

## Japanese ODA Loan for Indonesia

### Actively Supporting Economic and Policy Reform

1. On March 19, JICA signed a Japanese ODA loan agreement with the government of the Republic of Indonesia to provide up to 8.997 billion yen for the Development Policy Loan (VI).

2. The purpose of this development policy support loan is to assist the Indonesian government in implementing policy actions. The reforms the Indonesian government is targeting with policy actions include: 1) improving the investment climate through enhanced investment regulations and import/export procedures, 2) improving fiscal management including the formulation of a national budget that adequately incorporates development planning, and 3) alleviating poverty through grants to community development projects such as rural road construction. This loan was approved after an evaluation of the measures taken so far by the Indonesian government on those policy actions. Financing for the loan is being provided in cooperation with the World Bank and the Asian Development Bank; going forward, JICA will monitor the results of the policy reforms and their implementation while coordinating closely with those banks, holding policy dialogs with the Indonesian government.

3. The policy actions that have been confirmed as successfully completed include a review of investment regulations proposed by JICA and preparations toward establishing the national single windows where import/export procedures are carried out. These actions are a part of improvements for the investment climate and are being watched by private Japanese companies. The actions were built on dialogs with the working group for the Japanese-Indonesia strategic investment action plan that was established by the Japanese and Indonesian governments in June 2005 through collaborative efforts of the government and the private sector of Japan. Other policy actions whose achievements have been confirmed include the issuance of decree by the Director General Tax of the Ministry of Finance for simplifying tax forms, issuance of regulation by the Ministry of Finance for establishing credit guarantee companies, and efforts toward the establishment of a comprehensive Treasury Single Account. Policy actions to be achieved are preparation toward implementation of a one-stop service for direct foreign investment and promotion of capacity development in the Directorate General of Tax - issues that Japanese private companies have a high level of interest in and that are crucial from a perspective of making continued improvements in the investment climate. Other policy actions that have not yet been achieved include incorporating national development plan into the national budget, and making database updates required for effective assistance to the poor.

4. In January 2005, the Indonesian government formulated its National Medium-Term Development Plan for 2004 to 2009. Targets established for the final year include an economic growth of 7.6 percent (compared to 5.1 in 2004), an unemployment rate of 5.1 percent (9.9 percent in 2004) and a poverty rate of 8.2 percent (16.6 percent in 2004). A number of reforms have been addressed including alleviating poverty, stabilizing the macroeconomy, improving the investment climate, improving fiscal management, and creating infrastructures that incorporate private participation. the Development Policy Loan (VI) will be used to evaluate these policy reforms that the Indonesian government has advanced as well as provide the necessary financial assistance to ensure the government can continue in its reform efforts. The reforms that are expected to result from this assistance are crucial for mitigating the effects of the global economic crisis on Indonesia's economy and society.

5. JICA's policy is to provide support to policy reform in Indonesia through development policy support loans such as this loan coupled with project assistance, thereby continuing in efforts to improve the investment climate, improve fiscal management and alleviate poverty in Indonesia.

(Reference)



signing ceremony

## Reference

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### 1. Term and Amount of Loan

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period / Grace Period (years)	Procurement
Development Policy Loan (VI)	8,997	0.7	15/5	Untied

### 2. Executing Agency

Indonesia Ministry of Finance

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### 3. Planned Implementation Schedule

(1) Completion of project: March 2010 – with completion of the loan process

(2) Mailing of letters of invitation for consulting services: No consultants are employed for this project

(3) Tender announcement of initial procurement package for international competitive bidding on project construction: No tendering is planned for construction for this project.