

## FY2006 ODA Loan Package for Indonesia

### --Supporting Improvement in Investment Climate for Sustainable Growth, Poverty Reduction, Increase in Quality of Education and Reconstruction in Aceh--

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed today 9 ODA loan agreements in the aggregate total of up to 99.811 billion yen with the Government of the Republic of Indonesia. Combined with a loan for Engineering Services for the Jakarta MRT System Project signed in November 2006, the Development Policy Loan III and the Infrastructure Reform Sector Development Program Loan respectively signed on March 23, the overall total of ODA loan package for Indonesia in FY2006 amounted to 125.234 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 and set the following targets to be achieved in the final year 2009: 7.6% growth rate (5.1% in 2004), 5.1% unemployment rate (9.9% in 2004) and 8.2% poverty rate (16.6% in 2004). The government has been working on an array of reforms for ensuring macroeconomic stability and improving the investment climate and public financial management. As a result, real GDP grew by 5.5% in 2006, slightly lower than 5.6% in 2005 but a relatively high rate, considering the impact of the earthquake that hit central Java in May 2006. The Yudhoyono government has been taking positive steps to improve the investment climate by unveiling such reform programs as the Policy Package for Improvement of the Investment Climate and the Infrastructure Policy Package (IPP) in 2006 and by holding the Indonesia Infrastructure Conference and Exhibition 2006, while working on poverty reduction. The ODA loan package in FY2006 will support these policies and contribute to the country's economic and social development.

3. The FY2006 ODA loan package will finance the projects addressing the following policy areas.

(1) Economic Infrastructure Development for Improving the Investment Climate

JBIC has assigned one of the priorities of ODA loans on improving the investment climate for promoting private sector investment. The FY2006 package will support the power and transport sectors.

In the power sector, JBIC will support efforts to provide stable power supplies to meet rising power demand. In the Peusangan Hydroelectric Power Plant Construction Project, an about 86 MW hydroelectric power plant and transmission and distribution facilities will be constructed in the Aceh and North Sumatra power system. The North-West Sumatra Inter-connector Transmission Line Construction Project, which connects the Aceh and North Sumatra power system and the West Sumatra power system with 275 kV transmission line aims to relieve tight power supply and ensure the reliability of power supply in both systems by connecting the two power systems. The PLN Operation Improvement System Project for Supporting Generation Facilities seeks to contribute to efficient operation in power plants by introducing a data collection system to PT. Perusahaan Listrik Negara (Persero) (PLN) and its power generation subsidiaries. At the same time, the project aims to improve reliability of system by upgrading equipment in substations in the Java-Bali power system where widespread blackout broke out in August 2005.

In the transportation sector, JBIC will support the Railway Double Tracking on Java South Line Project (III) (Engineering Service) for double-tracking the Kroya-Kutoarjo section of Java South Line, the main trunk line in Java island. An ODA loan will provide assistance for improving the business operations of railways services, establishing standards and regulations pertaining to operation and maintenance (O&M), and for reviewing the detailed design, in order to improve financial conditions and O&M capacity of the Indonesian Railways Corporation. It is expected that the loan will serve to increase the efficiency and safety of railways services.

The scope of the National Geo-Spatial Data Infrastructure Development Project is to acquire and produce the geo-spatial data of Sumatra Island where development is in progress and to develop a network system for sharing various geo-spatial data. The project is expected to contribute to more efficient and advanced administrative service and well-focused regional development planning. The development of similar data has been regarded in Japan as an important social infrastructure in the wake of the Great Hanshin-Awaji Earthquake in 1995.

(2) Poverty Reduction and Improvement in the Quality of Education

Poverty incidence in Indonesia, while declining as a secular trend in recent years, edged up in 2006 to 17.8%, as a result of the increased price of rice. This is a reminder that poverty reduction remains a major challenge. The Regional Infrastructure for Social and Economic Development Project aims to increase employment for the poor and improve their access to social services by developing basic infrastructure based on community needs and by piloting microfinance in communities where poverty is prevalent.

