

Ex-ante Evaluation

1. Name of the Project

Country: The Republic of Indonesia

Project: Infrastructure Reform Sector Development Program

Loan Agreement: March 23, 2007

Loan Amount: 11,777 million yen

Borrower: The Republic of Indonesia

2. Necessity and Relevance of JBIC's Assistance

Infrastructure investments in Indonesia reached 6-7% of GDP in the first half of the 1990s, but decreased substantially after the Asian currency crisis of 1997, and have been hovering at around 2% in recent years. Consequently, the quantitative shortage of infrastructure, coupled with qualitative decline, has become a disincentive to investment. At the same time, the low level of infrastructure access (rate of electrification, coverage of water supply system, etc.) is having a serious effect, especially on the poor.

In the Medium-Term Development Plan (RPJM: 2004-09), the Government of Indonesia adopts a set of goals to be reached by 2009: 7.6% economic growth (compared with 4.5% in 2004), 28.3% investment in relation to GDP (20.5% in 2003), 5.1% unemployment rate (9.7% in 2004), and 8.2% poverty rate (16.6% in 2004). The government estimates that to achieve these targets, there is a need to invest 65 billion dollars (about 5% of GDP) in infrastructure, including private sector investment, in the next five years.

In January 2005, the Government of Indonesia held the Indonesia Infrastructure Summit to promote infrastructure investment. Subsequently, it promoted, among other things, the establishment of the National Committee for the Acceleration of Infrastructure Development Provision (KKPPI) and the Risk Management Committee to study the risk management policy. In February 2006, KKPPI announced a comprehensive infrastructure policy package (IPP) involving 156 action plans. IPP was based on the Japanese-Indonesian Strategic Investment Action Plan (SIAP), which was devised jointly by the two governments and private sectors in June 2005. While the Government of Indonesia has been prioritizing infrastructure development, individual infrastructure development projects that have been carried out by Private Sector Participation (PSP) have not made enough progress, in part due to the lack of adequate master plans, and the lack of commitment by the government to take greater risks, and delays in land acquisition.

This program will support the government in achieving policy and institutional reforms in various sectors – transportation, electrical power, oil and gas, telecommunication, water supply and sanitation – based on IPP, including the adoption of master plans, organizational and legal system reforms that raise the level of participation and the involvement of private sectors, and the adoption of appropriate tariffs and Public Service Obligation (PSO), as well as reforms of items across sectors, such as the promotion of public-to-private partnerships (PPP) based on good governance, the introduction of a risk sharing framework between the government and private sectors and the improvement of the land acquisition system. Additionally, this program is expected to be comprised of three sub programs that will confirm their progress every 21 months or so. In the present Sub Program 1, 10 model projects related to PPP will be established (announced at the Indonesian Infrastructure Summit 2006 held in

November 2006), and efforts are expected to be made to promote the preparation and implementation of the 10 projects.

To date, Japan has provided substantial yen loans to Indonesia to develop the country’s economic infrastructure, including its transportation infrastructure and electrical power infrastructure. The various measures and institutional reforms cited in the preceding paragraph are also important from the perspective of appropriate operation and maintenance of past and new projects under yen loans, enhancement of sustainable effects and so on. Additionally, the implementation of various reforms and the resultant advancement in infrastructure development will benefit private Japanese firms, from the perspectives of investors in PPP projects, including electrical power projects, as well as the beneficiaries of infrastructure development.

The “Country Assistance Program for Indonesia” (adopted in November 2004) emphasizes sustainable growth led by private sectors, and includes support for economic infrastructure development to improve the investment climate. Additionally, infrastructure development for sustainable growth is included as a priority area in the Medium-Term Strategy for Overseas Economic Cooperation Operations (established in April 2005). Moreover, with regard to Indonesia, in addition to regarding economic infrastructure development to improve the investment climate as a focus area, efforts will be made to contribute to the promotion of various reforms. Therefore, JBIC’s support is both highly necessary and relevant.

3. Project Objectives

This Program Loan will assess the adoption of frameworks across various sectors for the promotion of infrastructure development, through enhancing PSP and the reform performance of individual infrastructure sectors by the government. The loan, being co-financed with the Asian Development Bank, will support sustained policy reform and advance policy dialog with Japan and investment in infrastructure, thereby contributing toward promoting Indonesia’s infrastructure development, improving its investment climate, and improving infrastructure access.

