



## 1. Program Information

**Country**  
Indonesia

**Practice Area (Lead)**  
Finance, Competitiveness and Innovation

**Programmatic DPF**

**Planned Operations**  
0

**Approved Operations**  
0

**Operation ID**  
P170940

**Operation Name**  
Indonesia Financial Sector Reform DPF

**L/C/TF Number(s)**  
IBRD-90550,IBRD-91180

**Closing Date (Original)**  
30-Apr-2021

**Total Financing (USD)**  
601,870,192.34

**Bank Approval Date**  
20-Mar-2020

**Closing Date (Actual)**  
30-Apr-2021

	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	2,000,000,000.00	0.00
Revised Commitment	2,000,000,000.00	0.00
Actual	2,001,870,192.34	0.00

**Country**  
Indonesia

**Practice Area (Lead)**  
Finance, Competitiveness and Innovation

**Operation ID**  
P173232

**Operation Name**  
Indonesia 2nd Financial Sector ReformDPF ( P173232 )



<b>L/C/TF Number(s)</b> IBRD-90550,IBRD-91180,IBRD-92490	<b>Closing Date (Original)</b> 30-Jun-2022	<b>Total Financing (USD)</b> 400000000.00
<b>Bank Approval Date</b> 10-Jun-2021	<b>Closing Date (Actual)</b> 30-Jun-2022	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	400,000,000.00	0.00
Revised Commitment	400,000,000.00	0.00
Actual	400,000,000.00	0.00

**Country**  
Indonesia

**Practice Area (Lead)**  
Finance, Competitiveness and Innovation

**Operation ID**  
P173233

**Operation Name**  
Indonesia 3rd Financial Sector ReformDPF ( P173233 )

<b>L/C/TF Number(s)</b> IBRD-92490,IBRD-94920	<b>Closing Date (Original)</b> 30-Jun-2024	<b>Total Financing (USD)</b> 1000000000.00
<b>Bank Approval Date</b> 28-Mar-2023	<b>Closing Date (Actual)</b> 30-Jun-2024	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	1,000,000,000.00	0.00
Revised Commitment	1,000,000,000.00	0.00
Actual	1,000,000,000.00	0.00

**Country**  
Indonesia

**Practice Area (Lead)**  
Finance, Competitiveness and Innovation

**Operation ID**  
P174025

**Operation Name**  
Indonesia Supplemental Fin. Sec. DPF ( P174025 )



L/C/TF Number(s)	Closing Date (Original)	Total Financing (USD)	
		0	
<b>Bank Approval Date</b> 15-May-2020	<b>Closing Date (Actual)</b>		
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>	
Original Commitment	0.00	0.00	
Revised Commitment	0.00	0.00	
Actual	0.00	0.00	

  

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## 2. Program Objectives and Pillars/Policy Areas

### a. Objectives

According to the Program Documents, the program development objective (PDO) of the Indonesia First, Second, and Third Financial Sector Reform Development Policy Financing was "to support financial sector reforms that will assist the Government of Indonesia in achieving a deep, efficient, and resilient financial sector."

This ICR Review will evaluate this three-operation programmatic series using the following objectives:

- Objective 1 - To increase the depth of the financial sector.
- Objective 2 - To improve the efficiency of the financial sector.
- Objective 3 - To strengthen the resilience of the financial sector.

### b. Pillars/Policy Areas

The program had three pillars.

**Increasing the Depth of the Financial Sector** aimed to expand the size of the financial sector by: (a) increasing financial access and inclusion (including among women); (b) broadening the range of financial market products; and (c) mobilizing long-term savings.

**Improving the Efficiency of the Financial Sector** aimed to lower the cost of financing for households and enterprises by: (a) strengthening the insolvency and creditor rights framework; (b) protecting consumers of



financial products and services; and (c) strengthening the payment systems, including competition among service providers.

**Strengthening the Resilience of the Financial Sector** aimed to strengthen the capacity of the financial sector to withstand financial and non-financial shocks by: (a) strengthening the bank resolution framework; (b) implementing sustainable finance practices; (c) establishing disaster risk finance mechanisms; and (d) advancing the effectiveness of financial sector oversight.

### c. Comments on Program Cost, Financing and Dates

**Program Cost and Financing.** The first operation was estimated at US\$300 million, the second at US\$400 million, and the third at US\$1 billion. These were financed by three loans matching the appraisal estimates, plus a supplemental loan of US\$300 million for the first operation, all from the International Bank for Reconstruction and Development (IBRD) to the Republic of Indonesia. The total IBRD financing of US\$2 billion was fully disbursed.

In addition, the French Development Agency (AFD) provided parallel financing of Euro (EUR) 100 million for the first operation and EUR 50 million for the second operation.

**Dates.** The first operation was approved on March 19, 2020, became effective on March 26, 2020, and closed on April 29, 2021. The second operation was approved on June 9, 2021, became effective on December 9, 2021, and closed on June 29, 2022. The third operation was approved on March 27, 2023, became effective on October 29, 2023, and closed on June 29, 2024.

## 3. Relevance of Design

### a. Relevance of Objectives

Indonesia's financial sector remained insufficient to meet development financing needs or to support inclusive economic growth.

**Binding Constraints.** The program objectives would help address challenges and deficiencies with three aspects of financial development.