Improving the quality of education is also high on Indonesia's national development agenda. The ICT Utilization Project for Educational Quality Enhancement in Yogyakarta Province will serve as a model for introducing ICT in basic education by providing personal computers and other materials and equipment for primary and secondary schools. The Hasanuddin University Engineering Faculty Development Project aims to improve the quality of education and research by expanding/upgrading the Engineering Faculty of Hasanuddin University. It is thus expected to contribute to industrial development in eastern Indonesia.

(3) Aceh Reconstruction

The major earthquake off the coast of Sumatra and the resulting tsunami in December 2004 and the second major offshore earthquake in March 2005 devastated Aceh and North Sumatra, with about 130 thousand lives lost and damage totaling about 4.5 billion US dollars. In the wake of these disasters, relief and reconstruction efforts have been underway with assistance from numerous donors and agencies, including the Government of Japan. On the other hand these disasters have led to the progress toward peace in Aceh. A peace agreement was signed between the Indonesian government and the Free Aceh Movement (GAM), armed separatists fighting for independence, after 30 years of conflict, and this led to the first direct elections in December 2006. The Aceh Reconstruction Project aims to promote social and economic development and to consolidate peace in the region. To this end, infrastructure will be restored and upgraded beyond the pre-disaster and pre-conflict levels in the transport and water sectors where reconstruction and development funds are in short supply. The Peusangan Hydroelectric Power Plant Construction Project combined with the North-West Sumatra Inter-connector Transmission Line Construction Project described in (1) above are also expected to bring a stable supply of power in Aceh and extension of electrification in the neighboring region.

(Click here for details)

## Project Amount and Terms

Project Name	Amount (mil. yen)	Interest Rate (% per annum)	Repayment Period /Grace Period (year)	Procurement
PLN Operation Improvement System Project for Supporting Generation Facilities	4,498	1.5	30/10	Untied
Peusangan Hydroelectric Power Plant Construction Project	26,016	0.75**	40/10	Untied
North-West Sumatra Inter-connector Transmission Line Construction Project	16,119	1.5	30/10	Untied
Railway Double Tracking on Java South Line Project (III) (Engineering Service)	981	1.5	30/10	Untied
Hasanuddin University Engineering Faculty Development Project	7,801	1.5 0.75**	30/10 40/10	Untied
ICT Utilization Project for Educational Quality Enhancement in Yogyakarta Province	2,911	1.5	30/10	Untied
Regional Infrastructure for Social and Economic Development Project	23,519	1.5	30/10	Untied
National Geo-Spatial Data Infrastructure Development Project	6,373	0.4*	40/10	Japan Tied
Aceh Reconstruction Project	11,593	0.75**	40/10	Untied
Total	99,811			Untied

\* Special Terms for Economic Partnership (STEP) were applied.

\*\* A lower interest rate was/The preferential terms were applied to alternative energy, human resource development and peace-building projects to support environmental and human resource development efforts in developing countries. In the Hasanuddin University Engineering Faculty Development Project, the preferential terms only apply to the component of conducting study and providing training in Japan.

## (1) PLN Operation Improvement System Project for Supporting Generation Facilities

The purpose of the project is to increase the operational efficiency of power plants across the entire Indonesian power system and improve the reliability of power system facilities in Java and Bali. This will be accomplished by introducing operation improvement systems into the power generation activities of PLN and its power-generating subsidiaries, conducting training classes for PLN employees, and updating substations in the Java-Bali System. The project will contribute to Indonesia's economic development by improving the investment climate.

The power generation sector in Indonesia has been hit by increases in both fuel costs and energy demand in recent years. This has created the urgent need to lower generation costs, by determining the appropriate fuel supply structure, and to increase the available factor for existing power plants, through improved maintenance techniques. However, operation and maintenance records, which comprise the essential data for these efforts, are of limited reliability and have not been collected sufficiently. As such, it is necessary to establish efficient operating practices at existing generation facilities by creating a system for employee training as well as accurate data collection and analysis. Further, in the power transmission and transformer sector, large-scale outages occur as the result of malfunctions of equipment in substations in the Java-Bali System. There is therefore a strong need to replace the substations, in order to improve the system's reliability.