4. Project Description

(1) Project Outline

The following will be implemented as policy and institutional reforms related to infrastructure (only the major actions will be described):

Items	Actions Carried Out	Future Actions (scheduled)
Items across sectors	<ul style="list-style-type: none"> ● Presidential Regulation on cooperation between the government and business entities in infrastructure provision ● Establishment of a Risk Management Unit within the Ministry of Finance ● Establishment of government regulations regarding on-lending to local governments ● Presidential Regulations on land 	<ul style="list-style-type: none"> ● Operation of the PPP Units in central government and ministries ● Operation of the Risk Management Unit ● Establishment of Infrastructure Funds ● Establishment of implementation guidelines for the Presidential Regulations on land acquisition

		acquisition	
Sector Reforms	Transport	<ul style="list-style-type: none"> ● Formulation of sector blueprints on national road/sea transport /air transport ● Establishment of a road administrative regulatory body 	<ul style="list-style-type: none"> ● Establishment of a PSO policy for railroad/road/air/marine transport ● Revision of railway/shipping/aviation laws ● Establishment of a land acquisition fund
	Electrical power	<ul style="list-style-type: none"> ● Formulation of a power sector master plan and a development plan ● Establishment of government regulations enabling the purchase of electricity from independent power producers 	<ul style="list-style-type: none"> ● Establishment of a new law on electricity ● Review of the tariff setting process ● Revision of PSO policy
	Oil/gas	<ul style="list-style-type: none"> ● Presidential Regulations on national energy policy ● Oil price adjustment of March and October 2005 (reduction in subsidy) 	<ul style="list-style-type: none"> ● Revision of the blueprint for natural gas pipeline ● Establishment of a new energy law
	Telecommunications	<ul style="list-style-type: none"> ● Establishment of government regulations on universal service 	<ul style="list-style-type: none"> ● Implementation of universal service policy
	Water supply/sanitation	<ul style="list-style-type: none"> ● Establishment of a Ministerial Decree outlining strategy for improving access to clean water ● Establishment of government regulations on water supply ● Establishment of a regulatory body on water supply 	<ul style="list-style-type: none"> ● Establishment of a Ministerial Decree outlining strategy for improving access to sanitation and solid waste management ● Implementation of a pilot program for PDAM debt restructuring
Progress of model project		<ul style="list-style-type: none"> ● Selection of model PPP projects (total of 10 projects) 	<ul style="list-style-type: none"> ● Preparation of standard bidding documents for toll roads/power plant/gas pipelines ● Completion of preparation for model projects and calling for the bidding

(2) Total Project Cost/Loan Amount

Total Loan Amount from all Donors: Approximately US\$500 million

Yen Loan Amount: 11,777 million yen (Approximately US\$100 million)

Asian Development Bank Contribution: US\$400 million

(3) Implementation Structure:

(a) Borrower: The Republic of Indonesia

(b) Executing Agency: The National Development Planning Agency (BAPPENAS)

(c) Operation and Maintenance System: Same as (b)

(4) Environmental and Social Consideration

(a) Environmental Effects/Land Acquisition and Resident Relocation

(i) Category: C

(ii) Reason for Categorization: This project is likely to have a minimal adverse impact on the environment due to the fact that the project sector and project characteristics are not likely to exert any impact and the project is not located in a sensitive area under the “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Consideration” (established in April 2002). Thus this project is classified as Category C.

(b) Promotion of Poverty Reduction: This program will benefit the poor by improving access to electricity, water, sanitation and so on by promoting infrastructure development, through policy and institutional reforms.

(c) Promotion of Social Development (e.g. Gender Perspective): None

(5) Other Important Issues: None

5. Outcome Targets

Quantitative Effect (Operation and Effect Indicator)

Indicator (Unit)	Baseline (2005)	Target (2011, 1 year after completion)
Infrastructure investment/GDP ratio (%)	Approx. 2.0	6.0

6. External Risk Factors

Political uncertainties in central and local assemblies

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past

In the case of cofinancing, it has been learned that it is important to conduct in-depth information exchanges with relevant agencies, from the appraisal stage to the monitoring and supervision stages. Based on this lesson, this loan program is expected to be monitored and supervised in close coordination with cofinancing agency, namely the ADB.

8. Timing of Next Evaluation

After the program completion