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The World Bank

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IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-82060)

ON A

LOAN

IN THE AMOUNT OF USD100 MILLION

TO THE

REPUBLIC OF INDONESIA

FOR A

FINANCIAL SECTOR AND INVESTMENT CLIMATE REFORM AND MODERNIZATION (FIRM) DEVELOPMENT POLICY LOAN

June 25, 2014

Financial and Private Sector Development Department
Indonesia Country Unit
East Asia and Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective June 6, 2014)

Currency Unit = Rupiah (IDR)
USD1.00 = IDR 11,823

FISCAL YEAR
January 1 – December 31

Vice President:	Axel van Trotsenberg
Country Director:	Rodrigo Chaves
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ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	IMF	International Monetary Fund
ADB	Asian Development Bank	INSTANSI DPL	Institutional, Tax Administration, Social and Investment Development Policy Loan
AusAID	Australian Agency for International Development (now Department of Foreign Affairs and Trade, DFAT)	KUR	People's Business Credit Program
Bapepam-LK	Indonesia Capital Market and Financial Institutions Supervisory Agency	LPS	Indonesia Deposit Insurance Corporation
Bappenas	National Development Planning Agency	MPFTIC	Multi Partner Facility for Trade and Investment Climate
BI	Bank Indonesia	MoF	Ministry of Finance
BKPM	Indonesia Investment Coordinating Board	MP3EI	Masterplan for Acceleration and Expansion of Indonesia's Economic Development
BPR	People's Credit Bank	MSME	Micro, Small and Medium Enterprises
CAR	Capital Adequacy Ratio	M&E	Monitoring and Evaluation
CMEA	Coordinating Ministry for Economic Affairs	NBFI	Non-Bank Financial Institution
CPSPR	Country Partnership Strategy Progress Report	NPL	Non-Performing Loan
DDO	Deferred Drawdown Option	NSFI	National Strategy for Financial Inclusion
DPL	Development Policy Loan	OJK	Indonesia Financial Services Authority
FIRM DPL	Financial Sector and Investment Climate Reform and Modernization Development Policy Loan	PERISAI	Program for Economic Resilience, Investment and Social Assistance in Indonesia
FKSSK	Financial System Stability Coordination Forum	PKH	Assistance for Poor Households
FSAP	Financial Sector Assessment Program	RPJMN	National Medium-Term Development Plan
FY	Fiscal Year	SECO	Swiss State Secretariat for Economic Affairs
GDP	Gross Domestic Product	TF	Trust Fund
GoI	Government of Indonesia	TNP2K	National Team for the Acceleration of Poverty Reduction
IBRD	International Bank for Reconstruction and Development	UKP4	The Presidential Working Unit for Control and Supervision on Development
IDR	Indonesian Rupiah	USD	United States Dollars
IFC	International Finance Corporation		

INDONESIA

FINANCIAL SECTOR AND INVESTMENT CLIMATE REFORM AND MODERNIZATION DEVELOPMENT POLICY LOAN (FIRM DPL)

CONTENTS

Data Sheet

A. Basic Information iv
B. Key Dates iv
C. Ratings Summary iv
D. Sector and Theme Codes v
E. Bank Staff v
F. Results Framework Analysis v
G. Ratings of Program Performance in ISRs vii
H. Restructuring (if any) vii

Main Document

1. Program Context, Development Objectives and Design 1
2. Key Factors Affecting Implementation and Outcome 4
3. Assessment of Outcomes 7
4. Assessment of Risk to Development Outcome 15
5. Assessment of Bank and Borrower Performance 16
6. Lessons Learned 18
7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners 19

Annex 1. Bank Lending and Implementation Support/Supervision Processes 20
Annex 2. Borrower's Comments on Draft ICR 22
Annex 3. List of Supporting Documents 23
MAP 24

A. Basic Information			
Country:	Indonesia	Program Name:	Financial sector and Investment climate Reform and Modernization DPL
Program ID:	P130150	L/C/TF Number(s):	IBRD-82060
ICR Date:	06/25/2014	ICR Type:	Core ICR
Lending Instrument:	DPL	Borrower:	REPUBLIC OF INDONESIA
Original Total Commitment:	USD 100.00M	Disbursed Amount:	USD 100.00M
Revised Amount:	USD 100.00M		
Implementing Agencies: Coordinating Ministry for Economic Affairs Ministry of Finance			
Cofinanciers and Other External Partners:			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	06/04/2012	Effectiveness:	12/14/2012	12/14/2012
Appraisal:	09/10/2012	Restructuring(s):		
Approval:	11/20/2012	Mid-term Review:		
		Closing:	12/31/2013	12/31/2013

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Satisfactory
Risk to Development Outcome:	Moderate
Bank Performance:	Satisfactory
Borrower Performance:	Satisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Satisfactory	Government:	Satisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Satisfactory
Overall Bank Performance:	Satisfactory	**Overall Borrower Performance:**	Satisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:			

D. Sector and Theme Codes		
	Original	Actual
Sector Code (as % of total Bank financing)		
Banking	30	30
Capital markets	10	10
General finance sector	50	50
Non-compulsory pensions and insurance	10	10

Theme Code (as % of total Bank financing)		
Gender	5	5
International financial standards and systems	10	10
Micro, Small and Medium Enterprise support	30	30
Other Financial Sector Development	15	15
Regulation and competition policy	40	40

E. Bank Staff		
Positions	At ICR	At Approval
Vice President:	Axel van Trotsenburg	Pamela Cox
Country Director:	Rodrigo A. Chaves	Stefan G. Koeberle
Sector Manager:	Hormoz Aghdaey	Hormoz Aghdaey
Program Team Leader:	Carlos Pinerua	Alexandra L. Drees-Gross
ICR Team Leader:	Carlos Pinerua	
ICR Primary Author:	Dara Lengkong	

F. Results Framework Analysis

Program Development Objectives (from Project Appraisal Document)
The objective of the operation is to promote the development of a sound, efficient and inclusive financial sector and support improvements in the investment climate in

Indonesia to help the Government of Indonesia (GoI) achieve its medium-term economic development and poverty reduction goals.

Revised Program Development Objectives (if any, as approved by original approving authority)
N/A

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Capital adequacy ratio (capital over risk weighted assets) of the consolidated balance sheet of the banking sector as a whole.			
Value (quantitative or Qualitative)	17.6%	+/-2% of 17.6% (17.95%/17.25%)	N/A	18.13%
Date achieved	06/30/2011	12/31/2013	12/31/2013	12/31/2013
Comments (incl. % achievement)	Achieved. Banks were well capitalized, with overall CAR at 18.13 % as of end 2013, significantly higher than regulatory requirements and providing the necessary buffer against.			
Indicator 2 :	Non-performing loans of the banking sector as a whole.			
Value (quantitative or Qualitative)	3.8%	Around 3.8% or less	N/A	1.77%
Date achieved	06/30/2011	12/31/2013	12/31/2013	12/31/2013
Comments (incl. % achievement)	Achieved. Non-performing loans remained reasonably low, at 1.77 percent as of end 2013, the continued decline of which is notable given the increased financial market volatility in Indonesia in 2013.			
Indicator 3 :	Share of NBFI assets to total financial system assets.			
Value (quantitative or Qualitative)	20%	22%	N/A	24%
Date achieved	12/31/2011	12/31/2013	12/31/2012	12/31/2012
Comments (incl. % achievement)	Achieved. Latest data as of end-2012 indicated achievement of target, with share of NBFI assets to total financial system of 24 percent. End-2013 data are not yet available.			
Indicator 4 :	Number of households that have received PKH transfers through bank accounts.			
Value (quantitative or Qualitative)	1.1 million	1.4 million	N/A	N/A
Date achieved	12/31/2011	12/31/2013	12/31/2013	12/31/2013
Comments	Not evaluable/final data are not available. An analysis of the PKH			