The proceeds of the loan will be used for an enterprise asset management system, replacement of equipment in substations, and consulting services in areas such as conceptual design, bidding, and construction supervision.

The information management system that PLN plans to introduce with this project is currently being used in Japan by Tokyo Electric Power Company, Hokuriku Electric Power Company, Shikoku Electric Power Company, and Kyushu Electric Power Company, among others. In Southeast Asia, the system is currently being used by power companies in Thailand, Malaysia, and other countries.

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## (2) Peusangan Hydroelectric Power Plant Construction Project

The project includes the construction of a hydroelectric power plant (86.4 MW, dam and conduit type), and the related transmission and distribution facilities, near Lake Tawar. The lake feeds the Peusangan River, which is in the province of Aceh, in the northern part of Sumatra Island. The plant will help meet the increasing demand for power in the Aceh-North Sumatra System and stabilize the power supply. By improving the investment climate in such a manner, the project will contribute to northern Sumatra's economic development, as well as Aceh's reconstruction and rehabilitation. Further, by leveraging a renewable energy source, it is hoped that the project will lessen the burden that economic development places on the environment.

While the Aceh-North Sumatra System has a peak demand of 1,054 MW (actual demand for 2005), this is forecast to increase by an average of 10.5% annually, reaching 2,335 MW by 2013 with continued economic growth. However, the capacity of the system's facilities is 1,343 MW (actual capacity for 2005). Considering a potential suspension of operations due to the ageing of existing facilities, it is imperative to secure new power sources to ensure a solid power source structure.

The provision of this loan is designed to respond to strong new request from the Government of Indonesia to support recovery and reconstruction efforts in Aceh, which suffered severe damage in the December 2004 Sumatra Bay earthquake and tsunami, and recently signed a peace agreement with the Government of Indonesia.

The proceeds of the loan will be used for the construction of power plants and other facilities and for consulting services in areas such as bidding, construction supervision, operations and maintenance, and environmental management.

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## (3) North-West Sumatra Inter-connector Transmission Line Construction Project

The project includes the construction of two 275 kV transmission lines, which will connect the North Sumatra System and West Sumatra System, and the expansion of the existing substation's capacity from 150 kV to 275 kV. The 300 km long 275 kV transmission systems will be maintained by this project.

In addition, the project will improve the power supply capacity of North and West Sumatra, alleviating the burden of increased energy demands on, and increasing the reliability of, both systems. By improving the investment climate in this manner, the project will contribute to the economic development of the two regions.

While the North Sumatra System has a peak demand of 1,054 MW (actual demand for 2005), this is forecast to increase by an average of 10.4% annually, reaching 1,910 MW by 2011 with continued economic growth. In the West Sumatra System, peak demand was recorded at 1,294 MW (actual demand for 2005) but is expected to increase by an average of 12.2% annually, reaching 2,586 MW by 2011.

The reliability of Sumatra Island's power supply (hours and times of Forced Outages) is below average for all systems in Indonesia. As such, a priority has been placed on the construction of power-transmission and substation facilities that will comprise the necessary power supply system for the region. This is especially true for the North Sumatra and West Sumatra systems, which, despite being the backbone systems for the island, are not connected. Connecting the systems will (1) increase power plant capacity and lower the effect of plant breakdowns and outages on the overall system; (2) eliminate the imbalance of the island's energy source structure due to the maldistribution of potential forms of primary energy, including thermal power generation fuels, hydropower, and geothermal power; (3) achieve the prescribed level of reliability through smaller-scale facilities, without having to develop energy sources for separate systems; and (4) connect other wide systems, including international and interisland systems. Therefore, the development of power plant with a single interconnected system has the potential to bring more economic benefits than the development of separate power plants for each system.

The proceeds of the loan will be used for the construction of power transmission lines and for consulting services in areas such as detailed design, bidding, and construction supervision.