- **Depth.** Indonesia's financial system remained underdeveloped compared with regional peers. Credit to the private sector was only 29.5 percent of GDP in 2022, far below the regional median of over 100 percent. Overall financial-sector assets stood at 71 percent of GDP in 2018, significantly lower than among the ASEAN peers. The system was bank-dominated (with banks holding assets equivalent to 55 percent of GDP), typically as parts of financial conglomerates in an industry marked by strong state presence, low concentration, and high fragmentation. Non-bank financial institutions were small and underdeveloped. Money markets, though more active than before, remained shallow and segmented. Capital markets did not provide sufficient long-term financing or a competitive alternative to bank lending. Key indicators lagged behind regional norms: equity market capitalization was 41 percent of GDP (regional median: 72 percent), private debt securities outstanding, 2.5 percent of GDP (regional median: 45 percent), and government securities market: 13 percent of GDP (regional median: 28



percent. These structural weaknesses were reflected in limited financial access; only 49 percent of adults held an account at a formal financial institution in 2017, leaving Indonesia with the world's fourth-largest unbanked population.

- **Efficiency.** The financial system was not only small but also costly. Bank credit intermediation remained expensive, with net interest margins (NIMs) averaging 4.6 percent in 2010-2015, far above the global average of 2.97 percent, reflecting structural inefficiencies. Most of the gap stemmed from small bank size, weak institutional capacity, and high operating costs. Customer and geographic segmentation also contributed to inefficiency, as private banks focused on Java, while state-owned and regional development banks dominated MSME lending, but at higher costs. Although state banks had expanded outreach, concerns persisted about their cost-efficiency and ability to innovate, suggesting that the system overall was not allocating resources optimally.
- **Resilience.** Climate and disaster risks posed major systemic threats to the economy and financial sector. As the world's 4th most populous country and 16th largest economy, Indonesia contributed about 3.5 percent of global greenhouse gas emissions in 2018-20, high in absolute terms relative to its peers. Between 1990 and 2021, the country experienced around 300 natural disasters, including 200 floods that affected 11 million people. These shocks can damage assets across households, businesses, and infrastructure; destabilize high-carbon sectors such as coal-based power generation; increase borrower defaults and strain bank capital; make insurance costlier or inaccessible; and exacerbate existing financial vulnerabilities like shallow capital markets and concentrated exposures. Greater financial sector resilience will also require a stronger oversight function and an improved resolution framework.

**Country Priorities.** The program objectives were fully aligned with the National Medium-Term Development Plan 2020-2024 (RPJMN), which aimed at “*an independent, advanced, just, and prosperous society.*” The RPJMN prioritizes sustainable and high-quality economic growth, stronger governance and legal certainty, and enhanced environmental protection, climate action, and disaster management. Strengthening the depth, efficiency, and resilience of the financial sector directly supports these national priorities. Beyond the RPJMN, the program objectives were also consistent with government strategies across the three policy areas of this series: (a) financial depth – the *National Strategy for Financial Market Deepening 2018–2024*, which sets out a comprehensive roadmap to develop seven key financial markets; (b) financial efficiency – the *Bali Fintech Agenda (2018)* and the *Indonesia Payment System Vision 2025*, both of which provide strategic blueprints for modernizing and reforming the payment systems; and (c) financial resilience – the *Law on Prevention and Resolution of Financial System Crises (PPKSK Law) of 2016* and the *National Disaster Risk Financing and Insurance Strategy (2018)*, which establish the institutional and policy mechanisms for managing financial-sector risks and responding to crises.

**World Bank Group Strategy.** The program objectives were fully aligned with the *Country Partnership Framework for the Republic of Indonesia for the Period FY21-FY25* (CPF). The series directly supported the first CPF engagement area, Strengthening Economic Competitiveness and Resilience, which itself listed the series PDO as one of its own objectives – “to increase the depth, efficiency, and resilience of the financial sector.”

The program objectives were also consistent with three World Bank strategic frameworks: Maximizing Finance for Development (MFD), Green, Resilient, and Inclusive Development (GRID), and the Global Crisis Response Framework (GCRF). Program actions addressing barriers to capital market development supported the MFD goal of leveraging private sector investment to achieve development objectives. Initiatives promoting sustainable finance and disaster risk financing reflected GRID principles by embedding green, resilient, and inclusive outcomes into development programs and country investments. Efforts to strengthen



financial sector resilience aligned with the GCRF strategy for proactive crisis engagement, equipping the financial system with tools and resources to manage compound risks and safeguard financial stability before crises escalate.

**b. Relevance of Prior Actions**

**Rationale**

DPO1	DPO2	DPO3
<b>Objective 1 - To increase the depth of the financial sector</b>		
<b>PA1</b> (DPL1 PA1). BI and OJK have adopted a joint policy framework on agent networks to support the implementation of agent network programs (namely Laku Pandai and LKD).	<b>PA2</b> (DPL2 PA1). To strengthen the coordination of financial inclusion activities and increase outreach to women and youth, the Borrower has (a) established the Financial Inclusion Council and (b) mandated a sex disaggregated financial inclusion data system under the National Financial Inclusion Strategy, as evidenced by Presidential Regulation No. 114/2020.	<b>PA3</b> (DPL3 PA1). To support the expansion of financial sector technology and innovation, the Borrower has mandated BI and OJK to oversee and regulate financial technology providers based on specific best practice principles, as evidenced by Chapter XVI of the FSOL.
<b>PA4</b> (DPL1 PA2). OJK has established standard reporting and improved monitoring of issuances of debt securities in the private placement market, as evidenced by Regulation No. 30/POJK.04/2019.	<b>PA5</b> (DPL2 PA2). To minimize tax discrepancies among investors, the MOF has reduced withholding taxes on debt securities held by non-resident entities, as evidenced by Government Regulation No. 9/2021.	<b>PA6</b> (DPL3 PA2). To increase certainty of financial derivative transactions and reduce related risks, the Borrower has enabled close-out netting of financial derivative transactions and inter-market operation of financial market infrastructure, as evidenced by Chapter V of the FSOL.
<b>PA7</b> (DPL1 PA3). OJK has expanded the number of long-term instruments to be eligible for investments by pension funds and insurance companies, as evidenced by OJK Regulations Nos. 27/POJK.05/2018, 28/POJK.05/2018 and 29/POJK.05/2018.	<b>PA8</b> (DPL2 PA3). To encourage appropriate long-term investments by pension funds and insurance companies, OJK has (a) amended the risk management framework for nonbank financial institutions; and (b) introduced default age-relevant investment for pension funds administering defined contribution programs, as evidenced by OJK Regulation No. 44/POJK.05/2020 and OJK Regulation No. 60/POJK.05/2020.	<b>PA9</b> (DPL3 PA3). To preserve more savings in the pension system and promote long-term investment, the Borrower has established new eligibility rules for early withdrawals of old age savings accounts, increased the age that is eligible for early withdrawal of the retirement account, and provided managers of state-finance related pension funds with protection against prosecution for investment decisions



