regional areas, and it is currently considering a new scholarship system that obliges recipients to work in rural and regional areas after graduation.

Loan funds will be allocated to the construction of buildings at Syarif Hidayatullah State Islamic University, the procurement of equipment and furniture, fellowship program, and consulting services (including detailed design, tendering assistance, supervision of work, assistance with operation, maintenance and management, and support for fellowship program).

The executing agency is the Directorate General of Islamic Institutions (DGII), Ministry of Religious Affairs (Address: Jl. Lapangan Banteng Barat 3-4, Jakarta Pusat 10710, Indonesia; Tel: +62-21-381-1305, Fax: +62-21-381-1305).

[1] On March 26, 2004, the caldera wall of Mt. Bawakaraeng (2,833 m), located in the uppermost reach of the Jeneberang River in South Sulawesi, collapsed. The debris from the collapse traveled as far as villages 2.5 km downstream, with 32 people dead or missing, and a total of 22 billion rupiah (about 260 million yen) in damage. The current volume of debris from the collapse deposited inside and outside the caldera is estimated at 200-300 million cubic meters. Moreover, there have been recurrent mudflows since the collapse due to rainfall, and it is estimated that about 14 million cubic meters of debris was washed away from the site where it was deposited between March 2004 and June of the same year. As a result, a sediment control dam for the caldera located 5 kilometers downstream was completely buried, in addition to other damage including the burying of agricultural land in the Jeneberang River basin and obstruction to traffic crossing the river. Moreover, the Bili-Bili Multi-Purpose Dam, with functions including the supply of drinking water and power to Makassar, and the supply of water for irrigation to the area around Makassar, has been constructed 35 kilometers downstream from the caldera collapse using ODA loans. It is feared that its functions may be undermined due to the flow of debris from the collapse, and the accompanying deterioration in water quality.

[2] ORoad transport accounts for 84% of passengers and 96% of freight.
[y1]