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#### (4) Railway Double Tracking on Java South Line Project (III) (Engineering Services)

The Project aims to contribute to the economic development in Central Java Province. Java South line is the trunk line for passenger/freight transportation in Java island, which connects Jakarta and Surabaya (the second largest city in Indonesia located in eastern part of Java island), and is currently 828 km in length. Of this distance, the Project aims to double track the Kroya-Kutoarjo section (76.1km) in Central Java Province. The section carries approximately 8 million passengers per year. Expanding the line capacity between Kroya and Kutoarjo on the line will improve the region's investment climate.

JBIC has been involved in the Project since fiscal year 1996, when an initial loan of 6 billion yen was allocated to carry out the detailed design for double tracking spanning Kroya, Kutoarjo, and Yogyakarta section (140 km), and the physical work of the Kutoarjo-Yogyakarta section (64 km) on the line. In fiscal year 2003, a second loan of 10 billion yen was provided for double tracking of the remaining part of Kroya-Yogyakarta section. JBIC is now providing a third loan, which will be utilized for engineering services for double tracking the Kroya-Kutoarjo section.

Except for the span targeted by this Project (Kroya-Kutoarjo), double tracking construction for the remainder of the Jakarta-Yogyakarta section (517 km) of the Java South Line has either been completed or is being planned. Currently, 62 trains pass through the Kroya-Kutoarjo section each day. However, this number is expected to increase to 84 trains per day, as demand for oil carried from the Cepu Field in Central Java rises. As such, expanding line capacity in this section with double tracking has become an urgent issue. Further, transportation in Java relies heavily on the use of roads, which leads to traffic jams and environmental damage. Shifting the transport burden from roads to rail is required to improve efficiency in Indonesia's transport sector.

The proceeds of the loan will be used for engineering services, including review of detailed design, improvement of railways business operation, establishment of standards and regulations for Operation and Maintenance, establishment of an asset maintenance management system, and assistance in tender.

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#### (5) Hasanuddin University Engineering Faculty Development Project

The project aims to contribute to the promotion of industries in Indonesia, especially in Eastern Indonesia by strengthening its research capacity and efforts to produce human resources in the fields of engineering. This will be accomplished by enlarging and enhancing the Engineering Faculty of Hasanuddin University—which is located in South Sulawesi Province on the island of Sulawesi—thereby strengthening its engineering programs and research activities.

Strengthening industrial competitiveness and reducing the economic disparity between the western and eastern regions are key issues for Indonesia. It is critical to promote industrial growth in eastern region and, human resources development is required as a basis to support economic development. Currently, the quality and quantity of higher education and research activities in Indonesia are severely lacking. Further, a disproportionate number of higher education institutions are located in the western part of the country, which contributes to the internal east-west development gap. Hasanuddin University, which is located in Makassar, the economic center of eastern Indonesia, was established in 1956 and is the region's largest comprehensive university. Roughly 4,000 students are enrolled in its Engineering Faculty. The university is a key contributor in producing human resources and an important facility for research and development to industrial promotion efforts in eastern Indonesia. To solidify this role, the university needs to improve educational and research activity, facility and equipment and strengthen tie-ups with the private sector.

The project includes plans to establish the Center of Technology (COT) and activate linkage between the Engineering Faculty, industry, other universities, and governments and community in the region. Through COT, the university will expand its dissemination of the results of its research and development activities and collaborate with industry through technology development, technology consultation, collaborative research, funded research, and entrepreneur support. By expanding the capacity of Engineering Faculty, the number of students will increased to 5,800 in total (4,600 undergraduates, 1,000 master's students, and 200 doctoral students).

The proceeds of the loan will be used for facility and infrastructure development (including those made to the COT), procurement of educational and research equipment, fellowships and research programs (such as advanced studies for faculty in Japan or Indonesia and collaborative research), and consulting services in areas such as overall program management, detailed design, bidding support, construction supervision, selection of partner institutions for fellowship and research programs, and monitoring and support of study abroad activities.

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#### (6) ICT Utilization Project for Educational Quality Enhancement in Yogyakarta Province

This project acts as a model for introducing IT-based communication solutions into basic education in Indonesia. The project will provide personal computers and other necessary equipment, upgrade the information and communication technology (ICT) environment, and develop an e-learning system for elementary and junior high schools in the Yogyakarta Province. The project aims to increase the quality of education through implementing support for participation-based school operations and activities. The project further aims to increase the quality of education across Indonesia by disseminating the lessons learned from the project to schools in other provinces.