(incl. % achievement)	indicated that bank accounts were the least effective means for PKH transfers. This led the Government to postpone the pilot PKH.			
Indicator 5 :	Annual disbursement of the KUR program to micro and small enterprises.			
Value (quantitative or Qualitative)	IDR 20 trillion	IDR 25 trillion	N/A	IDR 41 trillion
Date achieved	12/31/2011	12/31/2013	12/31/2013	12/31/2013
Comments (incl. % achievement)	Achieved. The performance of KUR program performance was solid, with total annual disbursement of IDR 41 trillion, reaching about 10 million borrowers (almost a double increase since July 2011).			
Indicator 6 :	Number of days to enforce a contract, according to the Doing Business Report.			
Value (quantitative or Qualitative)	570	500	N/A	498
Date achieved	12/31/2011	12/31/2013	12/31/2013	12/31/2013
Comments (incl. % achievement)	Not achieved. The reduction in number of days to enforce a contract was entirely due to data adjustments, and not attributed to any underlying reforms within the sector.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	N/A			
Value (quantitative or Qualitative)				
Date achieved				
Comments (incl. % achievement)				

G. Ratings of Program Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)

H. Restructuring (if any)

Not Applicable

1. Program Context, Development Objectives and Design

1.1. Context at Appraisal

1.1.1. Economic Context

1. **Indonesia has made remarkable progress in terms of robust growth and macroeconomic stability.** During the decade of 2002-11, output growth was strong and consistent, averaging 5.5 percent, grounded on increasing private sector investment, strong domestic consumption and generally sustainable external surpluses. International commodity demand was supportive, leading to a significant expansion of the non-tradable sectors. External imbalances had declined rapidly as corporate and financial sector balance sheets were repaired. Higher revenues, combined with restrained expenditures, contributed to low fiscal deficits. Nevertheless, financial markets remained vulnerable to changes in international investor sentiment. Challenges also remained within the fiscal and monetary policy framework, particularly with regards to managing inflation and dealing with inefficiencies in key public spending, such as fuel subsidies.

2. **The stability of the financial system has been maintained and substantially enhanced, although developmental challenges remain.** The banking sector was at the heart of Indonesia's 1997-98 economic and political crisis, and turned out to be the costliest bank restructuring program at that point in time globally, during which well over half of all banking assets and loans were declared as losses. Since then, the banking sector has been transformed and the Government has focused on enhancing its stability. Such efforts have paid off substantially, as demonstrated during the more recent 2008-11 global financial crisis, wherein Indonesia's financial sector experienced relatively minor impact from the Eurozone troubles and financial market volatility. However, the financial sector overall remains small, dominated primarily by banks, and highly concentrated, whereas the non-bank financial sector is under-developed. Much remains to be done to enable Indonesia's financial system to support the needs of its growing economy, and achieve its poverty reduction and job creation goals.

3. **At the time that the FIRM DPL was presented to the Board, major financial sector reforms were underway, as the Government was focused on creating a more dynamic, inclusive financial sector and competitive investment climate.** The most significant reform was the enactment of the Indonesia Financial Services Authority Law in October 2011, which established a new integrated financial regulator (Otoritas Jasa Keuangan, or OJK), was the most important change in the financial sector supervisory and regulatory framework since the 1997-98 financial crisis. At the same time, the Government also began to focus on a set of second generation reforms aimed at deepening the financial sector and expanding access of financial services to the poor, including the development of the first National Strategy for Financial Inclusion (NSFI).

1.1.2. *Political Context*

4. **While political stability has paved the way for reform-oriented policy-making in general, concerns have emerged over ad-hoc protectionist tendencies in some recent policy measures.** Following a decade of relatively successful political and institutional reforms, Indonesia has emerged as a highly competitive and decentralized electoral democracy. Despite some continuing political tensions, the administration maintained its coalition structure and consensus-oriented approach overall. However, concerns over some controversial policy moves, such as the elimination of foreign majority ownership of mines, the banning of rattan exports to protect domestic furniture makers, the restriction on imports of horticultural products, and the tighter rules on establishing retail and restaurant franchises to promote domestic businesses have emerged. Such policy measures have only intensified in advance of the 2014 elections and have been viewed widely by the private sector and many stakeholders as detrimental to Indonesia's investment climate.

1.1.3. Strategic Context

5. **The 2009-2012 Country Partnership Strategy Progress Report (CPSPR) identified private sector led growth as the first of its five core engagements.** This is a key area supported under the FIRM DPL that aimed to develop a strong financial system and investment climate that accelerates private sector growth and increases competitiveness. The FIRM DPL also focused on strengthening Indonesia's institutions, a key cross-cutting theme of the CPSPR, by building the capacity of key institutions to improve financial system stability, deepening the financial sector and support private sector development through a conducive investment climate. Among the key institutions involved in its design were the Coordinating Ministry for Economic Affairs (CMEA), the Ministry of Finance, OJK, Bank Indonesia, the Indonesia Deposit Insurance Corporation (LPS), the National Team for the Acceleration of Poverty Reduction (TNP2K) and the National Development Planning Agency (Bappenas).

6. **Following the deployment of single multi-sectoral DPLs since 2003, along with the DPL DDO contingent budget support facilities,[1] the FIRM DPL emerged as one of three sectoral DPLs that were requested by the Government in 2012**. While the core DPL program had demonstrated a solid track record in key reform areas, given the deepening engagements in several priority areas, the Government requested a series of three sectoral DPLs in 2012: (i) the INSTANSI DPL that focused on strengthening public financial management and enhancing poverty alleviation efforts to improve the quality of spending; (ii) the Connectivity DPL that supported reforms to reduce domestic logistics costs; and (iii) this FIRM DPL that focused on the financial sector and investment climate. Such a sectoral approach was envisioned to maximize synergies across the Bank's program in Indonesia, further strengthen institutional ownership over the multi-faceted reform programs and improve the targeting of complementary technical assistance programs.

[1] The Public Expenditure Support Facility (PESF) DPL-DDO and the Program for Economic Resilience, Investment and Social Assistance (PERISAI) DPL-DDO were approved in 2009 and 2012, respectively.

7. **The FIRM DPL was designed as a one-year, stand-alone operation, as opposed to a multi-year programmatic series, given the transitional period for the establishment of OJK.** The operation was originally intended to be a multi-year, programmatic series, similar to the INSTANSI and Connectivity DPLs that were prepared just ahead of the FIRM DPL. However, the Government then requested a one-year, stand-alone approach, as it did not want to formally commit to a follow-on operation before OJK had been fully established. However, an outline of a second set of proposed actions was prepared to lay the groundwork for a potential follow-on operation. Indeed, this substantially helped shape the follow-on FIRM DPL that was requested by the Government at the end of 2013.

1.2. Original Program Development Objectives (PDO) and Key Indicators (as Approved)

8. **The objective of the FIRM DPL is to promote the development of a sound, efficient and inclusive financial sector and support improvements in the investment climate in Indonesia to help the GoI achieve its medium-term economic development and poverty reduction goals.** The Government had previously articulated its vision to turn Indonesia's economy into one of the world's ten largest by 2025 through the Master Plan for the Acceleration and Expansion of Indonesia's Economic Development 2011-2025 (MP3EI). A sound and well-functioning financial sector and an enabling environment for business are expected to contribute to the achievement of the MP3EI goals. The key outcome indicators are:

- Capital adequacy ratios of banks are maintained or stabilized at the current level (around +/- 2 percent of 17.6) as of December 2013.
- Non-performing loans are stable or at around 3.8 percent or less at end 2013.
- The share of non-bank financial institution (NBFI) assets to total financial system assets is 22 percent as of the end of 2013.
- The number of households that have received PKH transfers through bank accounts is 1.4 million as of the end of 2013.
- The annual disbursement of the KUR program to micro and small enterprises is IDR 25 trillion (USD2.6 billion) as of the end of 2013.
- The number of days to enforce a contract has been reduced to 500 according to Doing Business as of the end of 2013.

