

# **Country Assistance Evaluation of Indonesia**

## **Summary**

### **1. Background, Purpose and Procedure of this Survey**

#### **1.1 Background**

While Japan keeps world's top-class scale of official development assistance (ODA) in the total amount in recent years, implementation of effective, efficient, and high quality aid has been sought after at home with the severe domestic financial condition as a background. In order to respond to such demand, evaluation of ODA was implemented. The Ministry of Foreign Affairs conducts Country Assistance Evaluations as an evaluation from a policy point of view, directed at the entire spectrum of Japan's aid policy in specific countries (policy-level evaluation), in accordance with the ODA Evaluation Guidelines issued in March 2003.

Indonesia is one of the countries on which Japan places emphasis in terms of extending ODA and ranked No. 1 in the share of the fiscal 2001 ODA budget of Japan with 11.5%. The Government of Japan (GOJ) has started the work to formulate the Country Assistance Plan for Indonesia in fiscal 2003. From the above backgrounds, Indonesia was selected as the object of a country assistance evaluation and this Country Assistance Evaluation Study of Indonesia was conducted as a policy-level evaluation.

#### **1.2 Purpose**

The first purpose of this evaluation lies in obtaining lessons and recommendations that would serve to formulation of the Country Assistance Plan for Indonesia, which will be used as a guide to more specific project formulation in the future, and to efficient/effective implementation of aid, by comprehensively reviewing all the spectrum of Japan's aid policy for Indonesia and analyzing/evaluating Japan's aid policy from the three perspectives of (1) Purpose, (2) Process and (3) Result.

The second purpose of this project is to disclose the aforementioned evaluation result to the public by posting it on the Ministry of Foreign Affairs Official Website, among others means to fulfill public accountability.

#### **1.3 Target and Framework of the Survey**

This evaluation targeted the bilateral ODA of Japan extended to Indonesia during the period from FY1996 to FY2002. More specifically, analysis and evaluation was implemented from a policy-level perspective, focusing on aids included in (1) loan assistance, (2) grant aid, and (3) technical cooperation.

This evaluation targeted the five priority areas suggested in the aid policy of Japan "Country Aid Policy for Indonesia," namely, (1) achieving equality; (2) human resources development and education; (3) environmental conservation; (4) support for industrial restructuring; and (5) industrial infrastructure. The three pillars of new priority issues proposed in 2001 - (1) support for economic stabilization; (2) support for various reforms; (3) response to urgent needs, such as elimination of economic bottlenecks, were positioned as additional frameworks for the Country Aid Policy for Indonesia.

Based on the basic policies stated above, the aid policy for Indonesia was evaluated from the

three perspectives, (1) Purpose; (2) Process; and (3) Result, in accordance with the ODA Evaluation Guidelines of the Ministry of Foreign Affairs.

## **2. General Situation of Indonesia**

### **2.1 Transition of the Political and Socioeconomic Situations in Indonesia**

Since 1996, the political situation in Indonesia entered an era of fluctuations. In May 1998, amid growing call for democratization, President Suharto was pushed into resignation. Although the Habibie administration that succeeded the Suharto administration pushed forward with democratic measures, the Partai Demokrasi Indonesia Perjuangan (PDI-P, Indonesian Democratic Party of Struggle) became the leading party in the general election held in June 1999, and Abdurrahman Wahid was elected as the president and Megawati Soekarnoputri as the vice president in October of the same year. However, because of deepened disagreement between the president and the parliament over the ruling style of President Wahid, President Wahid resigned in July 2001 amid the increasing movement for impeachment at the parliament and the vice president Megawati was promoted to the succeeding president.

As for the economic aspect, as a result of the export-led economic growth induced by the economic structural adjustment measures put into effect in 1983 such as the adjustment of the exchange rate of Rupiah and deregulation, the Indonesian economy showed a favorable expansion in the first half of 1990s. The real economic growth rate of Indonesia, after adopting the sixth Five-Year Development Plan (April 1994-March 1999) marked 7.5% in 1994, 8.2% in 1995 and 7.8% in 1996, far above the target figure for the period of 7.1%. However, the currency turmoil, which occurred in Thailand in early July of 1997, spread to Indonesia and brought about a serious economic crisis including a sharp depreciation of Rupiah, the rapid increase of foreign debt repayment, the banking sector crisis, sharp rise in the interest rate, falling domestic demand, and increase of unemployment rate. The economic growth rate in 1998 marked -13.1% and the value of Rupiah in relation to US dollar dropped to less than 1/5 of that before the crisis. The per capita GDP lowered as far as less than 500 dollars and increase of the number of unemployed and the poor became serious problems.

In response to the serious economic crisis, the Indonesian government resolutely implemented economic/financial structural reforms with the emergency assistance of international organizations and bilateral donors. Indonesia enforced economic structural reforms including macroeconomic stability, fiscal reconstruction, and rehabilitation of the banking sector from January 1998 onward based on the letter of intent for economic reconstruction agreed on with the IMF.