Efforts to expand basic education across Indonesia have met with success. This is especially true for primary education, which has reached a gross enrollment ratio of close to 100%. However, only 46.1% of elementary school teachers and 66.5% of junior high school teachers have the necessary credentials (as of fiscal 2000). The number and quality of textbooks and educational materials is also below standards. Further, in 2003, 15-year-olds who had completed their basic education in Indonesia were tested using the OECD Programme for International Student Assessment. The results showed that Indonesian students placed last in all four areas in which they were tested, indicating a strong need to improve the quality of education in the country.

As home to Gadjah Mada University, the oldest university in Indonesia, Yogyakarta Province is known for its commitment to education. To address gaps between schools and improve educational quality using ICT, the province developed a 2005–2009 educational plan based on teacher reeducation, upgrading infrastructure for science and technology

education, and leveraging ICT for education. Currently, close to 100% of elementary and junior high schools in Japan use personal computers in the classroom, while the figure is only 7% in Yogyakarta Province. The project aims to raise the figure to 29%.

The proceeds of the loan will be allocated across 300 elementary schools and 200 junior high schools in Yogyakarta Province for ICT equipment, development of ICT connectivity, procurement of ICT-based educational materials, system development for an Internet Data Center, and consulting services in areas such as bidding, construction supervision, and drafting school proposals.

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#### (7) Regional Infrastructure for Social and Economic Development Project

The project aims to provide the residents of poor regions, based on their needs, with (1) transportation facilities; (2) water supply and sanitation facilities; (3) small irrigation facilities; (4) market facilities; (5) health facilities; (6) educational facilities; and (7) micro-credit services which will be introduced on a pilot basis. These sub-components will improve the people's access to social services and increase employment opportunities. Through these initiatives, the project will contribute to efforts to eliminate poverty, spur self-sustaining development of the local economies, spur self-reliant capacity building of the local communities, and strengthen the administrative capacity of the local governments.

In 1976, the number of poor people in Indonesia reached 54.2 million, or 40% of the population. By 1996, that number had dropped to 22.5 million people, or 11.3% of the population—this decline has been partially attributed to rapid economic growth (the average annual GDP growth rate for the period was 7%). However, the Asian financial crisis that hit the region in July 1997 reversed this positive trend. The poverty rate increased initially but improved somewhat over the following years, settling at 36.1 million citizens, or 16.6% of the population in 2004. Nevertheless, in March 2006, a spike in rice prices sent the poverty rate up again to 39.1 million people, or 17.8% of the population. Eliminating poverty continues to be an issue of critical importance for Indonesia.

The Indonesian government's national midterm development plan (RPJM; 2004–2009) and its poverty reduction strategy paper (PRSP) have both set a goal of reducing the poverty rate to 8.2% by 2009. The RPJM and PRSP, further, set goals to enhance basic education and health services and create more job opportunities for the poor. The government has undertaken a number of measures in support of these goals. It introduced a compensation program, to relieve the burden placed on the poor, when the government reduced its fuel subsidy in the face of rising petroleum prices. Also, in poor regions, the government has enhanced health and basic education services, undertaken small-scale infrastructure projects, and provided cash to the poor on an emergency basis. In 2008 and beyond, under a uniform-community-driven, development program, the government plans to carry out efficient and poverty reduction projects simultaneously across the nation. The JBIC project is one part of this overall effort.

The proceeds of the loan will be used for construction of small-scale infrastructure projects, micro-credit services, and consulting services in areas such as surveys, design, construction supervision, operation and maintenance management, monitoring and evaluation, and capacity building.

