March 31, 2009

JICA Signed Japanese ODA Loan Agreements with Indonesia

-Support of Efforts to Improve the Investment Climate and Enact Climate Change Adaptation Measures-

1. Today, JICA (President Sadako Ogata) signed an agreement with the Republic of Indonesia to provide Japanese ODA loans of up to 71.245 billion yen for a total of five projects. Added to the climate change program loan provided last September and the Development Policy Loan (V) and the Infrastructure Reform Sector Development Program (II) signed on March 24, the overall total of ODA loans offered to Indonesia in FY2008 amounts to 120.599 billion yen.
2. Indonesia's economic growth rate exceeded 6.3 percent in the first half of 2008, supported by steady domestic consumption and private investment. However, this economic growth slowed during the second half of the year due to the global financial crisis. Since last September, the crisis has also led to temporary closures of the stock market rising costs for issuing government bonds, and depreciation of the rupiah. As those adverse impacts spread throughout the financial market, there is a concern that the growth may further hampered in 2009. Along with decisive financial policy, continued reforms to improve the investment climate are therefore critical to maintain sustained economic growth and create employment opportunities.
3. Another issue facing Indonesia is noticeable changes in its annual rainfall pattern that appear to be a result of global warming. In particular, the risk of climate change is predicted to rise in the region Indonesia lying south of the equator, resulting in a lengthened dry season with decreased rainfall and a shortened rainy season with more torrential rains. It is feared that climate changes in the future pose a serious threat to sustained development in Indonesia, with more violent and frequent disasters leading to stagnation in economic activity, increased poverty and other socioeconomic losses.
4. These Japanese ODA loans are for projects that address these issues by improving the investment climate through enhanced economic infrastructure as well as supporting human resource development and climate change adaptation measures. JICA extends assistance with not only the loans for these projects but also loans for policy and institutional reform, including a climate change program loan, the Development Policy Loan (V) and a loan for the Reform Sector Development Program (II). Technical cooperation support is also being provided for policy planning as well as institutional development and its operation. With these comprehensive measures, JICA assistance aims at ensuring sustained economic growth and strengthening climate change adaptation measures in Indonesia going forward.
5. Details of the Japanese ODA loans are provided below.
   (1) Improving the investment climate through enhanced economic infrastructures and higher education

   With the target of promoting economic growth and expanding employment opportunities, the Indonesian government announced comprehensive policy package in June 2007 based on improving the investment climate and reforming the financial sector, as well as promoting infrastructure development and enhancing micro, small and medium enterprises. This was supplemented in August 2007 with an Economic Partnership Agreement between the two countries to coordinate mutual trade, investment and services. However, traffic congestion in the Jakarta metropolitan area, demand pressure on the electrical power supply and a lack of human resources with a higher education still pose a significant problem for Indonesia's investment climate.

   These Japanese ODA loans are being provided to support a diverse range of projects for improving Indonesia's investment climate. These include the Construction of Jakarta Mass Rapid Transit Project (I) to mitigate severe traffic congestion by constructing a mass rapid transit system in the Jakarta metropolitan area, the Engineering Services for Java-Sumatra Interconnection Transmission Line Project to build new transmission lines connecting the islands of Java and Sumatra to alleviate the tight supply and demand for power and improve power supply reliability, and the Development of Bandung Institute of Technology (III) to assist higher educational institutions for increased education-industry collaboration.

   (2) Support for adaptation measures to address the adverse effects of climate change

   Indonesia has been experiencing changes in its rainfall pattern thought to be caused by global warming. Over the last 10 years, these changes have resulted in some 50 floods, causing three million disaster victims and 1.6 billion dollars in total damages, making flooding the primary disaster risk in Indonesia. This flood damage is one of the factors which represent not only a material loss of houses, but also socioeconomic losses in the form of stagnant economic activity and increased poverty that may cause retardation of the sustainability of economic development in Indonesia. These Japanese ODA loans are being provided to enhance Indonesia's flood prevention capabilities and water source management in key regional cities damaged by frequent floods. Urban Flood Control System Improvement in Selected Cities will be provided to support river and flood control infrastructure improvements as well as bolstering the capacity of the river basin management offices with implementation to include measures for climate change adaptation. In addition, support will also be given to the Countermeasure for Sediment in Wonogiri Multipurpose Dam Reservoir (I) project to ensure regional water sources by applying anti-sedimentation measures to the Wonogiri multipurpose dam in central Java's upper Solo River Basin.

(For further details, click here.)

