1. Name of the Project
Country: The Republic of Indonesia

2. Necessity and Relevance of JBIC’s Assistance
Against a backdrop of high economic growth (with an annual average GDP growth of about 7%), the ratio of Indonesia’s poor declined significantly from 54.2 million (a poverty ratio of about 40%) in 1976 to 22.5 million (poverty ratio of about 11.3%) in 1996. Although the number of the poor falling below the poverty line increased due to the Asian currency crisis which began in July 1997, since then it has gradually decreased and in 2004 stood at 36.1 million (16.6%). Nevertheless, it again rose to 39.05 million people (17.8%) in March 2006, accompanying a spike in rice prices, and poverty reduction in Indonesia remains a serious issue.

In its National Medium Term Development Plan (Rencana Pembangunan Jangka Menengah Nasional: RPJM) for 2004-2009 and poverty reduction strategy paper (PRSP), the Government of Indonesia has set as its main priority goal the reduction of the poverty ratio from 16.6% to 8.2% by the year 2009 and accordingly has stated its commitment to improving primary education and health services and creating job opportunities for the country’s poor. In addition, the Government of Indonesia introduced compensation programs to alleviate the impact on the poor of fuel subsidy reductions accompanying surges in oil prices in Indonesia, which focus on improving health services and primary education for the poor, establishing small-scale infrastructure projects, and providing cash transfer assistance on an emergency basis to the poor segment of the population. In 2008 and beyond, the Government also plans to launch efficient, integrated poverty reduction projects on a nationwide level under a uniform community-driven development program (PNPM). The JBIC project is one part of this overall effort.

Japan’s Country Assistance Plan for Indonesia (November 2004) cites the provision of assistance to realize “the creation of a democratic and fair society” in Indonesia as an important subject and a priority area. In addition, it has earmarked poverty reduction (creation of job opportunities, improvement in income and social welfare, and improvement in public services such as education, health, and medical care, etc., through rural development) and reform in governance (regional decentralization assistance, etc.) as priority areas. JBIC’s Medium-term Strategy for Overseas Economic Cooperation Operations (April 2005) also cites assistance for poverty reduction as a priority area and places emphasis on assistance to increase employment and income opportunities for the poor through the establishment of basic infrastructure in rural communities where there is significant poverty. Therefore, JBIC’s assistance is highly necessary and relevant.

3. Project Objectives
Targeting areas where a large number of Indonesia’s poor live, this project aims at accelerating local economic development through improved access of the poor to the following: (1) transportation facilities, (2) water supply and sanitation facilities, (3) irrigation facilities, (4) market facilities, (5) health facilities, (6) education facilities, and by introducing (7) micro-credit services on a pilot basis. In this way, the project will contribute to the efforts to alleviate rural poverty, the autonomous
development of regional economies, the increasingly self-reliant capacity building of local communities, and to strengthening the administrative capacity of local governments in that country.

4. Project Description

(1) Target Area
24 districts in 9 provinces.

(2) Project Outline
The following sub-projects will be carried out and consulting services will be provided in the target districts:

(a) Civil engineering works and equipment to be purchased
Mainly the facilities below will be newly established, rehabilitated, or expanded.
   (i) Transport facilities (roads, bridges, piers etc.)
   (ii) Water supply and sanitation facilities (wells, water taps, pumps, public toilets, etc.)
   (iii) Irrigation facilities (small-scale irrigation facilities)
   (iv) Market facilities (markets, auction markets, etc.)
   (v) Health facilities (primary medical care facilities, etc.)
   (vi) Education facilities (primary and secondary education facilities, etc.)

(b) Micro-credit services (pilot scheme)
In one sub-district in each target district, a micro-credit revolving fund will be established as a pilot scheme.

(c) TOR for consulting services
Surveys, planning, construction management, assistance in operations and maintenance, monitoring and evaluation, and capacity building, etc.

(3) Total Project Cost/Loan Amount
31,557 million yen (Yen Loan Amount: 23,519 million yen)

(4) Schedule
January 2007 – June 2011 (54 months)

(5) Implementation Structure
   (a) Borrower: The Republic of Indonesia
   (b) Executing Agencies: Directorate for Regional Development I, National Development Planning Agency (overall coordinating agency); Directorate General of Human Settlements (DGHS), Ministry of Public Works (executing agency)
   (c) Operation and Maintenance System: Local communities will undertake the operation and maintenance; the district government will supervise and assist with some facilities.

(6) Environmental and Social Considerations
   (a) Environmental Effects/Land Acquisition and Resident Relocation
   (i) Category: FI
   (ii) Reason for Categorization: This project is classified as FI because sub-projects cannot be
specified prior to the approval of project financing by JBIC and because sub-projects of this nature are also assumed to have an impact on the environment. Therefore, according to JBIC’s Guidelines for Confirmation of Environmental and Social Considerations (established in April 2002), it is classified as FI.

(vii) Other/Monitoring: In the selection of sub-projects by the executing agency, this project will receive the assistance of consultants engaged in the project, and consideration of the environment in line with JBIC’s guidelines will be confirmed. Therefore, it is believed that there will be no significant adverse impact on the environment.

