

JBIC Signs Japanese ODA Loan Agreement with Indonesia

--Provision of the First Climate Change Japanese ODA Loan based on "Cool Earth Partnership"--

1. Japan Bank for International Cooperation (JBIC; Governor: Koji Tanami) signed today a Japanese ODA loan agreement totaling up to 30,768 million yen with the Republic of Indonesia to finance the Climate Change Program Loan. This is the first Climate Change Japanese ODA Loan[1] that JBIC is providing as part of the "Cool Earth Partnership"[2] announced in January 2008.
2. Indonesia is the world's third largest greenhouse gas (GHG) emitter, following China and the United States, if CO² emissions of forest origin[3] are taken into account. Even when those CO² emissions are excluded, the country still ranks the first among the ASEAN member countries (or 11th in the world) in the volume of GHG emissions. Further, rapidly increasing energy demand driven by economic growth as well as a big surge in coal consumption triggered by skyrocketing oil prices have served to sharply increase GHG emissions in the energy and industrial sectors. Indonesia is thus urgently called on to curb shrinkage of the forest area, develop renewable energy sources, and promote energy conservation efforts, with its sights set on addressing the future agenda of curtailing GHG emissions.
3. In Indonesia, climate change risks attributable to global warming are projected to increase in the area below the equator, such as prolonged dry seasons, lower rainfall, a shorter rainy season, and a growing number of torrential downpours. There is a concern that the ongoing climate change could intensify the severity and frequency of disasters, which will incur economic and social loss including economic downturn and rising poverty, thereby eventually threatening the country's sustainable development.
4. It was against this background that Indonesia served as chair of the 13th Conference of Parties of the United Nations Framework Convention on Climate Change, and took leadership in laying out an action plan toward building up the post-Kyoto framework for 2013 and beyond. In addition, the country announced a national action plan aimed at ensuring the implementation of its own comprehensive mitigation/adoption measures. Indeed, Indonesia shows deeper commitment to the climate change issue than other developing countries do. The country has also expressed consent to the proposal made by the Japanese government to halve GHG emissions globally by the year 2050.
5. This Climate Change Japanese ODA Loan is provided after Japan and Indonesia have agreed at the policy dialogue on climate change. Specifically, "policy actions" to be implemented by both countries are set out for each of the three areas below that Japan and Indonesia have jointly prepared: (1) reduction in GHG emissions; (2) adaptation to climate change; and (3) cross-cutting issues. Financing will be provided, after policy actions have achieved their targets. Japanese experts will be sent out as the monitoring team, which will evaluate the achievement status of each policy action, by utilizing JICA's technical assistance function. In the run-up to the inauguration of the new JICA in October this year[4], JBIC is striving to organically combine Japanese ODA loans and technical assistance in the loan formation process.
6. Since this is the first support for policy and institutional improvements focused only on the climate change area in Indonesia, other donors including the World Bank are paying attention to this approach. Given the global nature of climate change, JBIC aims to encourage other donors to co-finance this loan and take part in this assistance framework to create a new multilateral fund. JBIC will continue to provide Climate Change Japanese ODA Loans in support of developing countries' efforts to address climate change that are compatible with economic growth, while helping Japan to play a leading role in combating climate change[5].

(Click here for details.)

[1] A new Japanese ODA loan scheme that the government of Japan newly established as part of the "Cool Earth Partnership" it announced in January, 2008. This Loan will be provided to developing countries which make efforts to reduce GHG emissions and to achieve economic growth in a compatible manner, on the basis of policy consultations between Japan and those countries. The main scope of assistance will cover projects and programs that contribute to mitigation of climate change and are in the sectors and fields of Preferential Terms (areas such as improvement of access to clean energy and adaptation to climate change may be also included depending on projects/programs). For terms and conditions of Climate Change ODA Loans, see: http://www.jica.go.jp/english/operations/schemes/oda_loans/standard/

[2] Refer to the Special Address by Prime Minister Fukuda at the World Economic Forum in Davos on January 26, 2008 (http://www.kantei.go.jp/foreign/hukudaspeech/2008/01/26speech_e.html).

[3] Loss of CO² absorption sources due to logging, as well as CO² emissions caused by forest fires, and drying up and fires of peat swamp forests (peat swamp forests are tropical moist forests where dead leaves and wood accumulate faster than decomposing activities by microorganisms, which over time creates thick layers of acidic peat.)

[4] Traditionally, Japanese ODA operations have been conducted by JBIC (Japanese ODA loans and other lending), JICA (technical assistance) and the Ministry of Foreign Affairs (MOFA; grant aid). Upon the revision of the JICA Law, however, JICA will inherit loan assistance operations (Overseas Economic Cooperation Operations) from JBIC and grant assistance operations (excluding those MOFA continues to operate due to foreign policy requirements) from MOFA. New JICA will thus utilize three assistance modalities—technical assistance, loan cooperation and grant aid—in a unified manner. The inauguration of New JICA is scheduled in October, 2008.

[5] JICA and JBIC (overseas economic cooperation operations) have jointly announced in April this year "Direction of JICA/JBIC Operation Addressing Climate Change."

1. Loan amount and terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period(Years)	Procurement
Climate Change Program Loan	30,768	0.15%	15/5	General Untied

2. Outline of the Program

Climate Change Program Loan

The government of Indonesia sets out "policy actions" to realize various reforms in the three key areas, including: (1) reduction in GHG emissions (conserving forests, and promoting energy diversification/efficiency); (2) adaptation to climate change (organizational/institutional development for integrated water basin management, improving access to water supply and sewerage, strengthening the irrigation management and the institutions for farming instruction); and (3) cross-cutting issues (developing coordination framework for the implementation of climate change control measures, mainstreaming climate change measures in the national development plan, promoting the formation of the Clean Development Mechanism (CDM) projects, and strengthening the weather monitoring system). Financing will be provided after examining if these policy actions have achieved targets.

The Loan is aimed at supporting the various reforms mentioned above under the three key areas, the proceeds of which will be applied to payment for importing general materials.

The program executing agency is National Development Planning Agency (address: Jalan Taman Suropati No. 2, Jakarta 10310, Indonesia, Tel: +62-21-3193-6207; Fax: +62-21-392-6257).