		undertaken in good faith, as evidenced by Chapter XII of the FSOL.
<b>Objective 2 - To improve the efficiency of the financial sector</b>		
<b>PA10</b> (DPL1 PA4). MOLHR has enhanced supervision of insolvency practitioners as evidenced by MOLHR Regulation No. 37/2018 and Decree No. M.HH-03.AH.06.06/2019.	<b>PA11</b> (DPL2 PA4). To reduce the costs and encourage the successful restructuring of distressed firms, MOLHR has amended the remuneration system for insolvency practitioners, as evidenced by MOLHR Regulation No. 18/2021.	<b>PA12</b> (DPL3 PA4). To enhance creditor rights and foster the development of payment systems, the Borrower has introduced changes in the bankruptcy procedures of payment service providers and payment system infrastructure providers, as evidenced by Chapter III of the FSOL.
<b>PA13</b> (DPL1 PA5). KOMINFO has introduced a new legal framework on general data protection and privacy through the submission of the draft law on the Protection of Personal Data to the Parliament, as confirmed by Nota Dinas No. ND-1/KF/2020 from the Fiscal Policy Agency, Ministry of Finance.	<b>PA14</b> (DPL2 PA5). To promote a more effective consumer protection regime, (a) BI has established the legal basis for market conduct supervision of financial services, as evidenced by BI Regulation No.22/20/PBI/2020 on consumer protection, and (b) OJK has introduced market conduct supervision for financial institutions, as evidenced by the issuance of the OJK Financial Service Advertising Guideline, third revision.	<b>PA15</b> (DPL3 PA5). To protect consumers in the financial sector, the Borrower has strengthened the power of financial sector authorities to enforce the market conduct supervision, as evidenced by Chapter XVIII of the FSOL.
<b>PA16</b> (DPL1 PA6). In order to advance interoperability of digital payment instruments, BI has issued QR Indonesia Standard (QRIS) for adoption by financial service providers, as evidenced by BI Regulation No. 21/18/PADG/2019.	<b>PA17</b> (DPL2 PA6). To facilitate innovation in payment services, BI has adopted an activity-based, risk-based, and principle-based approach in the regulation of payment systems, as evidenced through the issuance of BI Regulation No. 22/23/PBI/2020.	<b>PA18</b> (DPL3 PA6). To promote innovation and competition in the payment industry, the Borrower, through BI, has: (i) implemented a risk-based and activity-based approach in licensing and overseeing payment service providers, as evidenced by PADG 24/7/PADG/2022; and (ii) issued mandatory national standards of Open Application Programming Interface (SNAP) for payments, as evidenced by PADG No. 23/15/PADG/2021.
<b>Objective 3 - To strengthen the resilience of the financial sector</b>		
<b>PA19</b> (DPL1 PA7). LPS has enhanced the timeliness and accuracy of its insured deposit payout function through the	<b>PA20</b> (DPL2 PA7). To strengthen the mechanisms for dealing with troubled banks, (a) the Borrower has expanded the mandate of LPS	<b>PA21</b> (DPL3 PA7). To strengthen LPS' function in maintaining the financial system stability: (i) the Borrower has upgraded LPS's role



<p>development of the single customer view (SCV) based data reporting by member banks, as evidenced through the issuance of LPS Regulation No. 5/2019.</p>	<p>as a resolution authority and its collaboration with OJK, as evidenced by Law No 2/2020 and its implementing regulations Government Regulation No. 33/2020; and LPS Regulation No. 3/2020; and (b) LPS has established the regulatory framework for resolution planning and resolvability assessments for dealing with potential bank failures, as evidenced by LPS Regulation No. 1/2021.</p>	<p>in the KSSK, enhanced LPS powers over banks put under resolution and expanded LPS's access to bank depositors' data, as evidenced by Chapter III of the FSOL; and (ii) LPS has adjusted its operational structure to implement the crisis situation bank restructuring program, as evidenced by LPS BoC Regulation No. 10/2022.</p>
<p><b>PA22</b> (DPL1 PA8). OJK has strengthened the institutional capacity of banks and supervisors in implementing OJK Regulation No. 51/POJK.03/2017 on sustainable finance practices by issuing internal guidelines for banking supervisors.</p>	<p><b>PA23</b> (DPL2 PA8). To ensure compliance with the policy on sustainable finance under OJK Regulation No. 51/POJK.03/2017, OJK has monitored the implementation of sustainable finance principles by major banks (BUKU III and IV) as evidenced by OJK monitoring assessment on banks' sustainability reports.</p>	<p><b>PA24</b> (DPL3 PA8). To mobilize green finance, the Borrower, through OJK, has issued a green taxonomy (Edition 1.0 - 2022) based on international best practices to provide a framework for investors and lenders in green finance, as evidenced by OJK statement letter No. S-3/MS.41/2023 dated January 24, 2023.</p>
		<p><b>PA25</b> (DPL3 PA9). To support financial flows towards climate mitigation and adaptation, the Borrower has established a legal basis (i) to incorporate sustainable finance into financial regulation and supervision, as evidenced by Chapter XVII of the FSOL, and (ii) to support carbon market development by enabling carbon trading activities via carbon exchange, as evidenced by Chapter V of the FSOL.</p>
<p><b>PA26</b> (DPL1 PA9). The Borrower has taken steps to establish the legal framework for a disaster mitigation pooling fund by including it in the 2020 Budget Law, as evidenced by Article 45, Law of the Republic of Indonesia No. 20 of 2019 regarding the State Budget Fiscal Year 2020.</p>		<p><b>PA27</b> (DPL3 PA10). To improve fiscal resilience to disasters, the Borrower has established the Disaster Pooling Fund (PFB) and designated an agency in charge of its operationalization, as evidenced by PerPres No. 75/2021 and MOF Decree No. 407/KMK.010/2021.</p>



