



Indonesia Second Financial Sector Reform Development Policy Financing (P173232)

EAST ASIA AND PACIFIC | Indonesia | Finance, Competitiveness and Innovation Global Practice |
IBRD/IDA | Development Policy Lending | FY 2021 | Seq No: 1 | ARCHIVED on 29-Jun-2022 | ISR52005 |

Implementing Agencies: Fiscal Policy Agency, Ministry of Finance, Republic of Indonesia

Key Dates**Key Project Dates**

Bank Approval Date: 10-Jun-2021

Effectiveness Date: 09-Dec-2021

Original Closing Date: 30-Jun-2022

Revised Closing Date: 30-Jun-2022

Project Development Objectives

Program Development Objective (from Program Document)

The program development objective of this programmatic operation is to support financial sector reforms that will assist the Government of Indonesia (GoI) in achieving a deep, efficient and resilient financial sector. The proposed operation is the second in a series of three programmatic operations.

This programmatic DPL series is structured around the following three pillars and set of objectives:

- Pillar A: Increasing the Depth of the Financial Sector. Pillar objectives: to expand the size of the financial sector by increasing outreach (including to youth and women), broadening financial market products and mobilizing long-term savings.
- Pillar B: Improving the Efficiency of the Financial Sector. Pillar objectives: to lower the costs for individuals and enterprises by strengthening the insolvency and creditor rights framework, protecting consumers and personal data and strengthening payment systems.
- Pillar C: Strengthening the Resilience of the Financial Sector. Pillar objectives: to strengthen the capacity of the sector to withstand financial and non-financial shocks by strengthening the resolution framework, implementing sustainable finance practices, establishing disaster risk finance mechanisms and advancing the effectiveness of financial sector oversight.

Has the Project Development Objective been changed since Board Approval of the Project Objective?

No

Overall Ratings

Name	Previous Rating	Current Rating
Progress towards achievement of PDO	--	<input type="checkbox"/> Satisfactory
Overall Implementation Progress (IP)	--	<input type="checkbox"/> Satisfactory
Overall Risk Rating	--	<input type="checkbox"/> Moderate

Implementation Status and Key Decisions

The Project Development Objective (PDO) of the DPL series is to support the Government of Indonesia (GoI) in its effort towards the development of a deep, efficient, and resilient financial system. This PDO reflects the common vision of the World Bank team and the national counterparts for the development of the Indonesian financial sector. The DPL series consists of three operations and one supplementary operation. The first operation was approved by the World Bank's Board in March 2020 and the supplementary operation was approved in May 2020 as part of the COVID-19 emergency response. The second operation was approved in June 2021 and the third operation is scheduled for early 2023. Overall the project has made significant progress towards achieving its PDO and is therefore rated as **Satisfactory**. The first DPL in the series made significant progress towards advancing the set of 9 reform areas agreed upon. This progress paved the way for continued engagement with various counterparts under the second DPL, whose reforms proved to be extremely relevant to address some of the challenges identified under the first DPL that gained new urgency in the face of the COVID-19 pandemic and its impacts on the economy and the financial sector.



Reforms such as: reforms to develop new long-term instruments to broaden Indonesia's investor base and deepen its capital markets are critical in rendering Indonesia's asset market less vulnerable to foreign portfolio outflows; reforms to increase the number of payment channels are crucial for the implementation of large-scale social assistance payments to protect livelihoods during the crisis; reforms to strengthen the bank resolution framework for troubled banks and establish a clear funding mechanism, a key element of a recovery strategy.

The results framework is already providing indications of some of these reforms: for instance, on consumer protection, the number of financial service providers that have undergone financial consumer protection examinations per year has increased from 10 in 2019 to 44 in 2022 (against a target of 30 in 2023); on insolvency, the number of insolvency cases opened by the court, proving greater access by firms has increased from 307 in 2018 to 853 in 2021 (against a target of 430 in 2023); the number of days for LPS to pay out insured depositors in closed commercial banks has decreased from 90 days in 2018 to 28 in 2021 (on track to achieve the 2023 target of 7).

The Financial Sector Omnibus Law, currently under preparation, is expected to provide additional traction to the structural reforms needed for making the Indonesian financial sector deeper, more efficient and more resilient.