1.3. Revised PDO (as Approved by the Original Approving Authority) and Key Indicators, and Reasons/Justification

N/A.

1.4. Original Policy Areas Supported by the Program (as approved)

9. The FIRM DPL operation has four main pillars:

- **Reinforcing financial system stability**, through reforming the financial sector supervisory framework, strengthening the legal and institutional framework

for financial crisis preparedness and enhancing the strength of the deposit insurance scheme;

- **Promoting financial sector diversification**, through strengthening the protection of investors and customers in the financial sector, and enhancing the soundness and capacity of the insurance sector;

- **Enhancing financial inclusion**, through promoting policy coordination, developing innovative financial products targeted to the poor, and strengthening monitoring and evaluation systems; and

- **Supporting investment climate regulatory reform**, through improving policy coordination and strengthening contractual enforcement mechanisms.

1.5. Revised Policy Areas (if applicable)

N/A

1.6. Other Significant Changes

N/A

2. Key Factors Affecting Implementation and Outcome

2.1. Program Performance

10. **Building upon the momentum in Government reforms within the financial sector in particular, the FIRM DPL was delivered in a swift manner**. This was a notable achievement, particularly given that this was the first operation to be jointly developed with the newly appointed Board of OJK. The operation was completed in about five months after the concept review. The following are the supported prior actions that had been completed prior to negotiations.

FIRM DPL	
Prior Actions	**Status**
Pillar 1: Reinforcing Financial Sector Stability	
1. The Financial Services Authority (OJK) Board of Commissioners has been appointed in accordance with the Indonesia Financial Services Authority Law and the Financial Services Authority (OJK) Preparation Team has prepared a comprehensive organizational plan.	Fulfilled
2. The Ministry of Finance, Bank Indonesia and Deposit Insurance Corporation (LPS) have signed a memorandum of understanding on information sharing and coordination in order to improve crisis prevention and management.	Fulfilled
3. The Deposit Insurance Corporation (LPS) Board of Commissioners has issued a directive to adopt a differential premium rate system.	Fulfilled

Pillar 2: Promoting Financial Sector Diversification	
4. The Capital Markets and Financial Institutions Supervisory Agency (Bapepam-LK) has strengthened the protection of investors through separation of accounts of brokers and investors under Regulation No. V.D.3.	Fulfilled
5. The Capital Markets and Financial Institutions Supervisory Agency (Bapepam-LK) has prepared a draft revised regulation to strengthen the financial soundness of insurance companies and improve corporate governance, which has been issued under a Minister of Finance Regulation (PMK No. 53/2012).	Fulfilled
Pillar 3: Enhancing Financial Inclusion	
6. National Team for the Acceleration of Poverty Reduction (TNP2K): (i) has issued the Indonesia National Strategy for Financial Inclusion, including the preliminary action plan; and (ii) has implemented a pilot project to provide conditional cash transfers through bank saving accounts for beneficiaries of the Conditional Cash Transfer Program (PKH).	Fulfilled
7. Bank Indonesia has prepared recommendations for revised guidelines for "no frills" savings accounts (Tabunganku).	Fulfilled
8. The Coordinating Ministry for Economic Affairs (CMEA) Policy Committee on the People's Business Credit Program (KUR) has prepared standard operating procedures that outline mechanisms for supervision of the program.	Fulfilled
Pillar 4: Supporting Investment Climate Regulatory Reform	
9. The Committee on the Masterplan for Acceleration and Expansion of Indonesia Economic Development 2011-15 (MP3EI) has issued an action plan for priority regulatory reforms envisioned under such masterplan.	Fulfilled
10. The Coordinating Ministry for Economic Affairs (CMEA) has prepared recommendations for the establishment of a small claims court through revisions to the relevant legal framework.	Fulfilled

2.2. Major Factors Affecting Implementation

11. The design and implementation of the FIRM DPL program overall was timely and satisfactory, on account of the following key factors that affected implementation in a positive and conducive manner:

- **Strong government ownership and continuity.** The FIRM DPL was designed to be aligned with the major reforms taking place within Indonesia's financial sector at the time, as more emphasis was made on creating a more dynamic, inclusive financial sector and competitive investment climate. As such, the operation benefited from the Government's reform momentum and also helped support the policy dialogue in key areas. The most critical reform was the launching of a major restructuring of financial sector regulation and supervision effort, through the establishment of OJK. At the same time, a set of second generation reforms were also launched with the aim of deepening the financial sector and expanding access of financial services to the poor. The operation's close alignment with such critical reform momentum helped

ensure strong government ownership and continuity over the path of reforms supported by the FIRM DPL operation.

- **Stable financial, economic and political environment.** Since the 1997-98 Asian financial crisis, Indonesia had undergone extensive "crisis recovery" reforms and a smooth political process that helped put in place a more stable financial, economic and political environment overall. Such stability was key, as it allowed the Government to move forward with difficult medium-term reforms aimed at reinforcing financial sector stability, promoting financial sector diversification, enhancing financial inclusion and, to a lesser degree, supporting investment climate reforms, i.e., the four policy pillars of the operation.

- **Extensive Bank technical assistance program and strong country presence.** The World Bank has maintained a broad TA program in Indonesia, designed to support the Government's financial sector development, and solid in- country presence. Most of the team members were based in the field office and were therefore able to maintain continuously close policy dialogue with government counterparts. This helped to build the necessary relationship with OJK, a key institutional stakeholder that had just recently been established. It also helped to ensure the relevance of the program design and more effective program implementation, wherein any potential issues were identified and addressed in a timely manner. Furthermore, a large programmatic trust fund supported by SECO provided significant resources for the TA program, complementing the FIRM DPL operation.

2.3. Monitoring and Evaluation (M&E) Design, Implementation and Utilization

12. **The M&E framework for the operation was well designed and implemented.** Again, the program benefited from the solid presence of Bank team members in the field, which allowed continuously close monitoring of the supported reform actions. Complementary technical assistance and analytical and advisory activities (AAA) also helped facilitate the M&E of the design and implementation of the reform agenda. Specific, quantifiable indicators were identified for each of the four pillars, with clear baseline and target data, which altogether formed a program results framework that was monitored by the Bank team in collaboration with GoI counterparts.

2.4. Expected Next Phase/Follow-up Operation (if any)

13. **The Government has requested a follow-on US$500 million FIRM DPL operation that is to be presented to the Board in early July 2014.** The follow-on operation builds on the indicative areas of reform identified in the first FIRM DPL. Essentially, the second operation aims to consolidate and deepen reforms along the same objectives and pillars as the first, with the exception of the investment climate pillar, where increasing concerns over the protectionist tendencies of some recent investment climate policies are deemed too risky for support by Bank management and staff. Nevertheless, business regulation and investment climate issues continue to

be an important reform support area for the Bank, with continuing assistance through other instruments, such as technical assistance and AAAs.

14. **Significant synergies also exist with numerous other follow on World Bank technical assistance programs.** It is noteworthy that the FIRM DPL operation was also complemented and followed up by significant technical assistance programs that support financial sector development in general. These include the Indonesia Financial Sector Strengthening TF, the Indonesia Financial Inclusion Support Framework Country Support Program and the MPFTIC program for the investment climate reforms.

