

## **Japanese ODA Loans for Indonesia** **-Actively Supporting Economic and Policy Reform-**

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1. Today, JICA President Sadako Ogata signed agreements with the Republic of Indonesia to provide Japanese ODA loans for up to 185,86 million yen for the Development Policy Loan (V) and the Infrastructure Reform Sector Development Program (II)
2. The Development Policy Loan (V) is being made with an evaluation of policy reforms made by the Indonesian government since previous development policy loans were made. In particular, improvements to the short-term labor visa application process and intellectual property rights protection, part of investment climate reforms considered especially important to Japanese businesses, are part of the review as are developments in investment and general tax laws. This loan will provide continued support for policy reform in Indonesia as well as promoting policy dialog between Japan and Indonesia. The loans will assist Indonesia by improving the investment climate and fiscal management, fighting official corruption and alleviating poverty. The target areas for reform will be based on discussions with the working group of the Japan-Indonesia strategic investment action plan, initiated by the two governments in June 2005 as a joint project between government and the private sector. Included in the target areas are the enactment of bylaws for intellectual property protection and enhanced capacity of the relevant authorities, and bylaws and streamlines procedures for investment permit procedures and direct overseas investments as proposed by JICA.
3. The Infrastructure Reform Sector Development Program (II) is being provided assistance along with evaluation of system reforms made by the Indonesian government to organize its laws and create structures in the areas of infrastructure and investment promotion. This follows a Japanese ODA loan in March 2007 for the Infrastructure Reform Sector Development Program. This loan will contribute to the alleviation of poverty and facilitate infrastructure improvements in Indonesia. JICA supports continued infrastructure policy reform by the Indonesian government in the three areas of promoting infrastructure development, improving the investment climate and improving access to infrastructure. JICA is continuing to support structural and legal reform to enhance the participation of the private sector, the formulation of policies for appropriate fees and subsidies, and the improvement of the land acquisition system. To promote private sector participation in infrastructure projects, JICA supports setting up a framework to distribute the risk of cooperative roadway projects between the private and official sectors funded by technology cooperation. The new JICA also seeks to effectively combine different types of aid implements to promote infrastructure programs that the Indonesian government has prioritized.
4. In close partnership with such international organizations as the World Bank and Asian Development Bank, JICA will provide co-financing for the Development Policy Loan (V) and the Infrastructure Reform Sector Development Program (II). JICA will monitor policy reform and its effects as well as hold related policy discussions with the Indonesian government.
5. This year marks the final year of Indonesia's National Medium-Term Development Plan for 2004 to 2009 which was made public in January 2005. A variety of reforms have been carried out such as for alleviating poverty, stabilizing the macroeconomy and improving the investment climate as well as improving fiscal management and promoting infrastructure projects that include private sector participation. The development plan provides economic targets for 2009 such as an economic growth of 7.6 percent compared to 5.1 percent in 2004, an unemployment rate of 5.1 percent compared to 9.9 percent in 2004, and a poverty rate of 8.2 percent, down from 16.6 percent in 2004. These policy reforms carried out by the Indonesian government will be reviewed while these Japanese ODA loans provide the financial assistance required to continue and further promote the reforms. The reforms expected to emerge from this assistance are now even more important to alleviate the effect of the global economic crisis bearing down on Indonesia's economy and society.

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(For further details, [click here.](#))

## Reference

### Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% / year)	Repayment /Grace Period (years)
Development Policy Loan (V)	9,293	0.7	15/5
Infrastructure Reform Sector Development Program (II)	9,293	0.7	15/5

### Program Outline

#### (1) Development Policy Loan (V)

##### (a) Background and Necessity

The Indonesian government has indicated that it will carry out reforms in the following four key areas:

1. Macroeconomic stability,
2. The investment climate,
3. Official corruption and fiscal management, and
4. Poverty alleviation.

Supported by steady domestic consumption and private investment, the first half of 2008 rose in economic growth, exceeding the 6.3 percent recorded for 2007 overall. While a slump resulted in the second half of 2008 from the effects of the financial crisis, the overall annual growth rate nevertheless held at six percent. A 2.1 percent fiscal deficit was predicted in the 2008 revised budget due to the sudden rise in crude oil prices in the first half of 2008, but a subsequent drop in the price of crude oil and commodities brought the actual deficit to only 0.1 percent. The level of Indonesia's outstanding public debt for 2008 is predicted to be 30.9 percent of its gross domestic product (GDP) compared to 59 percent in 2003, which would surpass the target level even for 2009 of 31.8 percent.