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#### (8) National Geo-Spatial Data Infrastructure Development Project

This project aims to produce basic map data\* for Sumatra Island and develop a networking system for sharing national geo-spatial data. In addition, the project provides support for effective regional development planning through utilization of the networking system. Proper use and sharing of national geo-spatial data has the potential to streamline and increase the effectiveness of government operation and eliminate duplicative work and investment. At the provincial level, the data can be used to determine regional development plans. Therefore, the networking system contributes to (1) social and economic development at the national and local levels, (2) improved governance, (3) appropriate management and development of natural resources, and (4) environmental protection.

Indonesia has already completed its collection of national basic map data for 250,000:1 and 1,000,000:1 scale maps. However, the basic data for the 10,000:1 to 50,000:1 scale maps of Sumatra Island, Papua, Maluku, and other regions—which can be used by related government agencies for management and development of natural resources and environmental protection and by local governments for the creation of regional development plans—is not complete. Sumatra Island, in particular, is growing at an especially rapid pace and basic map data on the region is urgently needed to ensure a proper course for its development.

To date, a number of government and research organizations have individually produced thematic maps superimposed by basic map data and spatial information from various industries and research fields. However, effective information sharing has not been part of this process. To avoid duplicative investment of time and money, it is important to develop a network system that enables spatial data (basic map data and thematic map data) to be shared.

Implementers of the project plan to develop a national geo-spatial data infrastructure and advance the sharing of spatial data across Indonesia. In Japan, the Hanshin-Awaji Earthquake in 1995 was the impetus for the recognition that the spatial data that was independently collected by each organization represented duplicative investment. However, the data revealed important social infrastructure, and Japan worked toward the development of easy-to-use systems and technologies for sharing the spatial data.

The proceeds of the loan will be used for basic map data augmentation (acquisition and production of basic map data) for Sumatra Island, networking system development (including bolstering the data center, establishing a data backup center, and conducting training), and consulting services in areas such as basic map data augmentation, detailed design aspects of networking system development, bidding support, construction supervision, and drafting regional development guidelines to be used in determining local development plans.

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\*Basic map data includes places names, as well as residence, transportation, vegetation, river, contour, administrative, and other basic spatial information.

#### (9) Aceh Reconstruction Project

The project aims to improve the infrastructure for the transportation and water resource sectors in province Nanggroe Aceh Darussalam (Aceh), which suffered considerable damage from earthquakes and tsunamis and recently achieved a peaceful resolution to a long-term military conflict. The goal is to bring the sectors, which have been lacking in recovery-and-development funds, to a level that exceeds their condition prior to the disasters and conflict. By achieving this, the project aims to contribute to the region's economic recovery, improve the living environment for residents who have been victimized by disasters and conflict, and promote and solidify economic growth and peace efforts in the region.

The December 2004 and March 2005 earthquakes and tsunamis, which struck Indonesia's provinces Aceh and North Sumatra (especially, Nias Island), caused roughly 130,000 deaths and \$4.5 billion in damages. In response, governments around the world declared their intent to support recovery efforts with large donations. Despite these pledges, as of April 2006, funding for recovery efforts was \$1.3 billion short of what was needed. Moreover, the \$4.7 billion committed by donors was not allocated across sectors, leaving some areas, including transportation and water resources, short of the funds necessary for a full recovery.

A 30-year struggle between the separatist Free Aceh Movement (GAM) and Indonesian military hindered Aceh's contact with the outside world, resulting in a limited level of development, even prior to the earthquake and tsunami disasters. In addition to promoting efforts to recover from the natural disasters, the Indonesian government is also forwarding recovery from the years of conflict. However, current efforts are focused on the areas damaged by the tsunami, specifically Banda Aceh and the coastlines. Support focused on economic development activities, such as the reconstruction of distribution and economic infrastructure, is a critical part of supporting comprehensive initiatives to rebuild and recover from both the natural disasters and the conflict across the entire province and to establish long-term peace in Aceh.

The proceeds of the loan will be used for the implementation of reconstruction and recovery efforts in Aceh and related consulting services in areas such as basic design, detailed design, bidding support, implementation management, and monitoring based on environmental impact assessments.

Project Executing Agency

Agency for Rehabilitation and Reconstruction for Aceh and Nias (BRR) (through April 2009)

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From May 2009, responsibility will shift to the following two agencies:

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