Reference

Loan amount, Terms and conditions

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)		Repayment Period/Grace Period (years)	Procurement
		Loan	Consulting services		
(1) Urban Flood Control System Improvement in Selected Cities	7,490	1.4	0.01	30/10	General Untied
(2) Countermeasure for Sediment in Wonogiri Multipurpose Dam Reservoir (I)	6,060	1.4	0.01	30/10	General Untied
(3) Development of Bandung Institute of Technology (III)	5,659	1.4*	0.01	30/10	General Untied
(4) Construction of Jakarta Mass Rapid Transit Project (I)	48,150	0.2**	0.01	40/10**	Tied
(5) Engineering Services for Java-Sumatra Interconnection Transmission Line Project	3,886	-	0.01	30/10	General Untied
Total	71,245				

* Concessional lending terms – a 0.55 percent annual interest rate, a 30-year repayment period and a 10-year grace period – apply to fellowship portions of projects that geared for human resource development.
** Special Terms for Economic Partnership apply for the financing of advanced Japanese technology and expertise transfers.

(1) Urban Flood Control System Improvement in Selected Cities

(a) Background and Necessity

Indonesia has been experiencing changes in its rainfall pattern thought to be caused by global warming. Over the last 10 years, these changes have resulted in some 50 floods, causing three million disaster victims and 1.6 billion dollars in total damages, making flooding the primary disaster risk in Indonesia. This flood damage represents not only a material loss of homes, but also socioeconomic losses in the form of stagnant economic activity and increased poverty that may pose a risk to Indonesia's sustainable economic development. Despite the pressing need to take measures against the increasing flood damage and risk of medium- and long-term flooding in major regional urban regions of concentrated population and industry, however, the level of flood control safety remains low. Although the Indonesian government enacted a new water resources law in 2004 to promote integrated development and management of water resources, problems remain. Organizational issues must be addressed such as how the scope of work is determined, while the river basin management and development structure require enhancement. Furthermore, an integrated water resource management plan needs to be formulated that encompasses flood control, water use and conservation. Both structural and human relations measures are therefore needed such as flood control infrastructure renovations in key regional cities and disaster prevention activities built on resident participation.

(b) Objective and Summary

Under the Urban Flood Control System Improvement in Selected Cities, river and flood control infrastructures will be improved and the capacity of the river basin management offices will be bolstered with implementation to include measures for climate change adaptation. By further providing support for formulating an integrated water resource management plan, flood damage will be alleviated in the target regions, encouraging regional economic development.

The Loan will be allocated to the project for river improvement and constructing diversion channels and other civil works, in addition to procuring the required equipment and materials. Funds will also be used to provide consulting services in a variety of areas. These include tender assistance, construction supervision and enhancing the capacity of the river basin management offices with consideration for climate change adaptation measures. Allocation will also be made to the assistance for the formulation of an integrated water resource management plan.

Executing agency

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(2) Countermeasure for Sediment in Wonogiri Multipurpose Dam Reservoir (I)

(a) Background and Necessity

Indonesia has been experiencing changes in its rainfall pattern thought to be caused by global warming. Over the last 10 years, these changes have resulted in some 50 floods, causing three million disaster victims and 1.6 billion dollars in total damages, making flooding the primary disaster risk in Indonesia. This flood damage is one of the factors which represents not only a material loss of houses,, but also socioeconomic losses in the form of stagnant economic activity and increased poverty that may cause retardation of Indonesia's sustainable economic development. Especially during the dry season, most regions experience scarcity in the available amount of water resources, leading to an imbalance in regional water distribution and severe shortages that threaten people's lives and farming in local communities. Under these conditions, it is necessary to take measure for most regions to not only prevent flood damages, but also secure a sustainable supply of surface water for industry and agriculture.

(b) Objective and Summary

Under the Countermeasure for Sediment in Wonogiri Multipurpose Dam Reservoir (I) project, a new sediment removal facility will be constructed at the Wonogiri multipurpose dam in the upper basin of the Solo River flowing through central and eastern Java, accompanied by river basin conservation measures. This will ensure a stable supply of water for irrigation, daily usage, power generation and flood control, and thus encourage regional economic development.

The Loan will be allocated for construction of the new sediment removal facility, implementation of river basin conservation and other public works. The Loan will also be used to provide consulting services for tender assistance, supervision of construction and assistance for river basin management, as well as improvement of the operation and management capacity for the sediment removal facility.

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(3) Development of Bandung Institute of Technology (III)

(a) Background and Necessity

Indonesia is presently in need of enhancing its industrial competitiveness due to the liberalization of the domestic market and the advancement of globalization. Under such condition, higher education institutions are given high expectation to play an important role in providing necessary human developments, technology improvements and regional

advancements to meet the demands. However, despite the fact that Indonesia has over 3,000 higher education institutions, the enrollment rate, a mere 17 percent in 2005, is yet lower than that of the surrounding countries. Furthermore, educational and research activities are lacking in both quality and quantity, with insufficient facilities and equipment, as well as limited research publications by professors.