	<p><b>PA28</b> (DPL2 PA9). To ensure a more effective and risk-based use of supervisory resources, OJK has narrowed the definition of financial conglomerates, as evidenced by OJK Regulation No. 45/POJK.03/2020 regarding financial conglomeration.</p>	<p><b>PA29</b> (DPL3 PA11). To enhance the financial supervisors' independence, the Borrower has strengthened legal protection for LPS and OJK authorities who carry out their official duties in good faith and in accordance with laws, as evidenced by Chapters III and IV of the FSOL</p>
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**Objective 1 - To increase the depth of the financial sector.**

**Reform Area 1: Expanding Financial Access and Inclusion.** Indonesia faced major barriers to financial access, with an estimated 95-98 million adults still unbanked. Expanding inclusion required addressing structural and regulatory weaknesses, including the fragmentation of agent networks across banking and e-money schemes, which created inconsistent incentives, coordination problems, and regulatory overlap. Digital G2P transfers also remained constrained: although the government ran 89 social assistance programs that predominantly benefitted women, most non-cash payments flowed through state-owned banks using combo cards, limiting user choice and convenience. At the same time, fintech and digital financial services offered significant potential to widen access, reduce geographic disparities, and promote women's economic empowerment, provided the risks of over-indebtedness, predatory lending, and cybersecurity vulnerabilities could be mitigated, and regulatory arbitrage between the central bank and the financial regulator was effectively managed.

- **PA1:** The central bank, Bank Indonesia (BI), and the financial regulator, Financial Services Authority (OJK), adopted a joint policy framework to harmonize the operations of Indonesia's branchless banking initiatives aimed at expanding financial services to underserved communities. These initiatives include the OJK-regulated bank-agent model, *Laku Pandai*, which provides core banking services through community agents without physical branches, and the BI-regulated digital payments/e-money service, *Layanan Keuangan Digital* (LKD), which delivers banking and payment services via digital platforms (e.g., mobile apps, e-money) operated by third-party agents. Recent analyses highlighted major shortcomings in both programs, such as inadequate incentives and inter-institutional coordination, which have led to regulatory inconsistencies, suboptimal agent performance, and confusion among financial service providers, agents, and consumers (Salyanty et al., 2018, *Aligning Regulations to Enhance Digital Financial Inclusion in Indonesia*, MicroSave Policy Brief No. 22). Additionally, the government continued to digitize government-to-person (G2P) social assistance payments and expand distribution channels beyond state-owned banks to improve payment efficiency, transparency, and financial inclusion. The skills-training and aid program Kartu Prakerja implemented a multi-channel G2P model in 2020. The relevance of PA1 is rated **Satisfactory**.
- **PA2:** To strengthen coordination of financial inclusion activities and expand outreach to women and youth, the government established the Financial Inclusion Council and mandated a gender-disaggregated financial inclusion data system to implement the National Financial Inclusion Strategy (NFIS), adopted under Presidential Regulation No. 114/2020. The NFIS targeted 90 percent financial inclusion by 2024. The Financial Inclusion Council was tasked to: (a) coordinate and synchronize NFIS implementation across ministries, regulators, agencies, and regional governments; (b) provide strategic direction and policy recommendations to address implementation challenges; (c) monitor



and evaluate progress, performance, and barriers; and (d) support ministries and agencies in integrating NFIS targets into sectoral strategic plans. Meanwhile, the gender-disaggregated data system would collect and share information on differences in financial account usage and credit access, enabling evidence-based policymaking and targeted interventions to close gender gaps. Expected impacts of these prior actions include stronger coordination and legal backing for financial inclusion reforms, and data-driven strategies to address gender disparities in financial services, helping improve women's access to and usage of financial services (World Bank, 2018, *Developing and Operationalizing a National Financial Inclusion Strategy*). The relevance of PA2 is rated **Satisfactory**.

- **PA3:** The government directed BI and the OJK to regulate and oversee financial technology providers under the provisions of the new Financial Sector Omnibus Law (FSOL). Enacted as Law No. 4 of 2023, the FSOL consolidated 17 pre-existing financial sector laws into a single omnibus framework comprising 27 chapters and 341 articles. It advanced reforms and strengthened regulations across banking, capital markets, insurance, fintech (including the digital rupiah), and oversight by financial authorities. On fintech, Chapter XVI (Technological Innovations in the Financial Sector) of the FSOL formalized innovations in payment systems, securities settlement, crowdfunding, robo-advisory, credit scoring, fintech platforms, crypto assets, digital banking, and insurtech into a supervised framework. These provisions clarified roles between BI and OJK, expanded digital currency capabilities, and reinforced governance and consumer protection. The FSOL and its implementing regulations aimed to foster innovation, encourage growth, balance regulation between fintech and traditional providers, prevent regulatory arbitrage between BI and OJK, promote fair and healthy competition, and, importantly, advance financial inclusion in the manner recommended by recent analyses (World Bank, 2021, *Indonesia Fintech for Financial Inclusion - Deep Dive Study*). The relevance of PA3 is rated **Satisfactory**.