But the effects of the financial crisis on the market since September 2008 are emerging in such forms as the temporary closure of the stock market, a rise in the cost of government bonds and a depreciation of the rupiah. Sound fiscal policies along with continuing efforts to reform the areas of macroeconomic stability, investment climate, fiscal management, official corruption measures and poverty alleviation are critical given the predicted drop in economic growth for 2009.

##### (b) Objective and Summary

Under the Development Policy Loan (V) project, the policy reforms made since earlier development policy loans are being evaluated. In particular, improvements to the short-term working visa application process and intellectual property rights protection, part of investment climate reforms considered especially important to Japanese businesses, will be evaluated along with strengthening of investment and general tax laws. The project is being carried out in cooperation with the World Bank and the Asian Development Bank. Of a total of just under 1.05 billion US dollars, the World Bank is providing \$750 million and the Asian Development Bank is providing \$200 million. These loans will provide continued support to the policy reforms of the Indonesian government and promote dialog between Japan and Indonesia regarding policy. The loans will also contribute to improving the investment climate and fiscal management, tackling public corruption and alleviating poverty.

Financial support is necessary to implement the reforms in the four key areas mentioned above, and the loan funding will be allocated to the settlement funds required for the import of general commodities.

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#### (2) Infrastructure Reform Sector Development Program (II)

##### (a) Background and Necessity

Infrastructure investment in Indonesia reached between six and seven percent of the GDP in the mid-1990s, though it declined to between two and three percent following the 1997 Asian financial crisis. This has brought about quantitative and qualitative infrastructure insufficiencies in the investment climate, adversely affecting the willingness of the private sector to invest. The lack of infrastructure in areas such as electricity and water supplies have had a deep impact particularly on the poorest segment of Indonesian society.

The target for economic growth in 2009 as set in the National Medium-Term Development Plan is 7.6 percent compared to 5.1 percent in 2004. Known by its Indonesian name of Rencana Pembangunan Jangka Menengah or RPJM, the plan is for the years 2004 to 2009 and also includes the targets of a rise in private investment from 16.6 percent of the GDP in 2004 to 24.4 percent and an increase in government investment by one percent to 4.1 percent of the GDP. Other targets are a drop in the unemployment rate from 9.9 percent in 2004 to 5.1 percent in 2009 and a drop in poverty in 2009 to 8.2 percent from 16.6 percent in 2004. To achieve these goals, the amount of investment needed in infrastructure over the coming five years is estimated at US \$65 billion. It is anticipated that \$16 billion of this amount will come from domestic and foreign private investment. Efforts are being made to promote infrastructure investment, including infrastructure summits held in January 2005 and November 2006, the establishment of the National Committee for the Acceleration of Infrastructure Provision (KKPPI) and February 2006's announcement of an infrastructure policy package. The Indonesian government is also making efforts to promote Public Private Partnerships (PPP) infrastructure projects, particularly in the electric power and transportation sectors. This will encourage Japanese and other foreign investment through the Japan-Indonesia strategic investment action plan established in June 2005. Since the beginning of Japanese ODA lending for the Infrastructure Reform Sector Development Program in March 2007, improvements have been made to the legal framework and across each sector of Indonesian infrastructure.

However, specific progress for PPP proposals is still inadequate, and the Indonesian government must continue to promote its policies.

##### (b) Objective and Summary

This project will support infrastructure policy reform by the Indonesian government in the three areas of infrastructure development, investment climate improvement and improved infrastructure access. This will promote policy dialog between Japan and Indonesia and accelerate investment, contributing to the alleviation of poverty and facilitating infrastructure improvements in Indonesia. The total amount of aid being provided is US \$580 million. The loans are being co-financed by the Asian Development Bank providing \$280 million and the World Bank providing \$200 million.

Fiscal support is necessary to implement the reforms to realize the above goals. The loan financing will be allocated to the settlement funds required for the import of general commodities into Indonesia.

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