

JBIC Signs ODA Loan Agreement with Indonesia: Continuing Support for Economic and Fiscal Reforms

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today an ODA loan agreement totaling up to 11.729 billion yen with the Republic of Indonesia for Development Policy Loan II. The loan, a program loan to support policy reforms, is cofinanced with the World Bank and the Asian Development Bank (ADB), which respectively is providing US\$400 million and US\$200 million, with the planned aggregate total amounting to US\$700 million equivalent.
2. This ODA loan will offer fiscal support to the Government of Indonesia to help sustain and advance an array of reforms for promoting macroeconomic stability, improving the investment climate, improving public financial management as well as fighting corruption, and reducing poverty, while evaluating the progress made in policy reforms undertaken by the Government of Indonesia after receiving Development Policy Loan I in 2005.
3. In 2003, Indonesia completed the IMF program instituted in the wake of the Asian currency crisis in 1997. The government has since continued to advance an array of economic and fiscal reforms, including implementation of the economic reform policy it launched in September 2003. President Yudhoyono who took office in October 2004 has been pressing on with various reforms, by developing a debt management strategy, developing an action plan for the small and medium enterprise (SME) development and building public-private partnerships (PPP), under the Development Policy Loan I provided by the World Bank and JBIC in March 2005. Despite these efforts, the people living under 2 dollars a day still account for 53% of the total population. Therefore, if the country is to reduce poverty through sustained economic growth, it is essential to steadily implement various reforms toward economic and fiscal stability and improvement, including devolution of powers to regional and local authorities, continued reform in the financial sector and auditing regarding government procurement.
4. JBIC has provided comprehensive support to date to help the country recover from the economic crisis, promote socioeconomic stability, and develop economic infrastructure as underpinnings for private sector-led growth. It is expected that supporting various reforms undertaken by Indonesia with this ODA loan will serve to ensure sustainable economic growth and reduce poverty. JBIC is committed to continuing such support into the future.

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1. Loan Amount and Terms

| Project Name | Amount (Mil. Yen) | Interest Rate (% per annum) | Repayment Period/ Grace Period(Years) |
|----------------------------|-------------------|-----------------------------|---------------------------------------|
| Development Policy Loan II | 11,729 | 1.5 | 30/10 |

2. Outline of the Program

Development Policy Loan (II)

(1) Background and Necessity of the Program

Indonesia brought to successful completion at the end of 2003 the IMF assistance program instituted in the wake of the Asian currency crisis. Thereafter, the Indonesian government has continued to press on with economic and fiscal reforms. As a result, (1) its economy grew 5.1% in fiscal 2004 and 5.6% (preliminary figure) in fiscal 2005; and (2) government debt declined from 89% of GDP in 2000 to 49.3% by June 2005.

Despite this progress, the poor people living under two dollars a day still account for 53% of the total population. As two million new workers enter the labor market every year in Indonesia, there is a need to generate employment through further growth. In addition, a cut in oil subsidies in 2005 has given rise to the need to launch a compensation program for the poor. Thus continued macroeconomic stability, improvement in the investment climate, improvement in public financial management and the fight against corruption remain important issues on the country's economic agenda.

(2) Objective and Description of the Program

This program loan, cofinanced with the World Bank and the ADB, will assess the performance of the country's economic and fiscal reforms to date. At the same time, it will help sustain and advance various reforms, thereby serving to (1) promote macroeconomic stability; (2) improve the investment climate; (3) improve public financial management and anti-corruption efforts; and (4) reduce poverty.

This loan will provide fiscal funds for undertaking reforms to achieve the four objectives above. The proceeds of the loan will be used for financing the import of goods.

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