**Reform Area 2: Broadening Financial Market Products.** Capital markets were fragmented, limiting long-term financing for infrastructure and other strategic sectors. While equities and government bonds drew strong investor interest, corporate bonds and structured products remained poorly developed. Regulatory gaps, such as the lack of recognition for private placements and qualified-investor issuances, hindered innovation. Tax inconsistencies across instruments and investor types further reduced liquidity; for instance, Komodo bonds faced double taxation, raising issuance costs by about 20 percent. The absence of liquid derivatives markets (foreign exchange and interest-rate derivatives) discouraged foreign investors from holding long-term local-currency assets. High foreign ownership of government bonds (24.5 percent in January 2021) increased vulnerability to external shocks, while weak foreign demand for corporate debt constrained private capital flows into infrastructure.

- **PA4:** Indonesia's first formal regulation of private placement debt, OJK Regulation No. 30/POJK.04/2019, standardized issuance protocols, investor qualifications, documentation, custodial systems, monitoring agents, and disclosure guidelines for the private placement of debt securities to professional investors. The *Technical Note on Long-Term Finance and Capital Markets Development* (World Bank, 2023), part of the Indonesia FSAP in 2017, highlighted the need to improve the primary issuance framework for corporate bonds, as primary market corporate debt sales had so far relied on public offerings, which were feasible only for large or well-known companies. Private placements were rarely conducted because they were not recognized by the capital market authority, and there were no tiered schemes targeted at sophisticated investors that could have facilitated issuances by mid- and small-sized companies. By introducing a recognized private placement system for bond issuance, including sukuk, medium-term notes (MTNs), sharia MTNs,



standalone bonds, and perpetual notes, this prior action complemented the established public offering regime, enabling cost-effective issuance without cumbersome public offering processes. The relevance of PA4 is rated **Satisfactory**.

- **PA5:** Issued under the *Cipta Kerja Omnibus Law*, Government Regulation No. 9/2021 harmonized tax rates across instruments and investors. The regulation reduced the withholding tax on bond interest paid to non-residents from 20 percent to 10 percent (or the applicable tax treaty rate), applying the rate to interest, premiums, discounts, and similar compensation. It also exempted dividends received by domestic individual taxpayers who reinvested them in Indonesia within a specified timeframe, and by domestic corporate taxpayers, eliminating withholding tax on such dividends at the company level. The *Technical Note on Long-Term Finance and Capital Markets Development* highlighted the limited demand for long-term corporate debt (especially that issued by non-SOEs), as the framework for financial instruments distorted investor allocations and proved ineffective in attracting investment. The study recommended an overhaul of the tax framework to enhance harmonization of tax rates across instruments and investors. The benefits of tax harmonization were anticipated to be net positive in the medium to long term through reduced yields, increased bond issuance, greater foreign participation, and healthier market dynamics. For example, lowering the withholding tax would remove a key binding constraint to the development of the local-currency offshore corporate bond market (the Komodo market), as it would eliminate current effective double taxation. The relevance of PA5 is rated **Satisfactory**.
- **PA6:** To enable the development of a derivatives market, the government permitted close-out netting of financial derivative transactions and the inter-market operation of financial market infrastructure (FMI). The *Technical Note on Long-Term Finance and Capital Markets Development* emphasized the critical need to develop a derivatives market to hedge against interest rate and foreign exchange fluctuations, better manage duration and currency mismatches, and mobilize long-term finance. Additionally, the *National Strategy for Financial Market Development 2018–2024* (Ministry of Finance (MOF), BI, and OJK, 2018) asserted that a close-out netting mechanism would improve efficiency in derivatives transactions. Under this prior action, Chapter V (Capital Market, Money Market, and Foreign Exchange Market) of the FSOL: (a) introduced the enforceability of netting agreements, ensuring that derivative transactions and related collateral arrangements could be terminated and netted even in insolvency or bankruptcy proceedings – simplifying settlement, reducing collateral requirements, and mitigating contagion risk, while aligning Indonesian capital markets law with international standards for systemic risk reduction; and (b) empowered BI and OJK to regulate and supervise interoperability among FMIs (clearinghouses, central securities depositories, and payment systems) across money, capital, and derivative markets – establishing a framework for cross-market settlement and risk management. The expected benefits include increased investor ability to hedge foreign exchange and interest rate risks through derivatives; deeper and more liquid domestic debt markets; a larger volume of Indonesian Rupiah (IDR)-denominated private debt securities; and broader issuer and investor bases (including foreign investors). The relevance of PA6 is rated **Satisfactory**.

**Reform Area 3: Mobilizing Long-Term Savings.** Pension funds and insurance companies played a much smaller role in supporting social welfare and economic growth than they could have. Pension funds were especially undersized, at only 1.9 per cent of GDP in 2021, far below averages in non-OECD and OECD countries. Insurance penetration was also low. Both sectors invested conservatively, holding 27-30 percent of assets in cash and deposits due to a cautious regulatory environment and fears of liability for investment losses. Institutions emphasized short-term performance, limiting investment in equities and other long-term



assets. In addition, the mandatory pension system lacked incentives for long-term savings; there were no tax benefits or early withdrawal penalties, enabling frequent withdrawals that slowed retirement savings accumulation.