(b) Objective and Summary

The Project aims to promote qualitative and quantitative expansion of education and research at Bandung Institute of Technology (ITB), located in West Java Province, by enhancing its research facilities and capacity, as well as University-Industry-Community Linkages, and thereby contributing to the development of human resources who will be the core of the industry and academic research, and the nation's industry and its competitiveness in the world.

Being the first higher education institution established in Indonesia in 1920, ITB has produced top level scientists, engineers, and researchers who have contributed to industries, academia, and have played a crucial part in advising on the technology policy and economic development of Indonesia. ITB surpasses other universities in Indonesia in the fields of science & technology, and it is the benchmark of science & technology development among Indonesian higher education institutions. Further, ITB plays an important role in retraining teachers from the universities around the country. Therefore, this project will further facilitate ITB, as being the primary force for producing and developing the engineering capacity of Indonesia, so as to contribute to the aforementioned national needs.

The Loan will be allocated for building construction, rehabilitation and related civil works, as well as for procurement of the necessary equipments and materials. It will also be allocated to fellowships to send students to Japanese universities, as well as consulting services for detailed design, tender assistance, construction supervision, fellowship service, and academic advisors.

Executing agency

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(4) Construction of Jakarta Mass Rapid Transit Project (I)

(a) Background and Necessity

The population of Jakarta metropolitan area has increased from 17 million in 1990 to 24 million in 2005, which is an annual average growth rate of two percent. This has been accompanied by steadily increasing traffic volume in the region. Despite the fact that transportation in the Jakarta region is dependent on road transport and congestion is already becoming a serious social problem.

The number of automobiles increases every year, leading to a prediction that the situation will worsen even further. There are also serious health concerns due to air pollution from automobile exhaust gas.
Although traffic congestion is being addressed through restrictions on passenger vehicles with less than three passengers during morning and evening rush hour and construction of bus lanes on Jalan Sudirman, the Jakarta's main street which consist a part of the project site, new mass rapid transit system is needed to address any future increases in traffic volume.

(b) Objective and Summary

Under the Construction of Jakarta Mass Rapid Transit System Project (I), mass rapid transit system will be built in the Jakarta metropolitan area to mitigate its severe traffic congestion. It is expected that the project contribute to improve the country's investment climate through alleviating traffic congestion in the region.
Travel from central to south Jakarta currently takes two hours when traffic is congested. Once the project is completed, the mass rapid transit system is expected to reduce the time required to about 30 minutes.

The project will also involve the use of advanced Japanese technology for underground construction in central urban areas. This includes the adoption of the shield tunneling method to minimize the surface construction area required for underground excavation.

The Loan will be allocated for constructing approximately 15 kilometers of mass rapid transit system extending from Lebak Bulus Station to Dukuh Atas Station, including subways and elevated rail stations, as well as procuring signals and rolling stocks. The Loan will also be used to provide consulting services for construction supervision and tender assistance, in addition to support to operation and startup preparation.

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(5) Engineering Services for Java-Sumatra Interconnection Transmission Line Project

(a) Background and Necessity

Although Indonesia's total power generating capacity was assumed to be capable of serving the country's demands in 2008, which peaked at 25 thousand MW, the output of existing facilities has become restricted due to deterioration over time. This means that a large part of the country, including the Jakarta metropolitan area, is experiencing large-scale outages caused by defective substation facilities, resulting in widespread damage. Even outside of Java, power shortages and defective transmission systems are forcing rolling blackouts such that the power supply remains unreliable. Furthermore, Indonesia's total power demand is expected to grow even more, an average of 9.5 percent annually, making resolving the country's tight power needs a top priority. The islands of Java and Sumatra in particular require transmission line expansion to connect their power systems. At the moment, the systems are still unconnected, a problem that must be resolved before developing their power sectors and building supply systems.

(b) Objective and Summary

Under the Engineering Services for Java-Sumatra Interconnection Transmission Line Project, new transmission lines will be constructed to connect the power systems of Java and Sumatra, and thus alleviate the tight demand on both systems and improve supply reliability. This will also improve the investment climate on both islands and contribute to their economic development. The present loans will assist with detailed designs and other engineering services required by the project to ensure smooth implementation.

The Loan will be allocated for consulting services, including detailed designs, tender assistance and construction supervision.

Executing agency

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