

FY2005 ODA Loan Package for Indonesia

--Supporting Improvement in Investment Climate and Utilization of Renewable Energy Resources for Economic and Social Development--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today ODA loan agreements in the aggregate total of up to 81.276 billion yen for 5 projects with the Government of the Republic of Indonesia. Combined with the 11.729 billion yen Development Policy Loan II for which an ODA loan agreement was signed on March 28, the overall total of ODA loan package JBIC provided for Indonesia in FY2005 amounted to 93.005 billion yen.
2. The new government formed by President Yudhoyono in October 2004 drew up the National Medium-Term Development Plan (RPJM) (2004-09) in January 2005, which set out the following targets to be achieved in the final year 2009: the economic growth rate of 7.6% (compared with 5.1% in 2004), the unemployment rate of 5.1% (9.9% in 2004) and the poverty rate of 8.2% (16.6% in 2004). The government has been addressing an array of reforms for macroeconomic stability, improvement in the investment climate and improvement in public financial management, which includes reduction in fuel subsidies. As a result, real GDP grew by 5.6% (preliminary figure for the full year) in 2005, the highest rate since the economic crisis, despite the adverse impact of the earthquake off the coast of Sumatra and the subsequent tsunami disaster that broke out in December 2004.
The Yudhoyono government has been making strenuous efforts to promote macroeconomic stability, improve the investment climate, improve public financial management, which includes fighting corruption, and reduce poverty. The ODA loan package for FY2005 is intended to support these policies and will thereby contribute to the country's economic and social development.
3. This year's ODA loan package will finance the projects addressing the following policy themes.

(1) Economic Infrastructure Development for Improving the Investment Climate

Given that JBIC has assigned one of the priorities of ODA loans on the economic infrastructure development that will help improve the country's investment climate, this year's package will support 4 projects in the power, freight transport and water resource sectors. These projects are expected to improve the investment climate, which, in turn, will promote private investment, thereby contributing to private sector-led sustainable growth.

In the power sector, the package supports 2 projects undertaken to meet growing power demand and stabilize power supplies. "The Asahan No.3 Hydroelectric Power Plant Construction Project" consists of constructing a 154 MW-capacity run-of-river hydropower generation plant that is connected to the North Sumatra System. The package also includes "the Engineering Services for Kamojang Geothermal Power Plant Extension Project", which consists of developing steam-producing sources for power generation and constructing a 60 MW-capacity geothermal power plant in West Java Province (Jawa Barat), Java. This year's loan is for engineering services of the said Project.

In the transport sector, the package supports one project for improving the arterial road that will become a major cargo transport route. "The Tanjung Priok Access Road Construction Project II", which follows the first phase that was also supported by an ODA loan last year, 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 this project will be implemented in the heavy traffic area, there is a need to minimize the impact of construction work on the traffic flow by drawing on advanced Japanese technical expertise. For this reason, Special Terms for Economic Partnership (STEP) apply to the loan for this Project.[1]

In the water resources sector, the package supports long-term and integrated water resources management, including flood control and water resources development, with a view to reducing large-scale floods caused by overflowing rivers and chronic incidents of inundation in urban areas during the rainy season, and water shortage during the dry season. "The Integrated Water Resources and Flood Management Project for Semarang" aims to reduce flood damage and provide stable water supply through flood way and river improvements, urban drainage system improvement and multipurpose dam construction in Semarang, the capital of Central Java Province (Jawa Tengah).

(2) Utilizing Renewable Energy Resources

Although Indonesia is one of the major producers of crude oil and natural gas, oil output has been declining over the years, and the country has become a net importer of crude oil since 2004. The government has thus adopted the policy of decreasing dependence on crude oil among domestic energy resources and utilizing renewable energy, including geothermal energy. Indonesia is considered to have the world's largest endowment of geothermal energy resources. JBIC has therefore supported the construction of geothermal power plants in Indonesia to date. The FY2005 ODA loan package supports the test drilling of an exploration well[2] to develop steam sources for geothermal power generation under "the Kamojang Geothermal Power Plant Extension Project". This Project, together with "the Asahan No.3 Hydroelectric Power Plant Construction Project", will make use of renewable energy resources that will help reduce greenhouse gas (GHG) emissions, thereby serving to curb their effects on the global environment. Furthermore, as their application for Clean Development Mechanism (CDM) projects is being considered, these projects will likely contribute to achieving Japan's GHG emission reduction target under the Kyoto Protocol.