- **PA7:** Three reform measures aimed to facilitate more long-term investment by pension funds and insurance companies, both conventional and Islamic finance focused. OJK Regulation 27/POJK.05/2018 authorized regional bonds and infrastructure investment collective contracts as eligible assets for pension funds and insurance/reinsurance companies, broadening investment options while maintaining sector stability through clear boundaries and stringent asset quality standards. OJK Regulation 28/POJK.05/2018 regulated insurance and reinsurance companies' investment in infrastructure financing through debt securities and/or sukuk, channeling long-term funds into infrastructure projects to deepen domestic capital markets and support sustainable growth, while safeguarding policyholder interests. OJK Regulation 29/POJK.05/2018 governed insurance and reinsurance companies' investment in infrastructure financing through equity participation, enabling insurers to support infrastructure development not only through bonds or sukuk but also via direct equity stakes. The new regulations aligned with recommendations from the *Technical Note on Long-Term Finance and Capital Markets Development* to address barriers that confined pension investments to short-term products, and with the *Indonesia Infrastructure Sector Assessment Program (World Bank, 2018)* to leverage private sector solutions for infrastructure in four sectors: energy, transport, water supply, and urban development. Expanding long-term investment options for institutional investors would help mobilize long-term savings, promote more appropriate investment by pension and social security funds, and reduce asset-liability mismatches. The relevance of PA7 is rated **Satisfactory**.
- **PA8:** The government aimed to enhance risk management and corporate governance at non-bank financial institutions and insurers through two measures. Focusing on risk management, OJK Regulation 44/POJK.05/2020 required non-bank financial institutions (NBFIs), including insurance and reinsurance companies, pension funds, finance companies, brokers, and appraisers to apply a comprehensive risk management framework that mitigated systemic and operational risks, with the establishment of risk management committee, organization of independent risk management units, identification, measurement, and control of risks, and the institution of internal control systems. Focusing on corporate governance, OJK Regulation No. 60/POJK.05/2020 required the insurance industry to implement stronger corporate governance standards and sound management practices through the adoption of Good Corporate Governance (GCG) principles, definition of the roles of corporate boards and Sharia supervisory boards, adoption of fit-and-proper tests for management, and protection of consumer rights. Enhancements in risk management – including the integration of long-term funding risks in defined benefit pension funds and the introduction of age-based default investment options for defined contribution plans – were expected to encourage greater long-term investment. The relevance of PA7 is rated **Moderately Satisfactory**.
- **PA9:** To preserve savings in the retirement system, Chapter XII (Pension Fund, Elderly Security Program, and Pension Program) of the FSOL introduced:(a) new rules for old-age savings accounts, with controlled withdrawal options; (b) a common retirement age, to reduce early withdrawals; and (c) legal protections for state pension fund managers making good-faith investment decisions, to encourage less conservative strategies and promote long-term investment. The measures addressed findings that early withdrawals by participants and conservative investment approaches by managers led to suboptimal portfolio allocations of pension and social security funds (according to the *Technical Note on Long-Term Finance and Capital Markets Development*); concerns by state pension fund



managers over potential prosecution for loss-making decisions resulted in overly cautious investment strategies (according to a *World Bank Review of the Law on Pension No. 11/1992*); and the lack of unemployment benefit schemes and absence of penalties permitted early withdrawal of old-age savings (according to the *Indonesia Infrastructure Sector Assessment Program*). Strengthening policies that incentivized contributions and discourage early withdrawals from pension and old-age savings accounts would expand the pool of long-term savings in the pension and insurance industries, enhancing their capacity to finance long-term investments in support of economic growth. The relevance of PA9 is rated **Satisfactory**.

## Objective 2 - To improve the efficiency of the financial sector

**Reform Area 4: Strengthening Insolvency and Creditor Rights Frameworks.** The bankruptcy framework, though broadly aligned with international standards, faced persistent operational weaknesses that undermined its effectiveness. Enforcement was weak, and abuse of creditor rights, especially those of foreign creditors, was common. Insolvency practitioners were only loosely regulated and poorly supervised, contributing to inefficiency and high system costs. The insolvency process itself was complex and expensive, with total costs reaching about 22 percent of the debtor's estate, among the highest in the region, discouraging SMEs from seeking formal restructuring. Nearly half of these costs consisted of practitioner fees, highlighting structural inefficiencies. The system's incentives favored liquidation instead of reorganization, often resulting in economically suboptimal outcomes. Courts also frequently granted bankruptcy protection to debtors who do not merit it, reducing creditor confidence and willingness to support restructuring efforts.

- **PA10 (DPL1 PA4).** To strengthen the insolvency framework, the government enhanced the supervision of insolvency practitioners (receivers in bankruptcy cases and administrators in suspension-of-payment proceedings) through two key measures. Ministry of Law and Human Rights (MOLHR) Regulation No. 37/2018 introduced a modern, digital framework for registering and monitoring insolvency professionals, enforcing accountability, and enhancing creditor participation and transparency in the insolvency system. Practitioners must electronically submit an appointment report, quarterly activity reports, and a final report upon case closure to the Directorate General of Public Law Administration, which also managed registrations and annual renewals. MOLHR Decree No. M.HH-03.AH.06.06/2019 defined the structure and operations of a Joint Committee (comprising the MOLHR, Supreme Court, and professional associations) to oversee the activities and conduct of insolvency practitioners. The prior actions addressed findings that insolvency practitioners were lightly regulated and vulnerable to potential abuses (*World Bank, 2016, Improvement of the Investment Climate of Indonesia: Report on Insolvency and Debt Resolution*). A rise in insolvency cases and greater affordability and transparency of insolvency proceedings were expected from these measures. The relevance of PA10 is rated **Moderately Satisfactory**.
- **PA11:** To strengthen the insolvency framework and following the enhanced supervision of insolvency practitioners, the government rationalized the remuneration system for insolvency practitioners (curators appointed in bankruptcy cases and administrators appointed in suspension-of-payment proceedings) through a new regulation. MOLHR Regulation No. 18/2021, which amended MOLHR Regulation 11/2016, restructured the remuneration framework by standardizing and capping fees, lowering restructuring rates, and basing liquidation fees on estate value rather than payable debts. The previous system was considered excessive and did not promote successful reorganizations, as remuneration was calculated as a percentage of either the amount of debt restructured or the proceeds from liquidation, without any cap (*World Bank, 2016, Improvement of the Investment*



*Climate of Indonesia: Report on Insolvency and Debt Resolution*). The new regulation aimed to ensure fair and transparent handling of professional fees and reinforce the integrity and efficiency of the insolvency regime. The relevance of PA11 is rated **Moderately Satisfactory**.