3. Assessment of Outcomes

3.1. Relevance of Objectives, Design and Implementation

Rating: Satisfactory

15. **Out of the four main pillars of the FIRM DPL, three were related to the financial sector, demonstrating the sector's policy importance, as reflected in the 2010 joint IMF-World Bank Financial Sector Assessment Program (FSAP) report.** The financial sector pillars were well-aligned with the Government's efforts to bolster stability and also deepen the financial sector, marked by the establishment of OJK and the issuance of the National Strategy for Financial Inclusion. The operation was also designed to directly address some of the recommendations identified in the FSAP, particularly those in the areas of: financial crisis prevention and management; strengthening the regulatory environment; improving the soundness of the insurance sector; improving corporate governance in the capital markets; and improving market infrastructure to extend the reach of banking services. The preparation of a follow-on operation reflects the continued importance of tehse reforms in the government's policy agenda.

16. **In contrast, and in hindsight, the alignment of the investment climate pillar with the Government's reform momentum was relatively weak.** During preparation, the Government had specifically requested inclusion of the investment climate pillar in the operation. The Bank team recognized the risks inherent within the proposed investment climate pillar and, after considering the potential risks and benefits, and the feedback from management, decided to accept the Government's proposal. Two prior actions were then identified for the investment pillar (i.e., issuance of the MP3EI regulatory reform action plan and establishment of a small claims court), which were initially envisioned to help the Government in advancing smaller, sub-set policy reform areas that would help promote a more conducive investment climate overall. However, as the operation evolved, the two investment prior actions proved to have relatively weak relevance to the key investment climate challenges in Indonesia. Moreover, the investment prior actions were not designed to address the risks inherent within Indonesia's investment climate, particularly with regard to the emerging protectionist tendencies of policy-making. As a result, this component has been dropped from the follow-on operation, recognizing that the policy risks at this point exceed any potential benefit.

17. **The depth and breadth of the overall Bank program, as well as the continuously strong in-country presence, also increased the relevance of the operation as a whole.** The operation built upon and expanded the previous core DPL series, which had historically included a range of financial sector and investment climate reforms. It also built on the PERISAI DPL-DDO that aimed to enhance the Government's crisis preparedness to address the potential adverse impact of financial markets volatility.

3.2. Achievement of Program Development Objectives

Policy Area 1: Reinforcing Financial Sector Stability
Objective: To improve financial system stability through effective supervision and regulation.
Rating: Satisfactory

18. **In accordance with the OJK Law of October 2011, the OJK has now been established as an independent institution responsible for the regulation and supervision of financial services.** Following the appointment of its Board of Commissioners and preparation of a comprehensive organizational plan, OJK fully took over the regulatory and supervisory authority for capital market and non-bank financial institutions in January 2013, and for the banking sector in January 2014. The establishment of OJK proved to be smooth and timely, as demonstrated in practice through issuance of key regulations on the non-bank financial sector[2] within the first year of its establishment. Such institutional establishment is indeed critical as it provides the groundwork necessary for more effective regulation and supervision, a key financial sector reform-deepening area. Nevertheless, a significant institutional development agenda remains, particularly with regards to delivering improved results in line with OJK's institutional mandate.

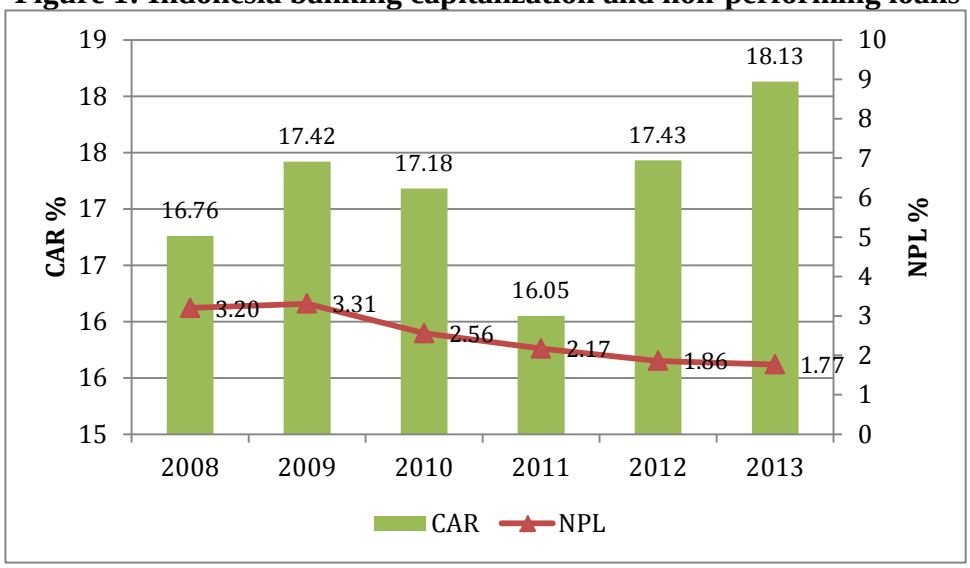
19. **The Indonesian authorities have made good progress towards establishing a comprehensive crisis management framework.** The National Crisis Management Protocol provided mechanisms for improved crisis prevention and management, which helped address gaps in the legal and regulatory framework for financial system monitoring and surveillance. Such a protocol is especially important given the multitude of such tasks and agencies involved, including the Ministry of Finance, Bank Indonesia, LPS and OJK. The Financial System Stability Coordination Forum (FKSSK), mandated by the OJK Law, has also been established as a new body responsible for maintaining financial stability. FKSSK members include the Governor of Bank Indonesia, the Minister of Finance, and the Chairmen of OJK and LPS. Although the effectiveness of the application of the overall crisis management framework still needs to be confirmed, it is encouraging to note that the relevant authorities have undertaken a series of crisis simulation exercises to test the protocols, and used the findings to modify the arrangements.

[2] Examples include the OJK Regulation No. 4/POJK.05/2013 regarding Fit and Proper Tests for Primary Parties of Insurance, Pension Fund, Multi-finance and Guarantee Companies; OJK Regulation No.2/POJK.04/2013 regarding Share Buy Backs for listed companies under significant fluctuating market condition.

20. **The LPS directive on the technical design for a differential deposit insurance system helped facilitate policy discussions and consensus-building within the authorities, which would ultimately contribute towards financial system stability and effective crisis management.** At present, LPS guarantees deposits or savings up to a maximum amount of IDR 2 billion. The LPS directive on a differential premium rate system entails imposing higher premiums on banks that are rated as having higher risks. Such a system is expected to encourage banks to avoid paying higher premiums through better risk management, thereby ultimately contributing towards financial system stability and effective crisis management. This is an important policy reform area that is also consistent with the FSAP findings, which recommended LPS to move towards a more transparent, market-based ceiling rate on insured deposits, and also suggested the measure of a differentiated cap for different bank structures. The new differential rate design has significantly helped facilitate the policy discussion and consensus building, particularly between LPS and the Government. The design is expected to be formalized soon through a government regulation.

21. **Prior actions supported under the first pillar of the operation represent key reforms aimed at strengthening financial services regulation and supervision, improving crisis management protocols and putting in place a risk-based deposit insurance system.** Altogether, these are key elements underlying Indonesia's achievement in improving its financial system stability, notwithstanding the external risks in international financial markets that remain. The improved stability has been demonstrated particularly through the following key banking sector soundness indicators: (i) *Banks were well capitalized*, with the capital adequacy ratio (capital over risk-weighted assets) of the consolidated balance sheet of the banking sector as a whole remaining at 18.13 percent as of the end of 2013, significantly higher than regulatory requirements and providing the necessary buffer against vulnerabilities to changes in investor sentiments; (ii) *Non-performing loans remained reasonably low*, at 1.77 percent as of the end of 2013, the continued decline of which is particularly notable given the increased financial market volatility in Indonesia in 2013.