(3) Human Resource Development for the Local Government Officials

Although the Indonesian government has embarked on decentralization since 1999 and made legislation for this purpose, its effort is yet to achieve significant progress. In particular, it is an urgent challenge to enhance administrative capacity focusing on provincial governments. "The Professional Human Resource Development Project (III)" aims to train and produce personnel having superior knowledge and expertise in public policy and public finance. This will be done by sending the staff engaging in policy planning and fiscal management in the central and provincial governments to Japan for advanced studies, by enrolling them in advanced academic programs in domestic institutions, or by providing them with short-term training in either country. In this Project, priority is given to civil servants in Nanggroe Aceh Darussalam Province for studying in Japan or Indonesia to support the province where the earthquake off the coast of Sumatra and the subsequent tsunami in December 2004 claimed a devastating human toll. Additionally, practical training will be given to the teaching staff of Syiah Kuala University in Nanggroe Aceh Darussalam Province.

(Click here for more 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 expertise to developing countries, and thereby promoting development assistance with a distinct Japanese profile.

[2] For geothermal energy power generation, the heat energy which has been kept in the geothermal reservoir (approximately a few km beneath the ground surface) is utilized as an energy resource.

1. Loan Amount and Terms in the FY2005 ODA Loan Package for Indonesia

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/Grace Period(Years)	Procurement
Tanjung Priok Access Road Construction Project	26,620	0.4*	40/10	Japan tied
Asahan No. 3 Hydroelectric Power Plant Construction Project	27,642	0.75**	40/10	Untied
Engineering Services for Kamojang Geothermal Power Plant Extension Project	995	0.75**	40/10	Untied
Integrated Water Resources and Flood Management Project for Semarang	16,302	1.5	30/10	Untied
Professional Human Resources Development Project (III)	9,717	0.75*	40/10	Untied
Total	81,276			

*Special terms for economic partnership (STEP)

** The more concessional lower interest rate is applied to alternative energy resource development projects and human resource development projects than ordinary projects in order to support developing countries' efforts to address environmental issues and develop human resources.

(1) Tanjung Priok Access Road Construction Project (II)

The project involves the construction of the Jakarta harbor road from Tanjung Priok Port and the north-south link (4 km). This project is part of the Tanjung Priok Access Road Construction Project (planned total length: 12.1 km), which connects the northeastern section of the Jakarta outer ring road with the Jakarta harbor road. It completes the project, coming after Phase I of the project, for which loan agreement was concluded last fiscal year. At the same time, the project will introduce a traffic information system. The objective is to improve access to Tanjung Priok Port from the suburbs of Jakarta and alleviate traffic congestion, thus contributing to improving the investment environment in Java.

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 average annual growth rate of around 12%, or about 1.6 times in four years, and traffic congestion has become severe. In particular, 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 a long time due to traffic congestion, and this is a factor in the stagnation of the local economy.

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

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(2) Asahan No.3 Hydroelectric Power Plant Construction Project

The project involves the construction of a hydroelectric power plant (154 MW, run-of-river type) and related transmission lines in North Sumatra Province. The objective is to alleviate the tight demand and supply for power in the North Sumatra System, which is currently under pressure, and to increase the stability of supply. This, in turn, is expected to contribute to the economic development of North Sumatra by improving the investment environment. Moreover, the use of renewable energy is expected to contribute to relieving impact on the global environment.

Peak demand in the North Sumatran System, where the project is located, is 1,034 MW (actual demand in 2003), and this is projected to rise by an annual average of 6.5%, reaching 1,944 MW by 2013. However, the capacity of the generating facilities in the grid is 1,308 MW (actual capacity in 2003). Taking into account operational stoppages caused by the aging of existing facilities and progress in the development of new power sources, the supply capacity will be 2,163 MW in 2012 before the scheduled commencement of operations at Asahan No. 3 Hydroelectric Power Plant. However, the power supply reserve ratio for the same year is projected to decline to around 20%. The North Sumatra System is connected to Nanggroe Aceh Darussalam Province, and the province's power plants sustained major damage as a result of the earthquake off the Sumatran coast in December 2004, reducing supply capacity. In addition, demand for power is expected to rise along with the rehabilitation and reconstruction of Aceh Province toward 2013, when Asahan No. 3 Hydroelectric Power Plant will be completed. The development of new power sources in the grid is an urgent matter.

