

JBIC Signs Japanese ODA Loan with Indonesia

--Supporting Economic and Fiscal Reforms to Move toward New Stage and Increased Macroeconomic Stability--

1. Japan Bank for International Cooperation (JBIC; Governor: Koji Tanami) signed on March 18 a Japanese ODA loan agreement totaling up to 22,080 million yen with the Republic of Indonesia for Development Policy Loan IV (DPL IV).[1] This loan supporting Indonesia's development policy was provided in parallel financing with the World Bank and Asian Development Bank (ADB), which provided US\$600 million and US\$200 million respectively. The aggregate total of DPL IV amounts to US\$1 billion equivalent.
2. This loan constitutes policy-based lending in which the disbursement can be released only after the attainment of the policy actions set in advance. The policy actions are instruments for the government of Indonesia to realize various reform programs, namely 1) macro-economic stability including public debt management etc., 2) improving the investment climate such as through the development of various regulations under the investment law, 3) improving public financial management and anti-corruption, including civil service reform etc., 4) realizing poverty reduction through community development projects—rural road development etc—with performance-based block grant schemes. This loan was extended on the basis of the assessment results that the policy actions has been satisfactorily implemented by the Government of Indonesia. Specifically, time length of Value Added Tax (VAT) refund was significantly shortened to 5.1 months as of July 2007, which took one year on average in 2003.
3. Indonesia's macro-economy is stabilizing. In 2007, with the GDP growth rate at 6.3%, and the public debt outstanding ratio to GDP falling to 35% in 2007, compared to 4.8% and 59% respectively in 2003. However, employment opportunities and poverty reduction are yet to be improved. In 2007, the unemployment rate was 9.7% and the poverty rate 16.1%. In addition, according to the Medium-Term Development Plan (2004-09), the government of Indonesia set a target of a 5.1% unemployment rate and of an 8.2% poverty rate by the final year, 2009. Therefore, for Indonesia to further create employment opportunities and thereby reduce poverty, it is essential to attain sustainable economic growth and improve the quality, as well as expand the quantity, of pro-poor social services.
4. Under the said environment, this DPL IV aims to attain the policy actions that were set in advance for further improvement of the investment climate, improvement of public financial management and anti-corruption, and acceleration of poverty reduction. The policy actions includes reducing time for Value Added Tax (VAT) refunds, enabling administrative protest against the tax audit, and improvement of the policy on Small and Medium Enterprises (SME) proposed by both JBIC and the government of Japan, following the Strategic Investment Action Plan (SIAP) concluded in 2005 between the governments of Japan and Indonesia, with consideration to the needs of Japanese investors. The said policy actions are expected to improve the investment climate for various private investors, including Japanese firms.
5. JBIC seeks to contribute to sustainable economic growth and poverty reduction in Indonesia. To this end, JBIC not only extends assistance for infrastructure development, but adequately conducts monitoring in collaboration with the World Bank and ADB on the progress of policy and institutional reform to be taken by the government of Indonesia, while utilizing knowledge of Japanese universities and research institutions.

(Click here for details.)

[1] Previously, JBIC provided a Japanese ODA loan totaling 10,749 million yen for DPL I in 2005, 11,729 million yen for DPL II in 2006 and 11,777 million yen for DPL III in 2007. This is the fourth Japanese ODA loan extended to support Indonesia's economic and financial reforms.

Reference

1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period /Grace Period(Year)
Development Policy Loan(IV)	22,080	0.7	15/5

2. Outline of Program

To contribute to 1) improvement of the investment climate, 2) improvement of public financial management and anti-corruption, and 3) poverty reduction, on a basis of the evaluation of the results of economic and fiscal reforms of Indonesia, Development Policy Loan (IV) aims to extend ODA loan assistance in parallel financing with the World Bank and ADB for the continuation and the acceleration of the various reforms in Indonesia

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

Project Executing Agency:
Ministry of Finance
Address: Jalan Lapangan Banteng Timur 2-4 P.O. Box 1139 Jakarta 10710, Indonesia
Tel: +62-21-385-0119
Fax: +62-21-344-0394