Figure 1: Indonesia banking capitalization and non-performing loans



22. **However, the financial system remains vulnerable to a variety of risks.** For instance, the financial system is still heavily dominated by the banking sector, accounting for about 80 percent of financial system assets as of the end of 2013. The system is also highly concentrated, with the top three state-owned banks accounting for one-third of banking assets and deposit base. Significant gaps also remain within the crisis management framework, which undermines the tools necessary for effective bank resolution. Nevertheless, the authorities are aware of the gaps and have been working to address them. The establishment of OJK, for instance, is a key reform effort to help improve the effectiveness and quality of financial sector regulation and supervision overall.

Policy Area 2: Promoting Financial Sector Diversification
Rating: Satisfactory

23. **Regulatory protection of stock market investors has been improved to help strengthen corporate governance and transparency of Indonesia's capital market, thereby promoting diversification of the financial sector down the road.** The FIRM DPL supported the issuance of the Bapepam-LK regulation (Regulation No. V.D.3) that required the separation of accounts of brokers and investors, and the establishment of sufficient authority and measures to monitor implementation. This regulation promotes further development of the capital markets, as it allows investors and authorities to access better quality information on securities portfolio and trading activities, thus enhancing risk-management practices. Ultimately, the regulation is expected to promote investor confidence and more diverse and liquid investment activities in the capital markets by facilitating improved corporate governance and transparency and thereby promoting the diversification of Indonesia's financial sector that is still dominated by the banking sector.

24. **Regulatory enhancement of insurance companies' financial soundness and improved corporate governance of the insurance sector overall help strengthen the regulatory framework for the insurance industry, thereby also promoting diversification of the financial sector.** The operation also supported the issuance of a revised Ministry of Finance Regulation (PMK No. 53/2012) that improves the measure of risk-based capital for insurance companies.[3] The regulation entails an increase in the minimum capital requirements of insurance companies, which could promote the consolidation and strengthening of the insurance industry, possibly through mergers, acquisitions and partnerships with better-capitalized foreign insurers. Ultimately, the regulation is expected to foster a more diverse and financially sound insurance industry.

25. **While the two prior actions under this pillar represent significant reform efforts within the capital market and insurance sector, much remains to be done for further development of the non-bank financial sector.** Latest data as of the end of 2012 indicate that the NBFI sector accounted for only 24 percent of total financial

[3] The revised regulation: (i) required higher capital for companies offering investment products; (ii) increased the type of investible assets; (iii) introduced limitations on business operations and corporate actions for companies unable to meet the minimum capital requirements; and (iv) clarified limitations of investment of affiliated parties.

assets. This is a substantial increase from that of 20 percent as of the end of 2011, but still remarkably low compared with other countries such as Malaysia, South Korea and Brazil. In order for Indonesia to mobilize savings adequately to serve its investment needs, a more diversified set of financial products is needed to help firms and households reduce vulnerabilities and manage financial risks more effectively. This entails further development of various players within the NBFI industry, such as insurance companies, pension funds, mutual funds, finance companies, securities companies and pawnshops.

Policy Area 3: Enhancing Financial Inclusion
Rating: Highly Satisfactory

26. **The National Strategy for Financial Inclusion proved (NSFI) to be a key strategic tool for the Government, as it establishes financial inclusion as a national priority.** Developed by a multitude of government agencies,[4] the strategy marks a critical milestone for policy deliberation and consensus over a key emerging national priority. Such an achievement is widely viewed as exceptional in Indonesia, particularly considering the country's large, diverse and dispersed population overall, and the bureaucratic complexities. Aimed to provide greater access to finance for all, the strategy substantially emphasizes financial services access of the underserved, particularly the three segments of population (low-income poor, working poor and near-poor) and three cross-cutting categories of people (migrant workers, women and people living in remote areas). Initially used as a strategic tool to provide a consistent framework and clear guidance on financial inclusion, the strategy was widely disseminated and proved to be exceptionally useful in helping to lay out common ground among the various policymakers and financial institutions, both public and private.

27. **The criticality of the strategy is expected to continue throughout the medium run, as it facilitates the development and adoption of a long-term perspective for government policies and support for financial inclusion initiatives.** Going forward, implementation of the strategy and development of an underlying action plan may remain challenging, as there is a strong need to establish a clear coordinating structure within the bureaucracy. Furthermore, given that analysis of the underlying PKH pilot indicates that bank accounts are the least effective means for PKH transfers, the Government decided to postpone the pilot project until the problems could be adequately addressed. Hence, achievement of the fourth indicator within the results framework could not be measured.

28. The uptake and usage of the 'TabunganKu' low-cost savings accounts have been promoted through clearer guidelines. Given the high demand of the unbanked Indonesian population for low-cost savings products, in 2010 Bank Indonesia, together with 70 commercial banks and more than 1,000 rural banks (BPRs), introduced a low cost savings account called TabunganKu which entails no monthly administration fees, and only require low opening and maintenance balances. However, a lack of awareness and several restrictive features have created entry and usage barriers to potential and existing customers, and led Bank Indonesia to issue

[4] Including the Vice President's Office (TNP2K), Bank Indonesia, OJK, CMEA, MoF and Bappenas.

revised guidelines for TabunganKu to all bank providers, which are expected to encourage domestic savings. The issuance of better guidelines represents an important step towards bringing the poor into the formal financial sector, as it helps improve the accessibility and usage of the savings accounts further, particularly for the unbanked population, who are predominantly the poor.

29. **The effectiveness of the KUR program has been significantly enhanced through strengthened standard operating procedures for supervision.** As highlighted in the 2010 evaluation of Indonesia's flagship people's credit program (known as the Kredit Usaha Rakyat, or KUR), the program played a substantial role in increasing MSME access to credit. Significant operational and policy reforms had been made to improve effectiveness of the program, such as increasing the number of participating banks, increasing the maximum loan size, extending loan tenors and increasing guarantee coverage for prioritized sectors. These reforms were also complemented by the FIRM DPL prior action of putting in place stronger M&E mechanisms. This was crucial to the effectiveness of the program, as it helped provide continuous and substantive feedback to the KUR Policy Committee on implementation challenges, and allowed it to take timely and informed actions to deal with emerging key policy issues. Altogether, the reforms resulted in a much more solid lending performance overall, with KUR credit reaching almost 10 million borrowers as of the end of December 2013 (almost doubling since July 2011) and total annual disbursement of IDR 41 trillion (much greater than the previous target of IDR 25 trillion). The high quality of the portfolio was also maintained with an average NPL of 2.6 percent (compared with the banking sector's NPL of 1.8 percent).

Policy Area 4: Supporting Investment Climate Regulatory Reform
Rating: Unsatisfactory

30. **The FIRM DPL operation did not result in meaningful outcomes on key investment climate policy issues.** Business environment reforms had featured prominently in the Government's Medium-Term Development Plan (RPJMN) 2009-2014 and the MP3EI, as these reforms were expected to facilitate business start-ups, encourage investments, increase employment, and enhance FDI inflows in general. The FIRM DPL attempted to support the Government's reform efforts in this regard, such as through the development and issuance of the MP3EI regulatory reform action plan. Although it is noteworthy that the action plan underwent the significant process of policy deliberation and consensus building, with the involvement of various government stakeholders, it does not appear to have resulted in a more systemized and prioritized approach towards amending the relevant laws and regulations. Further, this particular action potentially overlaps with other MP3EI-related policy actions supported under the Connectivity DPL. Overall, significant concerns remain particularly with regard to ad-hoc and nationalistic tendencies surrounding Indonesia's investment climate policy actions.