Since 1999, the Indonesian economy showed a tendency of mild recovery and the real GDP of **the same** year turned to a growth of 0.8%. Later, it has been keeping economic growth supported by expansion of exports and stable private consumption. However, with a delay in recovery of investment, especially of foreign investment, it remains in a situation lacking in tractive force for strong growth.

### **2.2 Transition of the National Development Plan of Indonesia**

Under the Suharto administration, the State Policy Guidelines (GBHN), the 25-Year Long-Term Development Plan (PJP) and the Five-Year Development Plan (REPELITA) were formulated as national development plans. The Five-Year Development Plan was set up based

on the PJP and its yearly budgeting has been put into effect in accordance with the REPELITA.

In the 6th Five-Year Development Plan (REPELITA VI, 1994-1999), the Government of Indonesia advocated the "fairness and alleviation of poverty" as its central targets as well as "qualitative improvement of human resources" and "economic growth and economic structural adjustment," and declared that it would tackle with the measures against poverty on a full-scale basis as a national project. However, along with the significant reduction in financial expenditure due to the Asian economic crisis and the political change, most of the development projects formulated in the REPELITA VI were halted or considerably corrected except for several projects supported by donors, and a more urgent economic reconstruction measures were launched. Much of the government expenditure was directed to the reform of the financial sector implemented under the initiative of the IMF and to the implementation of the Social Safety Net (SSN) Program intended to alleviate the socioeconomic impact on the socially disadvantaged.

In January 2000, the National Development Plan (PROPENAS, 2000-2004) was formulated after the REPELITA. In contrast to the REPELITA, which was a plan by sector, the PROPENAS is a problem-solving type approach where specific development programs have been established in nine areas to solve problems with five issues (cross-sectional issues such as the building of a democratic political system and the maintenance of national integration/unity) determined.

## **2.3 Japan's Assistance to Indonesia**

### **2.3.1 Country Aid Policy for Indonesia**

Japan's ODA Country Policy for Indonesia was formulated based on the former ODA Charter, previous actual results of aids to Indonesia, the 6th Five-Year Development Plan (REPELITA IV) of Indonesia, and results of policy dialogues with Indonesian government including the annual consultation, and the contents have been agreed on with Indonesia. The Country Assistance Policy for Indonesia has placed the areas of achieving equality, human resources development and education, environmental conservation, support for industrial restructuring, industrial infrastructure as priority areas (five priority areas) for assistance. Those priority areas have been further divided into subcategories.

Moreover, in response to the inauguration of the Megawati administration, in the light of the political, economical and social situations of Indonesia and various issues that the new administration should grapple with, Japan set up the policy to support Indonesia with emphasis on the three points (three pillars), (1) support for economic stabilization; (2) support for various reforms including a support for good governance; (3) response to urgent needs, such as elimination of economic bottlenecks for the time being, through the policy dialogue at the Economic Cooperation Policy Consultation held in September 2001, and announced this policy when President Megawati visited Japan in the same month. The three pillars are placed as an additional aid policy to the ODA Country Policy for Indonesia.

### **2.3.2 Scale of Aid**

The cumulative amount of Japan's aid to Indonesia from FY1996 to FY2002 was 1,127.88 billion yen. The breakdown was 986.63 billion yen for loan assistance, 64.87 billion yen for grant aid and 76.39 billion yen for technical cooperation. Japan's amount of aid has decreased

significantly since 1999. This was because the project type loans were not provided for two years from FY1998 to FY 1999 as a result of deteriorated Indonesian economy due to the Asian economic crisis and for the influence of the decrease in the number of the project type loans, which had been resumed since 2000 only in such a small project number as one fifth or sixth of that provided before 1998.

The total aid amount pledged by Japan and international organizations from 1996 to 2001 was 34.41 billion dollars. Of it, the total amount pledged by Japan, the World Bank and ADB accounted for 85%, showing that Japan is one of the largest lender countries to Indonesia together with the World Bank and the ADB. In terms of Japan's actual result of bilateral aid to Indonesia, the net cumulative expenditure of the whole DAC countries during the FY1996 - FY2001 period was 8.26 billion dollars, in which Japan, United States, Australia and Germany predominated as major donor countries. In particular, Japan's ODA amount accounted for a considerable share with 69.4% of the cumulative amount of the whole DAC countries, far above the United States' 5.5%.

In this connection, the bilateral ODA amount extended by Japan to Indonesia in FY2001 was 860 billion dollars (equivalent to 11.5% of Japan's total ODA amount) and Indonesia is the No.1 recipient of Japan's bilateral ODA. Besides, Indonesia is ranked No.1 in terms of the cumulative amount up to 2000 (17.365 billion dollars on a net disbursement basis), thus Indonesia is recognized to be one of the most important aid recipients for Japan.

