

## JBIC signs ODA Loan Agreements with Indonesia

### --Continuing to Support Economic and Policy Reforms--

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1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed on March 23 with the Republic of Indonesia two ODA loan agreements in the aggregate total of up to 23.554 billion yen as the Development Policy Loan (III) and the Infrastructure Reform Sector Development Program.
2. In January 2005, the Indonesian government prepared the Medium-Term Development Plan (RPJM) (2004-09), which set the target of a 7.6% growth rate, 5.1% unemployment rate and 8.2% poverty rate in the final year of 2009 (their figures in 2004 are respectively 5.1%, 9.9% and 16.6%). To achieve these targets, the government has been working on reforms for enhancing macroeconomic stability, improving the investment climate and public financial management, and facilitating infrastructure development with private sector participation. Evaluating the progress on reforms being advanced by the Indonesian government, these ODA loans will provide financial support for sustaining/accelerating reform momentum.
3. The followings are highlights of these loans:
  - (1) Supporting Policy Reforms in Cooperation with Multilateral Development Banks  
Since the Asian currency crisis, the Indonesian government has carried out a series of economic reforms. The Medium-Term Development Plan (RPJM) (2004-09) sought a government trusted by the people through its efforts to strengthen the rule of law and anti-corruption measures, while placing priority on achieving growth that will create employment and reduce poverty by increasing hitherto lackluster FDI inflows in addition to exports.  
Under these ODA loans, JBIC will monitor and evaluate the progress and outcomes of the Indonesian government's reform efforts in cooperation with the World Bank and Asian Development Bank (ADB), partners in this cofinancing.[1] JBIC will also engage in policy dialogue with the Indonesian government to ensure steady implementation of policy reforms.

- (2) Supporting Infrastructure Development with Private Participation

The Indonesian government estimated that to achieve the targets set by the Medium-Term Development Plan (RPJM) (2004-09), there is a need to invest 65 billion dollars (about 5% of GDP) in infrastructure, including private sector investment, in the next five years.

To date, JBIC has cofinanced the Development Policy Loan and the Development Policy Loan (II) with the World Bank in support of policy reforms, which included building public-private partnerships and enhancing risk management, thereby encouraging private sector participation. The Indonesian government has placed a high priority on accelerating infrastructure development by unveiling the Infrastructure Policy Package (IPP) for further reforms in February 2006. However, individual projects with public-private partnership have not made adequate progress to date.

The Infrastructure Reform Sector Development Program will support the government's policy reform measures, such as reforming institutional and legal frameworks to catalyze private sector participation and involvement; building a framework for sharing risks between the private and public sectors; and making institutional improvements for facilitating land acquisition for implementing investment projects. Further progress in reforms is expected to accelerate and expand private sector participation and involvement and thereby boost infrastructure development.

(Click here for details.)

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[1] The Development Policy Loan III is cofinanced with the World Bank (which provided US\$600 million) and the ADB (US\$200 million). The planned aggregate total provided by all the cofinancing banks, including JBIC, amounted to the equivalent of US\$900 million. The loan for the Infrastructure Reform Sector Development Program is also cofinanced with the ADB (which provided US\$400 million), with the aggregate total combined with the ADB loan amounted to the equivalent of US\$500 million.

## 1. Loan Amount and Terms

Program Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/Grace Period (Year)
Development Policy Loan (III)	11,777	1.5	30/10
Infrastructure Reform Sector Development Program	11,777	1.5	30/10

## 2. Overview of Programs

### (1) Development Policy Loan (III)

The Government of Indonesia has engaged in economic and fiscal reforms to achieve its objectives set in its Medium-Term Development Plan (RPJM) (2004-09): (i) promote macroeconomic stability; (ii) improve the investment climate; (iii) improve public financial management and anti-corruption policies; and (iv) reduce poverty. As a result, the economy achieved 5.5% growth (preliminary figure) in fiscal 2006 and reduced government debt to 41% relative to GDP at the end of September 2006. However, the proportion of poor people living on less than US\$2 a day still accounts for one half of the population, and 2 million new workers enter the labor market every year. Under these circumstances, there is a need for further growth to generate employment, and therefore reform momentum should be sustained and accelerated.

As fuel subsidies were cut in 2005, the cash compensation program was launched in some areas for people in poverty on the condition that their children go to schools. Despite such effort, the poverty rate edged up in 2006, and poverty reduction remains a major challenge.

JBIC, in cooperation with the World Bank and the ADB, will monitor and evaluate the progress of economic and public finance reforms to date and to sustain and accelerate reform momentum, thereby helping policy reform efforts of the Indonesian government.

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

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Ministry of Finance

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### (2) Infrastructure Reform Sector Development Program

In Indonesia, investment in infrastructure, which reached 6-7% of GDP in the middle of the 1990s, plummeted after the Asian currency crisis in 1997 and has hovered around 2% in recent years. This has resulted in quantitative shortages and deterioration of infrastructure, posing an obstacle to investment. In addition, limited access to power and water supply infrastructure has made a serious impact primarily on people living in poverty.

Under these circumstances, the Indonesian government set up the National Committee for the Acceleration of Infrastructure Provision (KKPPI) to encourage infrastructure investment and the risk management committee to assess the risk burden on the government. In February 2006, the government unveiled the Infrastructure Policy Package (IPP) that contained 156 action plans, which included preparing a master plan for the transport, power, oil and gas, water and sanitation sectors respectively and putting in place the institutional framework for land acquisition. IPP is based on the Japan-Indonesia Strategic Investment Action Plan (SIAP) agreed upon between the two governments in June 2005 and being advanced by the joint efforts of the public and private sectors. Given this development, Japanese firms operating in Indonesia and those considering investment in the country's infrastructure sector have high expectations for steady implementation of the Program.

This Program consists of setting up a special unit for fostering public-private partnerships in infrastructure investment; policy and institutional reforms; and monitoring and evaluation of the progress in reforms of individual subsectors of infrastructure. Supporting policy and institutional reforms pertaining to infrastructure in cooperation with the ADB will contribute to accelerating infrastructure development, improving the investment climate and improving access to infrastructure service in Indonesia.

This Loan will provide fiscal funds for undertaking the reforms described above. The proceeds of the loan will be used for funding the import of goods.

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