31. **The establishment of a small claims court is a continuing, medium term reform process, the impact of which cannot yet be determined as it extends beyond the DPL timeframe**. The FIRM DPL operation supported the Government's pursuit of improved contract enforcement through the preparation of recommendations for the establishment of a small claims court through revisions of

the relevant legal framework. This action was designed to help build policy-consensus over the importance of establishing such small claims court, as it would not only improve the ease of doing business, but also provide more efficient and affordable legal services for businesses and individuals and help reduce the backlog of cases faced by the court system in Indonesia. Clearly, this is a medium-term agenda that would need to be pursued on a continuing basis, beyond the timeframe of the FIRM DPL operation. While it is noteworthy that the Doing Business Survey's number of days to enforce a contract has been reduced from 570 to 498 as of the end of 2011 and 2013, respectively, such an improvement was attributed entirely to data adjustment made in the Doing Business Survey, as opposed to any substantial underlying reform in Indonesia's investment climate.

32. **Although the Doing Business target indicator was not achieved, the reform to improve enforcing contracts was continued under a much broader reform initiative to improve the ease of doing business.** The action plan issued on October 25, 2013, consisted of 17 actions across eight "Doing Business" areas (aligned to eight of the ten indicators in the World Bank Group's "Doing Business" country rankings) and is expected to be implemented in 2014. To ensure implementation of this policy package, and signify good coordination of these reforms, the Government has established a joint monitoring team with different government agencies, including the Presidential Working Unit for Control and Supervision on Development (UKP4). The private sector has responded favorably to the announcement of the (domestically focused) policy package, emphasizing the urgency of such reforms.

3.3. Justification of Overall Outcome Rating

Rating: Satisfactory

33. **The solid results achieved under the financial sector pillars, particularly the highly satisfactory financial-inclusion pillar, compensate for the unsatisfactory investment climate pillar, thereby warranting a satisfactory rating for the FIRM DPL overall.** The financial stability, diversification and inclusion pillars were highly relevant in the context of the emerging government financial reform momentum and the recommendations highlighted in the FSAP report. The critical nature, the focus of prior actions and the intended outcomes under these pillars were also ensured, as they were technically underpinned by key analytical pieces produced by the Bank and other partners. Altogether, the financial sector prior actions resulted in generally positive outcomes and contributed significantly to the Government's efforts towards the development of a sound, efficient and inclusive financial sector. Although performance of the investment climate pillar was unsatisfactory, due to design and implementation issues, this is adequately compensated for by the solid performance of the financial sector pillars, particularly the highly satisfactory financial-inclusion pillar. An overall satisfactory rating is therefore justified for the whole FIRM DPL operation.

3.4. Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects and Social Development

34. **The 1997-98 Asian financial crisis highlighted the strong link between financial sector stability and poverty, particularly in Indonesia.** Indonesia's poor and vulnerable households were especially hurt during the crisis. The cost of managing Indonesia's crisis amounted to roughly 50 percent of GDP and an estimated 10 years of consistent progress in fighting poverty were lost in the wake of the crisis. Formal sector employment rates also fell steeply as many households fell into poverty, and 23 percent of Indonesia's population was below the poverty line by 1999. Since then, the Government has made important strides towards establishing economic recovery, with particular attention on improving financial-sector stability.

35. The FIRM DPL helped address the issues of poverty and social development by contributing to the creation of a favorable economic environment for growth and poverty reduction. More specifically, prior actions under the four pillars benefited poor and vulnerable groups. Prior actions under Pillar 1 in particular helped create a more sound and stable financial system, which is a prerequisite for economic growth, job creation and poverty reduction. Prior actions under Pillar 2 helped improve governance of the capital market and insurance companies, thereby promoting stability, growth and the availability of more diverse, non-banking financial products for all, including the poor. Prior actions under Pillar 3 specifically helped to expand the poor, vulnerable groups and women's access to a full range of financial services.

36. The FIRM DPL also aimed to help directly address the challenges that women face in accessing financial services. The National Strategy for Financial Inclusion (NSFI), one of the prior actions supported by the operation, includes a number of programs that are expected to respond to the particular demands of women for financial services, such as support for financial literacy training for migrant workers. Another significant initiative is the effort to bring poor women into the financial system through the PKH program, where women heads of households receive conditional cash transfers through savings accounts. Going forward, the NSFI also provides an opportunity for the Government to directly incorporate these issues into its agency-level programs as the agencies finalize their legally-binding action plans for the implementation of the strategy. Key performance indicators are expected to capture gender aspects to the extent possible for various programs at the agency level. Some agencies, such as the National Agency for Protection and Placement of Indonesian Overseas Workers (BNP2TKI), which is responsible for implementing migration policy, already target women in its programs and currently monitors gender aspects of its work.

(b) Policy Dialogue and Coordination

37. **The FIRM DPL was instrumental in serving as a forum for policy dialogue between the various government stakeholders and development partners.** Many reform areas supported by the DPL—such as the National Strategy for Financial Inclusion—involved a wide range of line ministries/agencies and/or government stakeholders, including CMEA, the MoF, the newly established OJK, Bank Indonesia, LPS, TNP2K and Bappenas, all with a diverse, varied set of priority focuses, together with institutional authorities and capacities. The FIRM DPL

provided a useful forum for the necessary, multi-stakeholder policy discussions and consensus-building. CMEA played a strong leadership role in the coordination and oversight of the reform agenda overall and the prior actions. Other development partners, such as IFC, IMF, SECO, AusAID and ADB also appreciated the FIRM DPL's role in serving as an effective forum for harmonizing development=partner support to the financial sector.

(c) Other Unintended Outcomes and Impacts (positive and negative)

N/A

4. Assessment of Risk to Development Outcome

Rating: Moderate

38. **Overall, the reform agenda supported by the FIRM DPL program was strong, with a solid track record and government ownership.** The supported reforms built substantially on reforms that had been supported through previous DPL series and/or other technical assistance and AAA. This reflects the broad consensus that has emerged among both high level policymakers and technical staff of key institutions on the criticality of financial-sector stability, as well as the need to promote financial inclusion and deepening and reform the business environment.

39. **Reinforcing Financial Sector Stability (Moderate):** In general, Indonesia's financial sector stability has been achieved with support of the DPL-supported prior actions, particularly through relevant reforms within the financial sector supervisory framework, the financial-crisis preparedness framework and the deposit-insurance scheme. These signify critical policy measures that are unlikely to be reversed. However, Indonesia's financial sector, like those in other emerging markets, remains vulnerable to investor sentiment and international financial market volatility. Particularly, negative sentiment could result in sudden capital outflows that have the potential to rapidly undermine the stability of the financial sector.

40. **Promoting Financial Sector Diversification (Moderate):** The DPL-supported regulatory reforms in the areas of capital market and insurance represent extensive policy deliberation and consensus building process, involving multiple government stakeholders, which are unlikely to be reversed.

41. **Enhancing Financial Inclusion (Moderate):** The National Strategy for Financial Inclusion and stronger supervision of the KUR program also represent extensive policy deliberation and consensus-building processes, involving multiple government stakeholders. Endorsed at the highest level of government authorities, the NSFI also involved various private stakeholders and was widely disseminated. For this reason there is only moderate risk that such reforms will not be sustained beyond the DPL timeframe, regardless of the establishment of a new government administration.

42. **Supporting Investment Climate Regulatory Reform (Substantial):** As discussed in previous sections, Indonesia's investment climate policy-making in

general remains prone to ad-hoc protectionist tendencies. These appear to have only intensified as elections draw nearer, with neither of the presidential candidates signaling any departure from such positions.

5. Assessment of Bank and Borrower Performance

5.1. Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: Satisfactory

43. **The Bank worked closely with the various government counterparts and other development partners in identifying reforms and monitoring progress.** The solid Bank work program, along with the strong in country presence, also helped facilitate policy-dialogue and better-targeted complementary technical assistance and AAA, which helped enhance quality at entry. The Bank also adequately identified and evaluated the risks inherent in Indonesia's investment climate overall, and then decided to include the investment pillar as requested by the Government, after considering the potential risks and benefits. The Bank then also intensified technical assistance activities to key ministries on investment-climate issues (e.g., through MPFTIC and other programs), in attempt to enhance synergies and lower the risks.