### **2.3.3 Areas of Aid**

With regard to the loan assistance (Yen loan), although financing had been made mainly on projects primarily intended for economic infrastructure improvement until FY1998, loans were provided for more instantaneous programs primarily intended to support the international balance of payment and measures for the socially disadvantaged of Indonesia over the two years from FY1998 to FY1999. In FY2000, the project type loans were resumed in response to the signs of recovery in Indonesian economy and financing was made mainly on the projects primarily intended to improve the development and maintenance of infrastructure that created bottlenecks in Indonesian economy. In recent years, the loan assistance has been also made in such areas as environment, decentralization, and human resources development.

With regard to the grant aid, financing has been conventionally made with a central focus on projects linked with technical cooperation, and emphasis has been placed on the areas of health and medical care, human resources development and education, environment, and agriculture. It has been determined that financing be made flexibly in the future with the target extended to projects that will contribute to decentralization, governance, regional infrastructure, and peace building, in response to changes in socioeconomic situations of Indonesia.

The technical cooperation of Japan has been contributing to human resources development in a wide range of areas. In response to the Asian economic crisis, it places emphasis especially on areas that are conducive of human resources development that would lead to the mid- and long-term economic growth, and is also providing support to governance-related projects such as decentralization and police reform. Japan dispatched experts in election supporting for the general election held in 1999 and the Japanese expert team has repeatedly had policy dialogues with high level persons of the Indonesian government with the objective of

supporting economic policies since FY2001.

### **3. Evaluation on the Purpose of Aid Policy for Indonesia**

The relevance of the purpose of aid policy was evaluated in terms of the consistency with Japan's ODA policy, the consistency with Indonesia's development needs, and the consistency with the trend of aids provided by other donors and international organizations.

#### **3.1 Consistency with Japan's ODA Policy**

With regard to the “consistency with Japan's ODA policy,” the (former) ODA Charter and the Mid-Term ODA Policy, which are higher level aid policies of Japan, were compared with the ODA Country Policy for Indonesia including the three pillars. As a result, it was confirmed that the five priority areas described in the ODA country policy accurately reflected the priority items in the ODA Charter and that the contents of the three pillars that are additional aid policies match the development needs of Indonesia after the economic crisis. However, because almost 10 years have passed since the (former) ODA Charter was published, the consistency of the ODA Country Policy for Indonesia with the (former) ODA Charter was confirmed only partially. It was confirmed, however, that it was well consistent with the Mid-Term ODA Policy published in 1999.

#### **3.2 Consistency with Indonesia's Development Needs**

With regard to the “consistency with Indonesia's development needs,” the ODA Country Policy for Indonesia (including the three pillars) was compared with the REPELITA VI (1994-1999) and the PROPENAS (2000-2004), which are development plans of Indonesia. As a result, it was confirmed that the five priority areas described in the ODA Country Policy for Indonesia were remarkably consistent with the development targets and cross-sectional development of the REPELITA VI. In terms of the consistency of five priority areas with the PROPENAS, it does not deal with the new development issues of Indonesia - the “organizing of democratic political system and national unification/maintenance of solidarity” and “rule of law and establishment of good governance.” However, it is considered that those issues have been dealt with by adding the three pillars to the ODA Country Policy. With the “support for good governance” advocated in the three pillars, it was confirmed that the ODA Country Policy for Indonesia significantly reflected the cross-sectional issues of the PROPENAS. Therefore, the five priority areas and the three pillars are considered to have mutually complementary relationship and it can be evaluated that the ODA Country Policy for Indonesia addresses varying development needs of Indonesia by adding the three pillars to the five priority areas.

#### **3.3 Change in the Development Needs and Policies of Indonesia**

The change in the development needs and the development policies of Indonesia before and after the economic crisis was verified by comparing the REPELITA VI that was formulated before the economic crisis and the PROPENAS that was formulated after the crisis. The most different point was that while the REPELITA VI was a program primarily intended for economic growth under the initiative of the central government, the PROPENAS was an issue-by-issue problem-solving type program under the initiative of local governments. Specific changes in the policy were that while importance had been placed before the economic crisis on (1) qualitative improvement of the human resources, (2) economic growth and structural adjustment, and (3) fairness and reduction of poverty, the following three points

have been positioned at the core of development policy after the crisis: (1) promotion of decentralization, (2) establishment of good governance, and (3) economic reconstruction.

### **3.4 Consistency with the Trend of Aid Policies by Other Donors and International Organizations**

The “consistency with the trend of aid policies by other donors and international organizations” was verified by organizing the aid policies of major countries and international organizations and preparing aid policy matrixes by donor and area (issue). As a result, it was confirmed that individual donors and international organizations had placed importance on supports for governance and decentralization. In addition, it was confirmed that individual organizations had placed importance on the areas/issues of economic growth, structural reform, poverty, health/sanitation, environment, natural resources management, and energy/infrastructure. Therefore, it can be evaluated that the priority areas in Japan's aid policy are consistent with the priority areas adopted by other donors and international organizations.

