

Ex-ante Evaluation

1. Name of the Project

Country: Republic of Indonesia

Project: Development Policy Loan (V)

Loan Agreement: March 24, 2009

Loan Amount: 9,293 million Yen

Borrower: The Republic of Indonesia

2. Background and Necessity of the Project**(1) Current State and Issues of the Development in Indonesia**

Susilo Bambang Yudhoyono, who assumed the Presidency of Indonesia in October, 2004, indicated the government's intension to implement policies for (1) macroeconomic stabilization, (2) improvement of investment climate, (3) improvement of financial operations and anticorruption strategies, and (4) poverty reduction, and the administration has moved forward with reformation. The country achieved a high economic growth rate of 6.3% in 2007, and surpassed 6.3% for the first half of 2008 supported by stable domestic consumption and private investment. The economic growth rate for the last half of 2008 was lower due to the impact of the financial crisis; however, it is predicted that the country will show a 6.0% growth rate for the year. In regard to public finance, a 2.1% deficit due to the increase of crude oil price in the first half of 2008 was predicted in the supplementary budget; however, the actual deficit is predicted to be approximately 0.1% taking into account subsequent decreases in crude oil and product prices. The total amount of outstanding public debt is predicted to be 30.9% of the GDP in 2008 (59.0% in FY 2003), which will surpass the 2009 goal of 31.8% of GDP ahead of schedule.

The Midterm National Development Plan – Rencana Pembangunan Jangka Menengah (RPJM: 2004-2009) set the goal of decreasing the 2004 unemployment rate of 9.9% to 5.1% by 2009, and achieving GDP growth of 7.6%. In addition, further economic growth is essential for employment creation under the current situation of the country, in which the rate of poor living on 2 USD or less per day accounts for 50% and approximately 2 million new workers enter the labor market annually. However, the financial crisis which hit in September, 2008, impacted the financial markets, forcing the temporary closure of the stock market, an increase in the cost of government bond issuance, worsening rupiah depreciation, etc. Since a decrease of the economic growth rate in FY 2009 is also predicted, it is important to continue reforms aimed at macroeconomic stabilization, improvement of the investment climate, improvement of financial operations and anticorruption strategies, and poverty reduction as well as the steady implementation of financial policy measures,

(2) Development Policies of the Government of Indonesia and the Priority of the Project

For future approaches to important policy reform tasks, the Government of Indonesia announced a policy package consisting of five goals in May, 2008: (1) investment climate development; (2) promotion of infrastructure development; (3) macroeconomic stabilization; (4) enhancement of small and medium-sized companies; and (5) enhancement of financial sectors. In addition, in October, 2008, the government also announced financial crisis countermeasures including the expansion of the bank deposit protection framework, etc. This project is intended to support the implementation of these important policy reforms by the country.

(3) Policies and Achievements of Assistance for Development Policy Support by the Japanese Government and JICA, and Initiatives of Other Aid Organizations

Japan's Country Assistance Program for Indonesia, created in November, 2004, consists of three goals: the realization of sustainable growth driven by the private sector; the creation of a democratic and fair society; and the securing of peace and stability. Specifically, the program set forth plans to ensure fiscal sustainability for the sustainable growth driven by the private sector, establish economic infrastructure for improving the investment climate, foster subsidiary industries and SME's, establish economic policies, and support financial sectors. Furthermore, JICA sets the goal of providing assistance for economic policies as a development objective, which matches with the goals of this project.

Since 2004, the Japanese government has provided assistance for policy reforms by the Government of Indonesia through the provision of Japanese ODA loans for development policy over four times (56.38 billion JPY in total) along with the World Bank and Asian Development Bank. With this development policy loan, policy action that includes the improvement of taxation systems proposed by the Japanese government has been implemented based on communication with the Japan-Indonesia Strategic Investment Action Plan (SIAP) Working Group, which has contributed to the improvement of the investment climate.

(4) Necessity of the Project

This Project contributes to sustainable development in Indonesia through assistance for the implementation of important policy reforms aimed at the improvement of the investment climate, the improvement of financial operations and anticorruption strategies, and poverty reduction, which needs to be promoted in an ongoing manner amidst concerns about the impact of the financial crisis on the economy of Indonesia. Supporting the program with an ODA loan is, therefore, necessary and relevant.

3. Project Description

(1) Project Objective(s)

The program highly evaluates the short-term work visa acquisition process and the prevention of intellectual property right violation, which the Japanese government has focused attention on as a part of the improvement of the investment climate, the development of investment-related laws and general taxation laws, and the implementation of policy reforms by the Government of Indonesia after the past provisions of loans for development policy, and continuously supports policy reforms by the country in cooperation with the World Bank and Asian Development Bank, and thereby contributes to (i) improving the investment climate, (ii) improving financial operations and anticorruption strategies, and (iii) reducing poverty in the country through continual policy reforms and the promotion of policy dialogues with the Japanese government.