44. **The operation was also well-coordinated with other Bank DPL programs in Indonesia.** Specifically, the Bank was moving concurrently in preparing three sectoral DPL operations (FIRM, INSTANSI and Connectivity DPLs) designed to address key priorities across the different government reform programs, which provided more leverage for the Bank to gain government buy-in to the whole DPL support. Close collaboration with other development partners, including the Government of Japan, through JICA, ADB and AusAID, also helped to ensure a harmonized approach towards policy-based lending and reduced the Government's transactional costs.

(b) Quality of Supervision

Rating: Satisfactory

45. **Given the nature of a DPL operation, all prior actions were fulfilled prior to Board presentation.** Nevertheless, supervision was performed in the context of assessing the impact of the measures supported in this operation and, more importantly in a continuing strong policy dialogue, which has now resulted in the design and preparation of a follow-on FIRM DPL operation focusing on financial sector development exclusively.

(c) Justification of Rating for Overall Bank Performance

Rating: Satisfactory

46. The overall Bank performance is rated satisfactory, particularly with regards to the solid engagement and policy dialogue with the various government stakeholders and development partners. This helped to ensure the development of a strategic reform agenda and support program that are highly relevant and deliver positive results towards achievement of development objectives.

5.2. Borrower Performance

(a) Government Performance

Rating: Satisfactory

47. **The success of the FIRM DPL was attributed to the Government's high level of commitment and ownership over the reform agenda.** The operation involved a notably wide number of government agencies and institutions (BI, MoF, CMEA, Bappenas, TNP2K, BKPM, and LPS) and thus required a high degree of commitment and ownership, as well as policy coordination. This was done effectively overall as a result of high level Government support for the DPL. CMEA under the Deputy for Fiscal and Monetary Policy, in particular, played a key role in convening the forum for policy dialogue between a wide range of government stakeholders, facilitating effective and efficient discussions, monitoring the reform progress and taking any necessary follow-up actions.

(b) Implementing Agency or Agencies Performance

Rating: Satisfactory

48. **The DPL involved the MoF and CMEA as the two implementing agencies and also included other key government stakeholders, including OJK, Bank Indonesia, LPS, TNP2K and Bappenas**. Overall, these agencies demonstrated strong institutional capacities and performed relatively well in ensuring successful implementation of their respective policy reform areas. Despite its recent establishment, OJK in particular performed well and assumed its supervisory and regulatory roles and responsibilities in a timely manner. The greater challenge lies more in coordinating and overseeing these multiple government agencies, which was successfully managed by the CMEA (as discussed above).

(c) Justification of Rating for Overall Borrower Performance

Rating: Satisfactory

49. **The overall Borrower performance is rated as Satisfactory.** Particularly noteworthy is CMEA's strong leadership in coordinating and overseeing the design and implementation of policy actions, which involved multiple line ministries and agencies. The successful design and implementation of the operation would not have been possible without the strong leadership of CMEA and the MoF.

6. Lessons Learned

50. **The evolution of the core DPL program into three sectoral operations resulted in increased government ownership, a deeper Bank engagement on key topics, and an improved focus on the Government's most current priorities**. Since 2004, the Bank has supported a multi-sectoral DPL program in Indonesia with considerable success. However, in 2012, the Government requested a shift towards a sectoral approach. In response, the FIRM DPL was one of three operations to be presented jointly to the Board in November 2012, along with the INSTANSI and Connectivity DPLs, and proved to be an effective strategy to advance the Government's reform program.

51. **The extensive financial sector analytical work that was completed prior to the DPL was a critical element in identifying the reform program.** In particular, the Indonesia FSAP (2010) and the Indonesia Access to Finance Report (2009) provided strong analytical underpinnings for the DPL and also helped to build consensus among technocrats and policymakers on specific reform measures well in advance of the DPL. To a large extent, it was this advanced dialogue that allowed the DPL to be prepared in a relatively short amount of time.

52. **The presence of a strong government counterpart to serve as coordinator was an important success factor in a loan involving multiple institutions.** In this case, CMEA played a strong leadership role in convening and overseeing policy discussions that involved the MoF, OJK, Bank Indonesia, LPS, the NaTNP2K and BKPM. Strong ownership from CMEA and the MoF was also important in securing support from Bank Indonesia and LPS, in particular, as they were formally independent agencies outside of government and also new to the DPL process. Eventually, these institutions recognized the benefits of being part of the process and participated actively in the DPL coordination meetings.

53. **The operation would ideally have been designed as a programmatic series with a multi-year results framework.** A multi-year programmatic approach entails a longer-term mapping out of reforms that can deliver more meaningful outcomes, and are in better alignment with the GoI's own strategic plan (RPJMN). Unfortunately, this approach was not feasible at the time, given that the Government was in the midst of establishing OJK and therefore unwilling to commit to a second operation during the transition period. Despite this, the Bank prepared the FIRM DPL as a stand-alone operation, but outlined the next step of reform measures. These helped to form the basis for the successor operation, but a programmatic approach from the start would still have been optimal from both the Government and Bank perspectives, and eased the preparation of the follow-on DPL.

54. **While the FIRM DPL included a well-structured results framework, a clearer justification of the selection of outcome indicators and greater government participation could have improved the impact assessment**. While adequate overall, the monitoring system could have discussed the nature and justification of the chosen outcome indicators more thoroughly and also included sources of information to be used for evaluation. Closer collaboration with the Government, including the different line ministries/agencies, throughout the preparation phase could have improved monitoring and evaluation of the operation by

both the Bank and the Government, and further strengthened alignment with the Government's own programs.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

55. The Bank appreciates the comments provided by CMEA on this ICR Report, as outlined in Annex 2.

Annex 1. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team Members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Alexandra Drees-Gross	Senior Financial Specialist	EASFP	Task Team Leader
P.S. Srinivas	Lead Financial Economist	EASFP	Financial and private sector
Carlos Pinerua	Country Sector Coordinator	EASFP	Financial and private sector
Djauhari Sitorus	Senior Financial Sector Specialist	EASFP	Financial sector
Yoko Doi	Senior Financial Sector Specialist	EASFP	Financial sector
The Fei Ming	Private Sector Development Specialist	EASFP	Private sector
Neni Lestari	Financial Sector Specialist	EASFP	Financial sector
I Gede Putra Arsana	Financial Sector Specialist	EASFP	Financial sector
Della Y.A. Temenggung	Private Sector Development Specialist	EASFP	Private sector
Shireen El-Wahab	Financial Sector Consultant	EASFP	Financial sector
Greg Elms	Senior Private Sector Development Specialist	EASFP	Private sector
Erly Tatontos	Program Assistant	EASFP	Coordination
Titis Arum Pusparesmi	Program Assistant	EASFP	Coordination
Ashley D. Taylor	Senior Economist	EASPR	Country economist
Timothy H. Brown	Senior Natural Resources Management Specialist	EASIS	Environment
Mark Hagerstrom	Country Program Coordinator	EACIQ	Country program
Mariangeles Sabella	Senior Counsel	LEGES	Legal
Melinda Good	Senior Counsel	LEGES	Legal
Ria Nuri Dharmawan	Associate Counsel	LEGES	Legal
Supervision/ICR			
Carlos Pinerua	Country Sector Coordinator	EASFP	Task Team Leader

Alexandra Drees-Gross	Senior Financial Specialist	EASFP	Financial sector
Dara Lengkong	Senior Financial Sector Specialist	EASFP	ICR Primary Author
Djauhari Sitorus	Senior Financial Sector Specialist	EASFP	Financial sector
Neni Lestari	Financial Sector Specialist	EASFP	Financial sector
I Gede Putra Arsana	Financial Sector Specialist	EASFP	Financial sector
Connor P. Spreng	Senior Economist	EASFP	Private sector
Della Y.A. Temenggung	Private Sector Development Specialist	EASFP	Private sector
Erly Tatontos	Program Assistant	EASFP	Coordination

Annex 2. Borrower's Comments on Draft ICR

On June 17, 2014, the World Bank team met with the Deputy for Fiscal and Monetary in the Coordinating Ministry for Economic Affairs to share a copy of the draft ICR, discuss key findings and seek comments. The Deputy suggested that the following key points be highlighted as the Borrower's comments on the draft ICR.