## **4. Evaluation on the Process of Aid Policy for Indonesia**

The relevance of the formulation and the implementation processes of Japan's aid policy were verified.

### **4.1 Relevance of the Formulation Process of the ODA Country Policy for Indonesia**

With regard to the “relevance of the formulation process of the ODA Country Policy for Indonesia,” it was examined whether the ODA Country Policy for Indonesia was formulated through appropriate processes and in response to the development needs of Indonesia. The ODA Country Policy for Indonesia is accredited as having been formulated on the basis of appropriate processes because it was prepared by the Ministry of Foreign Affairs after referred to the discussions made at the Country Study Committee on Japan's Official Development Assistance to the Republic of Indonesia of JICA, received comments from the Embassy of Japan in Indonesia and from offices of JICA and JBIC in Indonesia, and finally formulated after discussions and agreements between Japan's High-Level Mission on Economic and Technical Cooperation and the Indonesian government. The five priority areas described in the ODA Country Policy for Indonesia were determined before the economic crisis, and adaptation of the policy to the present conditions was attempted by further prioritizing the items in the five priority areas, as seen in the statement of Japan at the policy consultation in 1999 that it would focus on the need to support the socially disadvantaged and the structural adjustment. With regard to the three pillars that are additional aid policy agreed with Indonesia in 2001, since it intends to develop the infrastructure for recovery from the economic crisis and for sustained economic growth, it is considered that the priority issues were established in response to the changes in the development needs of Indonesia. However, it can be pointed out as a future challenge to specify when and in what way the five priority areas are to be reviewed.

### **4.2 The Process to Grasp the Development Needs by Indonesian Side**

In the “process to grasp the development needs by Indonesian side,” it was examined whether the development needs of Indonesia has been sufficiently reflected in the National Development Plan and whether there were any changes in the development needs and policies. It was confirmed that, as compared with the REPELITA VI that was formulated in the

top-down approach under the initiative of the central government, attempts to widely adopt opinions of local governments and local residents were made in the formulation process of the PROPENAS, such as the disclosure of the proposed development plans and holding of seminars in major cities. Therefore it is considered that such system that reflects the development needs of local regions in the national policy of Indonesia has been developing at least after the formulation of the PROPENAS (from 2000 onward).

#### **4.3 Relevance of the Implementation Process of Aid in Indonesia**

In the “relevance of the implementation process of aid in Indonesia,” it was examined whether the ODA Country Policy for Indonesia had been appropriately reflected in the aid implementation stage and whether development needs of Indonesia had been reflected at the project implementation level. JICA has been preparing the Country Program since FY2000, to specify the priority areas of aids, the basic philosophy, development issues and project plans. In terms of priority issues, programs and subprograms in the said plan, it was verified that the contents were consistent with the five priority areas specified in the ODA Country Policy for Indonesia and with the three pillars that are additional aid policy. Since the said plan has been used as criteria to select projects of technical cooperation that would be provided by JICA, it is considered that the aid policy of Japan has been reflected in individual projects. In addition, as JICA has been making efforts to grasp the development needs of Indonesia through such activities as collective demand survey and dispatch of experts, it can be said that a system has developed that reflects the development needs of Indonesia in individual projects. On the other hand, JBIC has also established the Country Implementation Guidelines in which concrete aid policy by country has been specified. While this implementation guideline was formulated in compliance with the ODA Country Policy for Indonesia, it reflects the characteristics of a loan assistance implementation agency, which can be seen, among others, in the importance placed on the infrastructure improvement. Because candidate projects for which Yen loan will be requested are examined based on the above-mentioned guideline and on the ODA Country Policy for Indonesia and adopted as final projects after several consultation with dispatched study team and related organizations, it can be said that such system has developed that reflects the aid policy of Japan to a large degree. Besides, as seen in the fact that consultations between JBIC and respective organizations of Indonesia as well as the sectoral study by JBIC have been implemented as needed, efforts in grasping the development needs of Indonesia was confirmed. Besides, JBIC has adopted the long list system since FY2003 with the objective of implementing systematic aids in accordance with the mid-term and long-term policies and plans of Japan and Indonesia.