- **PA12:** To enhance the creditor rights framework, especially in bankruptcy procedures against payment service and payment system infrastructure providers, the government introduced changes to the bankruptcy law. Chapter III (Institutional) of the FSOL: (a) required e-money issuers to separate customer funds from their own assets and place them in designated accounts – the segregated funds would be excluded from the bankruptcy estate (if the issuer becomes insolvent) and customers, creditors, and depositors would be entitled to early repayment from these funds; (b) recognized close-out netting arrangements in qualified financial contracts as legally enforceable in insolvency situations – netted positions would be excluded from the bankruptcy estate to reduce systemic risk; and (c) required BI approval before any bankruptcy or suspension-of-payment petition could be filed against BI-supervised entities – the BI would have special powers to monitor and supervise the insolvency of supervised entities, specifically in the event of insolvency of payment service providers or payment system infrastructure providers. The relevance of PA12 is rated **Satisfactory**.

**Reform Area 5: Protecting Consumers.** Consumer protection remained weak across several dimensions. Financial literacy was low, with only 29 percent of the population able to make informed financial decisions. Regulatory focus continued to favor prudential supervision over market-conduct oversight. The rapid rise of digital financial services and fintech exposed consumers (especially vulnerable groups and women) to heightened risks such as over-indebtedness, predatory lending, and cybersecurity threats. Gender-responsive consumer protection was limited due to the absence of gender-disaggregated data and targeted policies. Indonesia also lacked a comprehensive legal framework for personal-data protection and privacy. Overlapping mandates between BI for payment services and OJK for other financial services created regulatory arbitrage risks. Finally, supervisory approaches did not sufficiently apply proportionality principles, weakening tailored protections for different types of financial institutions and consumers.

- **PA13:** A new legal framework on general data protection and privacy aimed to protect consumers of financial services. The draft Law on Protection of Personal Data (confirmed by Nota Dinas No. ND-61/KF/2020 from the Fiscal Policy Agency of the MOF): (a) established personal data protection as a constitutional right, applicable to all individuals and entities; (b) upheld consumer rights to data access, correction, and deletion; (c) regulated data collection, usage, storage, and sharing; and (d) provided for the establishment of a new independent authority and the appointment of Data Protection Officers to enforce the law. Developed in response to findings of a weak consumer protection regulatory regime for innovative products (World Bank, 2018, *Diagnostic Review on Consumer Protection and Financial Literacy*), the draft legislation drew on best practices from the OECD Privacy Framework and the EU General Data Protection Regulation (GDPR), and aligned with recommendations to enshrine core data protection principles in law (World Bank, 2019, *Assessment of Indonesia's Bill on the Protection of Personal Data*). The relevance of PA13 is rated **Satisfactory**.
- **PA14:** BI and OJK would employ market conduct supervision to implement data protection and privacy laws. BI Regulation No. 22/20/PBI/2020: (a) established a risk-based licensing and supervision system for payment service providers (e-money issuers and payment gateways) and payment system infrastructure providers (clearing and settlement operators); (b) mandated strong governance, cybersecurity, and operational risk controls; (c) vested BI with authority to monitor, audit, and impose sanctions; and importantly (d) ensured transparency in fees and dispute resolution



mechanisms, and protected customer funds in case of insolvency through segregated accounts. Separately, the OJK Financial Service Advertising Guideline set detailed rules for marketing financial products and services to protect consumers: (a) advertisements must be accurate, honest, clear, and not misleading; (b) claims using superlatives must include credible, documented sources; (c) performance data (past or projected) must be accompanied by source citations and disclaimers; and (d) research statistics must come from independent, reliable sources and include full details. The guidelines empowered OJK to monitor advertisements, require corrections or removals, and safeguard consumers against deceptive marketing practices. The relevance of PA14 is rated **Moderately Satisfactory**.

- **PA15:** The government strengthened the authority of financial sector regulators to enforce market conduct supervision. Previously, BI and the OJK faced constraints in implementing consumer protection laws because their prudential and consumer protection mandates were not clearly delineated, and complaint resolution processes were poorly structured (World Bank, 2014, *Diagnostic Review of Consumer Protection and Financial Literacy*). Both institutions needed to develop a stronger supervisory framework for consumer protection and market conduct (World Bank, 2019, *Analysis of Relevant Data, Current Organizational Structure, and Risks Related to Consumer Protection and Market Conduct for OJK and BI*). Under this prior action, Chapter XVIII (Financial Literacy, Financial Inclusion, and Consumer Protection) of the FSOL: (a) broadened market conduct oversight, making it a formal supervisory objective alongside prudential regulation; (b) empowered OJK (with support from BI, the Indonesia Deposit Insurance Corporation (LPS), and MOF) to monitor and regulate the conduct of financial service providers, including directors, employees, and third-party partners, to protect consumers; and (c) mandated coordinated efforts among authorities to promote financial literacy and enforce market conduct standards. These provisions significantly enhanced OJK's authority to oversee fair market behavior, including by imposing corrective actions or sanctions against misconduct. The relevance of PA15 is rated **Satisfactory**.