1. The Government in general would appreciate to be involved more closely throughout project preparation phase, not only in the identification of prior actions, but also in the development of results framework indicators and other aspects of the program, as detailed throughout the PD. While CMEA and the MoF had typically received the Program Document (PD) just before loan negotiations, this should be done much earlier in any future operation, so that the relevant line ministries/agencies (e.g., OJK, BI, TNP2K, LPS, etc.) could also review and provide substantive inputs to the PD and overall program.

2. The unsatisfactory achievement of the investment climate pillar was acknowledged, which appears to have stemmed from the preparation phase of the operation. The Deputy noted that CMEA had initially requested inclusion of the pillar, yet identifying critical and well-developed prior actions under the pillar turned out to be a challenge. The Deputy also pointed out that the prior action of the MP3EI regulatory action plan may have been more appropriately supported under the Connectivity DPL that focused on enhancing national connectivity, which was prepared around the same time as the FIRM DPL. It was appreciated that this pillar is no longer supported under the second FIRM DPL.

3. Although the initial rationale for establishing the FIRM DPL as a freestanding DPL (i.e. OJK's transition phase) was generally understood, a multi-year programmatic approach should be explored more thoroughly in a follow-on operation. Such programmatic approach entails a more comprehensive and longer-term mapping out of reforms, which could help to ensure better outcomes and better alignment with the GoI's own strategic plan (RPJMN).

Annex 3. List of Supporting Documents

- Program Document, *Financial Sector and Investment Climate Reform and Modernization (FIRM DPL)*, December 6 2012, Report No. 73186-ID

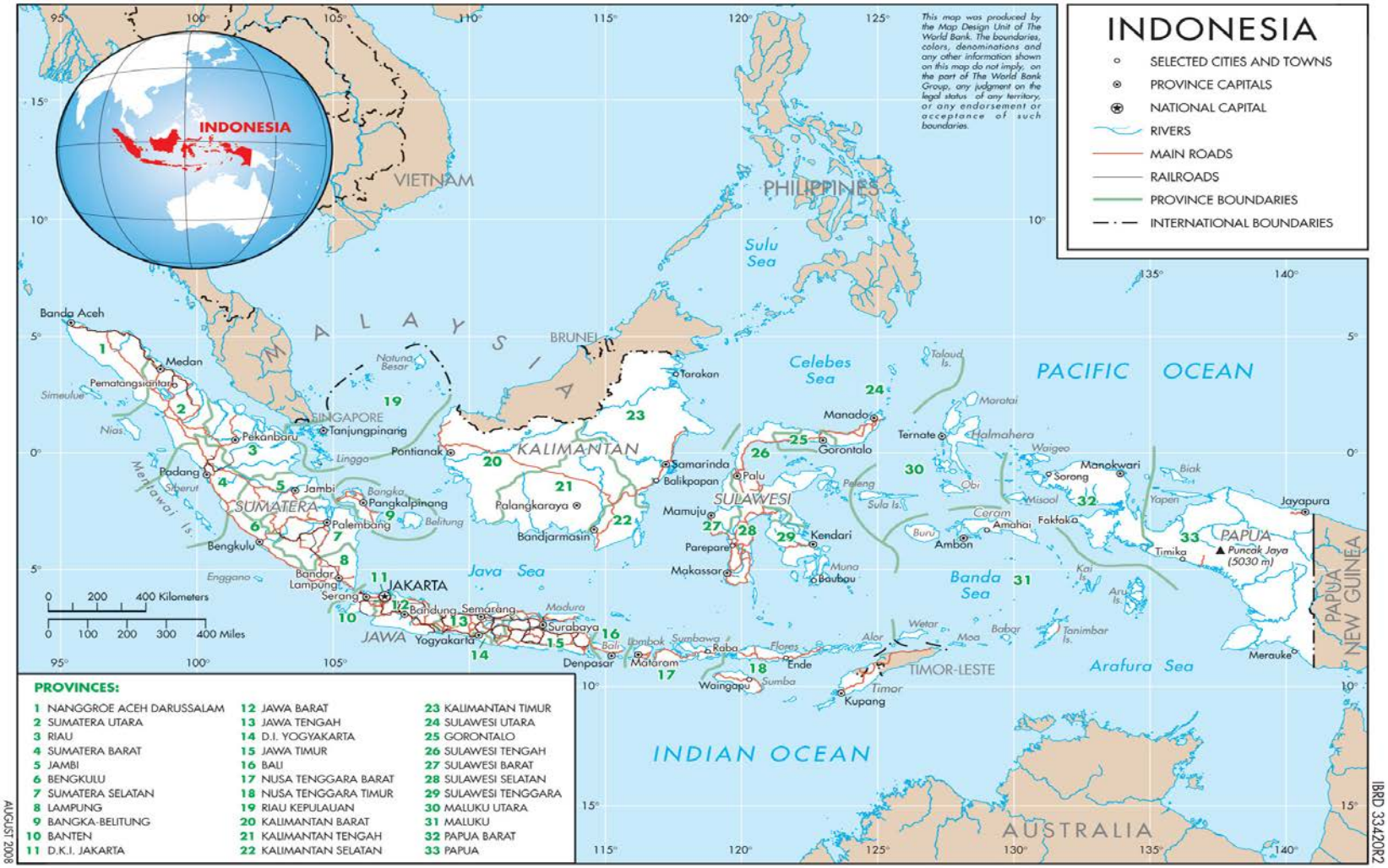
- Country Partnership Strategy Progress Report for Indonesia FY2009-2012

- Indonesia: Financial System Stability Assessment, September 2010, IMF Country Report No. 10/288

- National Strategy for Financial Inclusion in Indonesia

- Doing Business Reports 2011 and 2013

MAP


INDONESIA
SELECTED CITIES AND TOWNS
PROVINCE CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
RAILROADS
PROVINCE BOUNDARIES
INTERNATIONAL BOUNDARIES
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Banda Sea
Arafura Sea
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Bandar Lampung
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Bandung
Semarang
Yogyakarta
Surabaya
Denpasar
Mataram
Waingapu
Kupang
Ende
Raba
Tarakan
Samarinda
Balikpapan
Palangkaraya
Bandjarmasin
Palu
Mamuju
Makassar
Parepare
Kendari
Baubau
Gorontalo
Manado
Ternate
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PROVINCES:
1 NANGGROE ACEH DARUSSALAM
2 SUMATERA UTARA
3 RIAU
4 SUMATERA BARAT
5 JAMBI
6 BENGKULU
7 SUMATERA SELATAN
8 LAMPUNG
9 BANGKA-BELITUNG
10 BANTEN
11 D.K.I. JAKARTA
12 JAWA BARAT
13 JAWA TENGAH
14 D.I. YOGYAKARTA
15 JAWA TIMUR
16 BALI
17 NUSA TENGGARA BARAT
18 NUSA TENGGARA TIMUR
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21 KALIMANTAN TENGAH
22 KALIMANTAN SELATAN
23 KALIMANTAN TIMUR
24 SULAWESI UTARA
25 GORONTALO
26 SULAWESI TENGAH
27 SULAWESI BARAT
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