#### **4.4 Collaboration among Aid Schemes**

In the “collaboration among aid schemes,” it was examined whether the aids of Japan had been implemented efficiently and effectively by collaboration among aid schemes. Among the projects that were put into effect during the FY1996-2002 period, the projects whose collaboration was confirmed between the grant aid and the technical cooperation were 40% of the total of grant aid project, whereas projects whose collaboration was confirmed between the loan assistance and the technical cooperation were a little over 5% of the total (the yen loan projects that developed from studies such as F/S or M/P was approximately a little less than 30% of the total). In addition, it was verified that the aid of Japan is conducive of the achievement of the rice self-sufficiency rate of Indonesia through the “umbrella cooperation,” that was directed at the agricultural area of Indonesia, with loan assistance, grant aid, and technical cooperation organically combined from the beginning of the plan. However, such

sector-specific comprehensive aid cooperation that combines multiple aid schemes has not been implemented in other sectors. When considering the merits of an efficient and effective aid cooperation that can be obtained from collaboration among schemes, there is a room for further promotion of cross-scheme collaboration in the future. Although implementation of individual projects has been determined by evaluating the efficiency of input resources, it should be taken into consideration whether it is possible to enhance the general efficiency when multiple schemes are combined.

#### **4.5 Coordination/Collaboration Processes with Other Donors and International Organizations**

In the “coordination/collaboration processes with other donors and international Organizations,” it was examined if the aids of Japan had been implemented efficiently and effectively. It could be confirmed that Japan implemented coordination with major donor countries and international organizations at the Consultative Group Meeting on Indonesia (CGI). It was confirmed that the three pillars, which were published in 2001 as an additional aid policy of Japan, were formulated by incorporating to a large degree the discussions made at the 10th CGI meeting and that Japan has been formulating aid policies through processes that reflects basic aid policies discussed among the Indonesian government and major donor countries/international organizations. In addition, it was also confirmed that Japan has been actively coordinating with major donor countries/international organizations through such efforts as serving as the chairman for the working group to foster small-and medium-sized enterprises.

### **5. Evaluation on the Result of the Aid Policy for Indonesia**

The effectiveness of Japan's aid policy in problem solution was examined by evaluating the contribution of Japan's financial assistance to Indonesia's development budget and by evaluating the relevance of the timing of aid input by Japan and the effect of the aid policy in the five priority areas. As for the three pillars, since it is too early to evaluate the effect of the aid policy, the relevance of the timing of aid input by Japan and the expected effect of the aid in the future were evaluated.

#### **5.1 The Share of Japan's Aid in Indonesia's Development Budget**

In terms of amount of aid, the industrial infrastructure occupies a large share of Japan's aid. Approximately 70% of the loan assistance (yen loan) was directed at the industrial infrastructure area. The share of Japan's financial contribution for this area in Indonesia's development budget is extremely high at 31.4%. Remarkable among other financial input by Japan was the contribution provided in support of achieving equality, over the period from 1998 to 1999 and the share of Japan's financial contribution in Indonesia's development budget was 30.5% in FY1998 and 32.5% in FY1999. This was the result of the aids related to achieving equality, including job creation and support for the socially disadvantaged through loan assistance and grant aid, that were implemented selectively in response to the Asian economic crisis.

#### **5.2 The Contribution of Japan's Aid to the Five Priority Areas**

Viewed from the perspective of the aids of Japan by the “five priority areas,” with regard to the area of "achieving equality", humanitarian assistance was provided primarily through grant aid. However, with factors such as small amount of financial input per project, it did not

reach the point where the aid resulted in statistic improvements such as the decrease in the rate of poverty population and the improvement in the per capita GDP. As for the “population control/family planning and HIV/AIDS prevention” area, which is one of the subsectors, aid directed to it was especially small, although the family planning program was put into effect. However, it is considered that prompt and flexible financing, including the sector program loan and the social safety net loan, has contributed to job creation in local regions.

With regard to the “human resources development and education” area, although human resources support had been implemented primarily through grant aid, clear effects could not be grasped because it takes time for the general effect to appear. In this subsector, while much aid was provided for the "human resources development," where importance is placed on the technical education, little was provided for the "education" area. In the area of human resources development and technical education, it is noteworthy that the Surabaya Electronic Polytechnique Project, which was implemented through grant aid and technical cooperation, contributed to the training of teachers and the spread of textbooks beyond the region of Surabaya. In the education area, the Regional Educational Development and Improvement Project has been implemented since FY2000. It is considered that the start of the administration-level aid in the education area shows that the Indonesian Government highly evaluates Japan's aid in that area.

With regard to the “environmental conservation” area, it was confirmed that a certain degree of contribution was made toward the solution of the forest fire problem through technical cooperation and grant aid. Other projects implemented include support for natural environmental conservation and pollution control. However, the total aid input in this area signals a decreasing tendency. Japan's contribution in this area could not be grasped quantitatively for it requires a long time for the effects related to environmental improvement to appear and for the existence of various factors are involved in environment among other factors.

With regard to the “support for industrial restructuring” area, intensive aids were provided to agricultural promotion primarily through the technical cooperation. Many of these aids were related to diversification and creation of high value-added products and it is considered that contribution was made to stable supply of foods by software approaches other than infrastructure (hardware) improvement such as irrigation project. In addition, the sector program loan and the social safety net loan that were provided as part of the macroeconomic operation support had a certain degree of effect in improving the international balance of payment of Indonesia that had deteriorated rapidly. However, in general Japan's contribution to supporting industrial restructuring was not confirmed.