(b) Promotion of Poverty Reduction

Direct poverty reduction effects are expected in areas such as employment of local residents in the construction works at the implementation stage of the project, an increase in employment opportunities through the establishment of infrastructure, and diversification of sales routes for farm produce. Indirect medium- and long-term poverty reduction effects are also expected as a result of improved access to education and health services. Furthermore, assistance in formulating poverty reduction strategies at each district level and the incorporation of sub-projects which adopt a bottom-up approach in addressing the needs of the people will result in strengthening the framework for responding to poverty reduction in overall local administration. Furthermore, in the selection of target regions for the project, priority is given to those districts with a high population of poor and a high poverty ratio. (Poverty ratio of all the areas targeted for the project is about 21%, which exceeds the country’s overall poverty ratio of 17.75%.)

(c) Promotion of Social Development (e.g. Gender Perspective)

In this project, the assistance of consultants will result in local community groups playing a major role at every stage of project planning, execution, operation and maintenance. In terms of gender considerations, efforts will be made to promote the participation of women’s groups in decision-making processes at the village and sub-district level in accordance with the “Strategy for Promoting the Participation of Women” prepared especially for this project. In addition, with the assistance of the consultants, community groups including women and the poor will participate in project planning, execution, operation and maintenance. In project construction works, community groups who have received training will be directly employed.

5. Outcome Targets
(1) Evaluation Indicators (Operation and Effect Indicator): This project consists of a number of small-scale sub-projects dispersed nationwide, and it is difficult to set individual targets. In this case, therefore, indication of an increase or decrease was adopted as the standard of judgment.

<table>
<thead>
<tr>
<th>Target Sub-project</th>
<th>Indicator</th>
<th>Target (2011, the time of completion)</th>
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<tbody>
<tr>
<td>(a) Transport facilities</td>
<td>Number of villages that can access the district capital by means of public transportation</td>
<td>Increase</td>
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<tr>
<td></td>
<td>Time required to access retail stores</td>
<td>Decrease</td>
</tr>
<tr>
<td></td>
<td>Time required to access permanent markets</td>
<td>Decrease</td>
</tr>
<tr>
<td>(b) Water supply and sanitation facilities</td>
<td>Population that can access water facilities</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td>Number of villages that have sanitation facility services</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td>Incidence of the occurrence of water-borne illnesses</td>
<td>Decrease</td>
</tr>
<tr>
<td>(c) Production facilities</td>
<td>Acreage under cultivation</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td>Area benefiting from facilities</td>
<td>Increase</td>
</tr>
<tr>
<td>(d) Market facilities</td>
<td>Number of permanent markets</td>
<td>Increase</td>
</tr>
<tr>
<td>(e) Health facilities</td>
<td>Population which can access primary health care facilities</td>
<td>Increase</td>
</tr>
<tr>
<td></td>
<td>Infant mortality rate</td>
<td>Decrease</td>
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<tr>
<td>(f) Education facilities</td>
<td>Enrollment rate of children between the ages of 7 and 15</td>
<td>Increase</td>
</tr>
<tr>
<td>(g) Micro-credit services</td>
<td>Population that can access micro-credit services</td>
<td>Increase</td>
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</tbody>
</table>

However, to ascertain in detail the results of the projects, there are plans to undertake a quantitative appraisal of poverty reduction in sample villages and a quantitative survey of the development of local economies by incorporating various types of studies relating to operation and effect indicators as well as assistance in data collection into TOR for consulting services.

(2) Internal Rate of Return (Financial and Economic Internal Rate of Return)
A calculation will not be done since it is not possible to select sub-projects prior to execution of the project. However, ex-ante studies, studies during execution, and ex-post studies will be undertaken on a number of sample villages, and trial calculations of the economic internal rate of return (EIRR) and the financial internal rate of return (FIRR) for the respective sub-projects will be undertaken.

6. External Risk Factors
Delay due to a natural disaster during execution.

7. Lessons Learned from Findings of Similar Projects Undertaken in the Past
In the ex-post evaluations of previous projects, it was learned that appropriate guidance and monitoring must be taken into consideration with respect to the operation and maintenance of facilities following the execution of the project. In view of these aspects, during the project there are plans to provide guidance to the local governments to enable them to determine the status of facilities through detailed data-collection prepared by the consulting service, to provide training and technical guidance programs to local community groups who will be responsible for the operation and maintenance of the facilities under the guidance of districts and provinces whose staff have undergone appropriate training, and to promote the proactive participation of the local communities so that the facilities will be appropriately operated and maintained after the execution of the project.

8. Plans for Future Evaluation

(1) Indicators for Future Evaluation
(a) Number of villages where access to the district capital by means of public transportation is possible
(b) Time required to access retail stores
(c) Time required to access permanent markets
(d) Population that can access water
(e) Number of villages that have sanitation facility services
(f) Incidence of the occurrence of water-related illnesses
(g) Acreage under cultivation
(h) Area benefiting from facilities
(i) Number of permanent markets
(j) Population that can access primary health care facilities
(k) Infant mortality rate
(l) Enrollment rate of children between the ages of 7 and 15
(m) Population that can access micro-credit services

(2) Timing of Next Evaluation
Two years after project completion.