Risks

Systematic Operations Risk-rating Tool

Risk Category	Rating at Approval	Previous Rating	Current Rating
Political and Governance	<input type="checkbox"/> Moderate	--	<input type="checkbox"/> Moderate
Macroeconomic	<input type="checkbox"/> Substantial	--	<input type="checkbox"/> Substantial
Sector Strategies and Policies	<input type="checkbox"/> Moderate	--	<input type="checkbox"/> Moderate
Technical Design of Project or Program	<input type="checkbox"/> Substantial	--	<input type="checkbox"/> Substantial
Institutional Capacity for Implementation and Sustainability	<input type="checkbox"/> Substantial	--	<input type="checkbox"/> Substantial
Fiduciary	<input type="checkbox"/> Moderate	--	<input type="checkbox"/> Moderate
Environment and Social	<input type="checkbox"/> Low	--	<input type="checkbox"/> Low
Stakeholders	<input type="checkbox"/> Moderate	--	<input type="checkbox"/> Moderate
Other	--	--	--
Overall	<input type="checkbox"/> Moderate	--	<input type="checkbox"/> Moderate

Results

Results Indicators

Increasing the depth of the financial sector				
IN01159142				
► Adults with transactional accounts (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	49.00	--	52.00	88.00
Date	29-Dec-2017	--	31-Dec-2021	29-Dec-2023
IN01159143				
► Sex-disaggregated financial inclusion data regularly collected and made publicly available (Yes/No, Custom)				



	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	No	--	No	Yes
Date	31-Dec-2021	--	31-May-2022	29-Dec-2023
IN01159144				
► Outstanding IDR-denominated private debt securities (IDR trillion) (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	412.00	--	504.10	711.00
Date	31-Dec-2018	--	31-May-2022	29-Dec-2023
IN01159145				
► Portion of short-term investments (cash, bank deposits) in pension fund portfolios (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	19.30	--	18.00	16.00
Date	29-Dec-2017	--	31-Dec-2021	29-Dec-2023
Improving the efficiency of the financial sector				
IN01159166				
► Number of insolvency cases opened by the court, evidencing greater access by firms (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	307.00	--	853.00	430.00
Date	31-Dec-2018	--	31-Dec-2021	29-Dec-2023
Comments:	The number of insolvency cases as of December 31, 2021 was 853, of which 620 were restructuring cases (PKPU) and 233 were bankruptcy 9 (liquidation) cases.			
IN01159167				
► Number of Financial Services Providers (FSPs) undergoing financial consumer protection examinations (offsite or onsite) per year (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	10.00	--	44.00	30.00
Date	31-Dec-2019	--	31-Mar-2022	29-Dec-2023
IN01159168				
► Adults making and receiving digital payments (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	34.60	--	37.00	58.00
Date	29-Dec-2017	--	31-Dec-2021	29-Dec-2023



Strengthening the resilience of the financial sector				
IN01159169				
▶ Number of days for LPS to pay out insured depositors in closed commercial banks (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	90.00	--	28.00	7.00
Date	31-Dec-2018	--	31-Dec-2021	29-Dec-2023
Comments:	Based on average payout days of 8 rural banks closed during CY2021.			
IN01159170				
▶ Number of bank resolution plans finalized by LPS (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	10.00	All systemic banks
Date	31-Dec-2019	--	31-Dec-2021	29-Dec-2023
Comments:	Resolution plans are currently being prepared for a total of 17 banks cumulatively (estimated 16 systemic and 1 non-systemic), which are due by end Nov 2022.			
IN01159171				
▶ Commercial banks complying with sustainable finance practices (Percentage, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	0.00	--	0.00	75.00
Date	31-Dec-2019	--	31-Dec-2021	29-Dec-2023
Comments:	The number could not be updated at the time of the ISM			
IN01159172				
▶ Utilization of the pooling fund for disaster response financing (Text, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	Pooling Fund not established	--	Fund established by Presidential Regulation in August 2021 but not yet operational	Pooling fund is operational and ready to be used in disaster response, including climate-related events
Date	31-Dec-2019	--	31-May-2022	29-Dec-2023
IN01159173				
▶ Number of financial conglomerates receiving more intense integrated supervision (Number, Custom)				
	Baseline	Actual (Previous)	Actual (Current)	End Target
Value	49.00	--	16.00	16.00
Date	31-Dec-2020	--	31-May-2022	29-Dec-2023



Comments:

The initial target was 14 FCs. However as there are 2 new FC within the scope of the FC definition outlined in the relevant OJK regulation, the new target should be increased to 16 FCs.

Data on Financial Performance**Disbursements (by loan)**

Project	Loan/Credit/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P173232	IBRD-92490	Effective	USD	400.00	400.00	0.00	400.00	0.00	100%

Key Dates (by loan)

Project	Loan/Credit/TF	Status	Approval Date	Signing Date	Effectiveness Date	Orig. Closing Date	Rev. Closing Date
P173232	IBRD-92490	Effective	10-Jun-2021	06-Dec-2021	09-Dec-2021	30-Jun-2022	30-Jun-2022

Tranches**Restructuring History**

There has been no restructuring to date.

Related Project(s)

P170940-Indonesia First Financial Sector Reform Development Policy Financing ,P173233-Indonesia Third Financial Sector Reform Development Policy Financing