The “industrial infrastructure” is one of the areas that Japan provided aids most intensely primarily through the loan assistance (Yen loan). However, in general, the progress of the Yen loan projects has been delayed with the influence of the economic crisis, and the projects that had been completed during the survey period were 10 out of 41. Among the projects, to be more specific, it was confirmed that Japan's aid had made a certain degree of contribution in the increase in the electrification rate in local regions in the electric power sector, in the increase in the number of registered automobiles in the transport sector and in the alleviation of the traffic jam in the metropolitan Jakarta area.

### **5.3 Contribution of Japan's ODA to the Three Pillars**

Of the three pillars, the “macroeconomic stabilization” and the “elimination of economic bottlenecks” overlap with the aid policies that have been in effect before the three pillars, and thus it is expected that combined effect with the aid cooperation under the five priority areas and the three pillars appear. As for "promotion of various reforms" including the new development issues of Indonesia such as good governance and decentralization, assistance has been provided primarily through technical cooperation although grant aid has been also provided. There were also some cases where the effect of aid became partly noticeable, such as the adoption of the policy advocacy made by the policy adviser (the Urata Mission), who was dispatched as a part of the promotion of small-and medium-sized enterprises, into the policy of Indonesian Government for small-and medium-sized enterprises. As the aid in the area of reform support tends to be a high policy-level aid in nature, it is considered that the expansion of support in this area will contribute to increased visibility and awareness of Japan's ODA.

## **6. Overall Evaluation and Recommendations to Country Aid Policy for Indonesia in the Future**

### **6.1 Overall Evaluation**

With regard to the overall evaluation on the purpose, it was confirmed that the purpose of the ODA Country Policy for Indonesia (five priority areas and three pillars) complies with the higher policy, the “(former) ODA Charter” and the “ODA Mid-Term Policy.” Because the ODA Country Policy for Indonesia was formulated on the basis of the Five-Year Development Plan (REPELITA VI) through consultation with Indonesian Government and because the contents of support is consistent with the REPELITA VI, it can be regarded as appropriately reflecting the development needs. With regard to the New National Development Plan (PROPENAS) of Indonesia formulated in 2000, development needs that cannot be addressed by the five priority areas were addressed by adding the three pillars. In addition, with the efforts made to grasp the development needs through dialogues between JICA/JBIC and the counterpart ministries, it can be assessed that the development needs of Indonesia have been generally reflected in the aid policy of Japan.

However, several problems are pointed out regarding the validity of the purpose. First of all, while the basic philosophy has been described in the Country Policy for Indonesia, the purpose of the aid to Indonesia is not specified in it. Secondly, the relation between the five priority areas, which were agreed with Indonesia in 1994, and the three pillars, which were added in 2001 in accordance with changes in the development needs of Indonesia, have not been clearly positioned. The three pillars are not included in the ODA Country Policy for Indonesia presently described in the ODA White Paper and in the Ministry of Foreign Affairs Official Website. Even after 2001, when the three pillars were established, the five priority areas are still claimed to be the priority areas of Indonesia, and the positioning of the three pillars have not been specified. Thirdly, among subsectors included in the five priority areas there are some subsectors that can be questioned on the importance placed on them, such as the telecommunication sector. Although the construction of telecommunication network was a priority issue for Indonesian Government, the importance of the telecommunication sector as an aid target is considered to have been low in the end because the construction was implemented under the initiative of the private sector.

With regard to the evaluation of the process, it was confirmed that the ODA Country Policy for Indonesia has been reflected in the Country business implementation policy of Japanese aid implementation agencies, namely the JICA Country Program and the JBIC Country Implementation Guidelines, and that the Country Aid Policy for Indonesia has been referred to in the project formulation process as the criteria for adopting the project. However, although it has been confirmed whether the five priority areas agreed on in 1994 were compliant with the development needs of Indonesia, as can be seen in discussions made in terms of its validity at the Economic Cooperation Policy Consultation held in 1999, it can be pointed out as a future challenge to specify when and in what way the priority areas would be reviewed.

Collaboration can be seen among aid schemes, including the collaboration made in approximately 40% of the grant aid with the technical cooperation. However, such comprehensive aid cooperation, where sector-specific aids are implemented with multiple aid schemes combined from the beginning, has not been implemented in areas other than the agricultural area. When considering the merits of an effective and efficient that can be obtained through the collaboration among schemes, there is room for promotion of further collaboration among schemes in the future. Regarding the coordination/collaboration with other donors and international organizations, Japan makes necessary coordination at CGI. While a certain degree of coordination is in effect among Japan, other donors, international organizations and the like in terms of the basic philosophy of the Aid Policy for Indonesia, coordination is limited in terms of the coordination at the project implementation level. In order to implement aid more efficiently and effectively, it is necessary to encourage further coordination and collaboration with other donors and international organizations in the future.