(2) Project Component(s)

Reform item	Actions accomplished	Future actions (plan)
1. Improvement of investment climate	<ul style="list-style-type: none"> ○ Improved work visa acquisition procedures ○ Established government regulations concerning intellectual property rights protection* ○ Reviewed the investment negative list concerning control of the influx of foreign capital ○ Expanded the target applicable to unification of windows for import and export ○ Managed risk simulation for the stabilization of financial sectors and initiated forums for prompt action ○ Developed the presidential decree for establishing the credit-guarantee system for SMEs at the state level 	<ul style="list-style-type: none"> ○ Establish detailed regulations for the Foreign Investment Law concerning one-stop services and investment permission procedures for direct foreign investment (2007) ○ Create an operation model of national single window services for import and export procedures ○ Establish a Ministry of Finance decree for the validation of digital signatures by individual taxpayers ○ Establish a Ministry of Finance decree concerning the simplification of tax return forms ○ Establish a protocol for risk management by the Ministry of Finance and the Foreign Central Bank ○ Establish a Ministry of Finance decree for the establishment of a credit-guarantee institution ○ Establish detailed regulations concerning intellectual property rights protection and enforce the capability of related institutions
2. Improvement of financial operations and anticorruption strategies	<ul style="list-style-type: none"> ○ Promoted the efficiency of budget use ○ Fulfilled the function of the National Public Procurement Office (NPPO) ○ Continuously implemented the reform of the civil service system 	<ul style="list-style-type: none"> ○ Develop detailed regulations for the complete implementation of the Midterm Expenditure Framework and Performance Budget ○ Revise procurement regulation No. 80 and establish national standards for procurement criteria
3. Poverty reduction	<ul style="list-style-type: none"> ○ Established a system of evaluation for the poverty alleviation program ○ Enacted a government decree concerning the improvement of working hours and labor conditions for teachers. 	<ul style="list-style-type: none"> ○ Expand the community development project ○ Improve the targeting of the poor in the community development project

* The government decree plan was established and it is scheduled to be put into force at the beginning of 2009.

(3) Loan Amount: 9,203 million Yen (equivalent to 100 million USD)

(4) Implementation Structure

1) Borrower: The Republic of Indonesia

2) Executing Agency: Coordinating Ministry of Economic Affairs, Ministry of Finance

(5) Environmental and Social Consideration/Poverty Reduction/Social Development

1) Environmental and Social Consideration

①Category (A, B, C, or FI): C

②Reason for Categorization:

The program is categorized into Category C due to the fact that it falls under a sector in which no particular environmental effects can be foreseen, because it does not exhibit characteristics that make it likely to cause any environmental impact, and because it is not located in an area where it can be easily affected, as identified in the JBIC Guidelines for Confirmation of Environmental and Social Considerations.

③Environmental Permit: None in particular

④Anti-Pollution Measures: None in particular

⑤Natural Environment: None in particular

⑥Social Environment: None in particular

⑦Other/Monitoring: None in particular

2) Promotion of Poverty Reduction

The program contributes to the promotion of poverty reduction as it includes measures for promoting community-based development and calls for increased public spending toward improving social services for the poor.

3) Promotion of Social Development (e.g. Gender Perspective, Measure for Infectious Diseases Including HIV/AIDS, Participatory Development, Consideration for the Handicapped etc.)

This program contributes to good governance as it includes measures for improving financial operations, etc.

(6) Collaboration with Other Donors

The program will be co-financed by the World Bank (750 million USD) and the Asian Development Bank (200 million USD).

(7) Other Important Issues: None in particular

4. Targeted Outcomes

Performance Indicators (Operation and Effect Indicator)

Indicator	Baseline (Actual Value in 2008)	Target (2010) 【Expected value 2 years after project completion】
1. Improvement of investment climate	<ul style="list-style-type: none"> ○ Ratio of investment to GDP: 26.0% ○ Number of days required to start up a new business: 76 days ○ Number of days required for customs clearance for imported articles: 7.3 days ○ Number of days required for customs clearance for exported articles: 3.8 days ○ Amount of time required for filing of complaints for tax payment: 3.4 months 	<ul style="list-style-type: none"> ○ Increase ratio of investment to GDP through the improvement of investment-related systems ○ Reduce the number of days required to start up a new business through the simplification of business license acquisition procedures ○ Reduce the number of days required for customs clearance through the unification of windows for import and export and the establishment of an electronic payment system ○ Reduce the amount of time required for the filing of

	<ul style="list-style-type: none"> ○ Loan ratio for SME's in bank credit: 50.4% 	<ul style="list-style-type: none"> complaints for tax payment ○ Increase the loan ratio for SME's through the establishment of credit guarantee institutions
2. Improvement of financial operations and anticorruption strategies	<ul style="list-style-type: none"> ○ Enforcement ratio of government capital investment expenditure in the first half of the fiscal period: 21% ○ Ratio of government personnel who passed the procurement examination: 15% 	<ul style="list-style-type: none"> ○ Increase the enforcement ratio of government capital investment expenditure through the improvement of national budget systems ○ Increase the ratio of government personnel who passed the procurement examination
3. Poverty reduction	<ul style="list-style-type: none"> ○ Mistargeting the non-poor in the retrospective poverty reduction program 	<ul style="list-style-type: none"> ○ Prevention of leakage to the non-poor and increase of the number of poor individuals benefiting through the enhancement of targeting the poor

5. External Factors and Risk Control

None in particular

6. Lessons Learned from Past Projects

Co-financed projects implemented in the past have shown that it is important to conduct in-depth information sharing with relevant agencies, from the appraisal stage to the monitoring and supervision stage. Based on this lesson, the status of implementation of this program is expected to be monitored in close coordination with the World Bank and Asian Development Bank, the co-financing institutions.

7. Plan for Future Evaluation

(1) Indicators to be used

- 1) Results of the improvement of investment climate (increase of investment ratio to GDP through the improvement of investment-related systems, etc.)
- 2) Results of the improvement of financial operations and anticorruption strategies (increase of enforcement ratio through the improvement of national budget system, etc.)
- 3) Results of poverty reduction (prevention of leakage to the non-poor and increase of the number of poor individuals benefiting through the enhancement of targeting the poor, etc.)

(2) Timing: After the completion of the program