Loan funds will be allocated to the construction of power generation facilities and consulting services (tendering assistance, supervision of work, assistance in operation and maintenance, technology transfer, human resource development, and assistance with environmental management).

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(3) Engineering Services for Kamojang Geothermal Power Plant Extension Project

The project involves the development of steam for geothermal power generation and the expansion (60 MW class) of a geothermal power plant in West Java Province, Java. The objectives are to alleviate the currently tight supply and demand situation of power in the Java-Bali Grid and to increase the stability of supply. This, in turn, is expected to contribute to the development of the Java economy by improving the investment climate. Moreover, the use of renewable energy is expected to contribute to relieving impact on the global environment. The loan will cover engineering services related to aspects such as the detailed design for the project, with the objective of the smooth implementation and promotion of the project.

Peak demand in the Java-Bali System, where the project is located, is 14,053 MW (actual demand for 2003), and this is expected to reach 24,319 MW by 2013, with an average annual growth rate of about 5.6%. However, the capacity of the generating facilities in the grid is 18,658 MW (actual capacity in 2003). Supply capacity in 2012, the year when the Kamojang Geothermal Power Plant extension is scheduled to commence operations, is projected to be 27,021 MW, taking into account operational stoppages caused by the aging of existing facilities and progress in the development of new power sources. Therefore, the power supply reserve ratio for that same year is expected to fall to 17.9%, so the development of new power sources is an urgent matter. Moreover, the project, which will utilize renewable geothermal energy resources, is in line with the global trend toward energy and environmental conservation.

Loan funds will be allocated to consulting services (detailed design (including exploratory test well drilling), assistance with tendering, and surveys (including exploratory test well drilling) of the Lumutbalai geothermal field.

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(4) Integrated Water Resources and Flood Management Project for Semarang

The project is comprised of the construction of drainage channels and river improvements, and drainage facilities and a multi-purpose dam in Semarang, the provincial capital of Central Java Province. The objective is the alleviation of flood damage and the securing of a stable water supply in the region, thus improving the investment environment and contributing to the development of the local economy.

Indonesia has a tropical monsoonal climate with distinct wet and dry seasons, and about 80% of its rainfall is concentrated in the wet season. Semarang, where the project is located, has suffered from flood damage for many years as a result of its climate and topography, and flood countermeasures are an urgent matter. Moreover, water shortage has become a problem, particularly in the dry season, as a result of the population growth that is accompanying the industrialization and urbanization of Semarang, leading to severe land subsidence caused by excessive abstraction of underground water due to the lack of surface water. An integrated water resources management strategy is therefore required.

Loan funds will be allocated to river improvement, the development of urban drainage facilities, the construction of a multi-purpose dam, the establishment of water level observatories, and consulting services (tendering assistance, supervision of work, and training for employees of executing agencies etc.).

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(5) Professional Human Resource Development Project (III)

The project involves overseas study in Japan, entry into higher education in Indonesia and the implementation of training in both countries for human resources in the policy planning and fiscal departments of local and central governments. The objective is to develop human resources with more advanced expertise and skills in sectors such as public policy and finance, thus contributing to an increase in administrative capabilities to accommodate decentralization.

Since 1999, the Indonesian government has been promoting decentralization through the establishment of legal provisions and other measures, but adequate results have not been produced due to factors such as the inadequate administrative capabilities of local governments. In response to this, the Indonesian government has made improving the administrative and management system and upgrading the capabilities of administrators one of its priorities. Upgrading administrative capabilities with a focus on local government is being treated as a particularly urgent matter.

Loan funds will be allocated to overseas study in Japan (advanced study, short-term training, and on-the-job training), study in Indonesia (entrance to higher education and short-term training), strengthening the Center for Planner Development, and consulting services (coordination of overseas study and training plans, progress management, assistance with university selection and entrance applications, monitoring and counseling during study in Japan, administration of payments for tuition fees, living expenses and other costs).

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