With regard to the evaluation on the result, representative development indicators to evaluate the effect by area were examined, and the evaluation of the effect of Japan's aid provided by area as a whole was carried out by reviewing the transition of the indicators. Indonesia faced the economic crisis in 1997 and macroeconomic indicators uniformly showed a free fall. However, later, along with the recovery of the Indonesian economy, the macroeconomic indicators showed improvement. When considering tendency of the Japan's aid provided in accordance with the ODA Country Policy for Indonesia (including the three pillars), it can be considered that it contributed to the recovery of the Indonesian economy and improvement of the indicators in qualitative terms.

## **6.2 Recommendations to Future Aid Policy**

The new ODA Charter advocates contributing to stabilization and prosperity of developing countries as a purpose of ODA. It is also specified that ODA will be put into effect more strategically to achieve the purpose. Indonesia is one of the most important ODA recipient countries for Japan. In order to contribute to the stability and development (prosperity) of Indonesia efficiently and effectively, it is essential to implement aids in the most appropriate way that will permit efficient and effective achievement of the goal with selection of priority areas.

In order to solve the issues in aid policy identified through this evaluation, the following three points are important: 1) strengthening of the system to draw development needs so that flexible response to changes in the development needs will be allowed, 2) establishment of goal and indicators of development through improvement of the structure of the aid policy and clarification of the purpose by important area clarified, and 3) flexible formulation and

implementation of projects by organic collaboration among aid schemes and collaboration with other donors and international organizations in cases where it will enable efficient and effective aids. The current ODA Country Policy for Indonesia does not include target indicators nor sufficiently specifies what approaches should be taken for priority areas and issues. Therefore, the policy-level evaluation also had limitations in evaluating the achievement on the basis of indicators. There is plenty of room for improvement in terms of aid in the most appropriate way.

From the above perspective, the following are recommended for Japan's aid policy for Indonesia.

### **1) Strengthening of the System to Draw True Development Needs**

Aid policy must respond to the varying development needs of Indonesia in a timely manner. So far Japan's aid policy has been formulated in accordance with the development program revised by Indonesian Government every five years. If Japan's aid policy will be continuously reviewed in response to the revision of development programs by Indonesian Government, it is necessary to evaluate whether the development program appropriately reflects the true development needs. In addition, it is also important to see how much Japan can participate in Indonesia's program formulation process in order to draw true development needs.

In the National Development Plan (PROPENAS), which has been in effect since 2000, a system was developed that reflects regional development needs more than ever, with the adoption of bottom-up approach. This system change will require policy making capability of the local governments and policy coordination of the central government more than before. It is also important for Japan to actively cooperate with such program formulation process.

It is unknown at present if the next Five-Year Development Plan will be formulated after the current PROPENAS is completed. However, in any case, Japan needs to evaluate new development policies and changes in the policies that will be proposed by the Indonesian Government and to develop a mechanism to appropriately adapt the contents of aids accordingly. Japan has strived so far to grasp the development needs of Indonesia at the Economic Cooperation Policy Consultation and through the offices of JICA and JBIC in Indonesia and the JICA experts. However, it is desirable that a mechanism is developed to monitor the development needs of Indonesia more elaborately than ever and grasp what kind of aid is demanded. It will also make it possible to determine which needs Japan should cooperate with through aid provision and what approaches should be taken for that. In addition, Japan will be able to respond to emergencies such as the Asian economic crisis more appropriately by developing a system that will enable periodical monitoring and timely review. On the other hand, aid reception, which had been collectively assumed by BAPPENAS, has been already transferred to the local government. In the future, it will be important to grasp the development needs considering the form of aid ownership on the side of Indonesia.

### **2) Establishment of Concrete "Purpose" and "Goal"**

In order to implement the Japan's aid efficiently and effectively, it is important to implement aid projects that are the most appropriate for achieving the purpose after clearly specifying the systematic chart of "Purpose-Goal-Method."

Therefore, the purpose of aid by priority area needs to be specified concretely and clearly in

the aid policy.

It must be said that the priority areas and issues stated in the current ODA Country Policy for Indonesia lacks concreteness. For example, the “industrial infrastructure development,” which is one of priority areas, includes the “electric power sector” as one of the subsectors, but it does not specify what sort of aids Japan will provide for the electric power sector. It is desirable that the relation between the aid policy and the implementation process is clearly defined by determining the aid approach needed to solve the development issues and setting target values by using development indicators, after clearly defining the development issues by area and establishing the goal to be attained. It is considered that it will also contribute to realization of efficient and effective aids.

In clarifying the purpose, it is desirable to take into consideration the target for aid fund allocation by area in accordance with the policy by area. In this case, it is also important to have a policy dialogue with Indonesia on the shares at which the limited resources are to be allocated among the development goals and to pursue a common purpose on the resource allocation.

### **3) Realization of Comprehensive Aid Program**

In order to implement more efficient and effective aid, link between planning and implementation of policy is extremely important. To this end, it is desirable to provide consistency from the policy to concrete means of implementation. This is because clear definition of relations among processes from the development issue to the individual scheme to solve it, in terms of “Purpose-Goal-Method” flow, and organizing the processes from the aid policy to concrete aid program will lead to the implementation of efficient and effective aid and achievement of public accountability on the adoption of the project. To that end, examination is required as to what approaches should be taken toward the development needs in priority areas and what sort of aid schemes should be developed for them.

In order to realize a comprehensive aid flow, it is important to set a process where discussion involving JICA and JBIC, which are Aid Implementation Agencies is conducted, under the initiative of the Ministry of Foreign Affairs. Schemes for aid implementation programs are formulated by JBIC for loan assistance and by JICA for grant aid and technical cooperation. It should be clearly specified how the aid program formulated by the Ministry of Foreign Affairs is logically consistent with independent aid implementation programs formulated by JICA and JBIC, how they comply with the policy goal and how they are organically linked with each other to achieve the goal. It is desirable that the Ministry of Foreign Affairs further encourage the setting and the sharing of indicators to monitor/evaluate the achievement of the goal in question by involving JICA and JBIC in the aid program formulation process.

### **4) Organic Combination of Aid Schemes**

In order to strategically implement aids in order to solve the issues, there may be many cases where comprehensive aid approaches outside of the framework of the scheme are efficient and effective. At present, ODA implementation is assumed by JBIC for loan assistance and by JICA for technical cooperation. It is desirable to discuss and promote an aid that is organically combined with various aid schemes, in consideration of the merits that can be obtained through collaboration among aid schemes. In addition, it is necessary to actively implement collaboration with other donors and international organizations in cases where that will enable

efficiency of aid.

### **5) Ensuring the Presence and Influence of Japanese ODA**

Lastly, it was pointed out by ministries and aid related parties that “Japan is a low profile (meaning not noticeable or modest) country” compared with other donors and international organizations. This is interpreted as the presence and influence of Japan's aids being relatively low to Indonesian Government and to the people of Indonesia.

Japan is the largest donor country to Indonesia in terms of aid input. As one of the reasons why Japan's influence is considered low in spite of that, there is a possibility that Japan has not expressed its aid policy clearly enough. For example, because the concrete purpose is not specified in the priority areas and issues stated in the ODA Country Policy for Indonesia, it is hard to see where the emphasis of the aid is. As a result, there is not enough indication of strategies on what sort of aid approaches should be taken towards the solution of the issues. While aid implementation programs formulated by JICA and JBIC include even individual projects, aid policies formulated by the Ministry of Foreign Affairs do not include concrete aid implementation program or the like. As a result, the contribution of Japan's aid to the whole sector or the contribution to aid as a whole may not be sufficiently recognized by Indonesia. In addition, the fact that Japan is not taking a strong leadership in setting such as CGI is also considered as one of the reasons of why Japan is regarded as a “low profile.”

However, the indication that Japan's aid is considered a low profile is made in comparison with other donors and international organizations such as the IMF and the World Bank. As of 1997 when Indonesia faced the economic crisis, until 2003, economic management of Indonesia followed the policy package agreed with the IMF in the form of Letter of Intent (LOI) including implementation of structural reform, but such postures of IMF and the contents of the policy prescription have been criticized by some of Indonesian Government personnel and economists at home and abroad. Therefore being a low profile country may also be interpreted as Japan's approach to aid implementation being more flexible.

Indonesia is positioned as an important partner who has a close mutual-dependence relation with Japan, and thus the meaning of Japan's continuing aid to Indonesia is significant. In order to implement efficient and effective aid toward the priority issues, it is desirable that Japan communicates to Indonesia its concepts and approaches regarding aid to Indonesia and deepen mutual understanding. In addition, it is desirable for Japan to promote the understanding by Indonesian Government, other donors and international organizations about Japan's aid policy and approaches. These efforts can lead to the change of the image about Japan's aid toward a “more visible aid,” that is from “low profile” to “high profile” country.

Furthermore, the expansion of public relations activities about Japan's aid may be effective in assessing the low profile image. It is also necessary to publicize the roles played by Japan's aid not only to Indonesian Government officials but also to the people of Indonesia. Consideration should be also given to decentralization in public relations. While the reception of aid has been the issue of BAPPENAS, local governments are increasingly involved in it at present. There was also a case in this evaluation study in which some section within the ministry had not been well informed of; for example, aid conditions and implementation processes. From now on, it is important to properly publicize Japan's aid to local regions as well.