**Reform Area 6: Strengthening Payment Systems.** Digital payments had grown since the early 2000s, but the ecosystem remained underutilized. Although 35-37 percent of adults used digital payments in 2017-21, about 30 percent of accounts remained inactive, indicating limited usage. High mobile-phone ownership (77 percent of adults) offered potential to reach the 62 million unbanked, but only 51 percent had internet access, reflecting infrastructure gaps that constrain adoption. Retail payment instruments such as ATMs and POS devices suffered from limited interoperability, reducing efficiency and user convenience. Historically, regulatory distinctions between chip-based and server-based technologies created a fragmented system that hindered interoperability and innovation. In addition, APIs were not standardized and remained mostly bilateral, making data sharing inefficient and limiting competition.

- **PA16:** To advance the interoperability of digital payment instruments, BI standardized Quick Response (QR) codes for mobile payments, where transactions are performed by scanning a QR code from a mobile app. Through BI Regulation No. 21/18/PADG/2019, BI introduced the QR Indonesia Standard (QRIS) for common adoption by financial service providers. The use of a standard QR code across multiple providers would reduce costs for providers and improve convenience for merchants and customers. The next steps would include API standardization to allow banks and fintechs to develop new products and integrate services; the development of a payment systems blueprint; and the introduction of faster payment infrastructure. The expected results include: a wider range of retail payment instruments; increased digital payment usage; greater competition among service and infrastructure providers; lower costs; and more customer-centric services. The relevance



of PA16 is rated **Satisfactory**.

- **PA17:** To facilitate innovation in payment services, BI shifted from a technology-based to a risk-based and activity-based paradigm to regulate payment systems (covering a wide range of services, from fund transfers and e-money to payment gateways and credit cards). BI Regulation No.22/23/PBI/2020: (a) adopted a risk-based approach to regulate payment systems; (b) aligned the regulatory regime to the BI 2025 Payments System Blueprint; (c) set licensing standards and minimum capital requirements for payment system infrastructure providers, with additional stipulations on governance, local board presence, and foreign ownership; (d) encouraged digital innovation through mechanisms like regulatory sandboxes; and (e) mandated strict standards for data management, consumer protection, and orderly provider exits. The regulation was informed by an assessment of the National Payment Gateway (NPG) – which connects various payment channels (ATM/debit cards, e-money, and online payment systems) through standardized switching – and its capacity to support the development of the digital economy (*World Bank, 2020, The NPG and the Digital Economy*), as well as a study on the regulatory framework governing payment systems (*World Bank, 2021, Assessment of the Indonesia Legal and Regulatory Framework for Payments*). The relevance of PA17 is rated **Moderately Satisfactory**.
- **PA18:** To foster competition in the payment industry, BI adopted a risk-based and activity-based approach for licensing and supervising payment service providers and introduced mandatory national standards for Open Application Programming Interfaces in Payments (SNAP). PADG 24/7/PADG/2022 shifted regulation from an entity-based model to one focused on the nature and risk profile of activities, ensuring proportional oversight while encouraging market entry and innovation. PADG No. 23/15/PADG/2021 promoted competition by creating a level playing field between bank and non-bank payment service providers through Open API standardization (covering data, technical, security, and governance aspects) and standard partnership contracts. These measures would lower entry barriers, foster innovation, and promote efficient market outcomes. The expected impacts included: increased cooperation between banks and fintechs, enabling new business models and scaling financial access; a broader range of payment instruments and services; greater competition; and higher digital payment usage. The regulations were informed by studies analyzing the institutional foundations, operational objectives, instruments, and organizational building blocks of an effective oversight function (*Bossone and Cirasino, 2001, The Oversight of the Payment Systems: A Framework for the Development and Governance of Payment Systems in Emerging Economies*); exploring the interaction between digital transformation and regulation of financial services (*World Bank, 2022, Fintech and the Future of Finance*); and offering recommendations on incentives to induce competition (*World Bank, 2022, Study on Banking Competition in Indonesia*). The relevance of PA18 is rated **Moderately Satisfactory**.

### Objective 3 - To strengthen the resilience of the financial sector

**Reform Area 7: Strengthening the Resolution Framework.** The bank-resolution framework fell short of international best practice. Although the LPS acted as both deposit insurer and resolution authority, it lacked the broad powers expected under global standards such as the Financial Stability Board's *Key Attributes of Effective Resolution Regimes*. The 2017 FSAP highlighted major gaps: LPS had limited resolution tools, mainly liquidation and open-bank assistance; decision-making processes were unclear, and information-sharing remained slow and fragmented; the system lacked clear triggers for early intervention and resolution; banks (including systemically important ones) conducted minimal resolution planning, and



resolvability assessments were rare; and the resolution toolkit was narrow, missing essential mechanisms like bridge banks and purchase-and-assumption arrangements. These weaknesses hindered Indonesia's ability to resolve failing banks without systemic disruption or reliance on public funds.

- **PA19:** The government focused on strengthening the institutional readiness of the LPS to rapidly carry out its deposit-insurance mandate, recognizing the critical role of timely and accurate information in the process. LPS Regulation No. 5/2019 established the framework for deposit insurance data reporting by commercial banks, requiring them to submit Single Customer View (SCV)-based depositor data that enables the LPS to process payouts quickly and accurately in the event of a bank failure. Under this regulation, all commercial banks participating in the deposit-insurance scheme must regularly provide depositor data (including raw data, detailed SCV per customer, and summary SCV per bank) in standardized formats. This would allow the LPS immediately identify eligible depositors, insured amounts, and payout amounts, thereby expediting the reimbursement process and reinforcing public confidence in the financial safety net. The relevance of PA19 is rated **Moderately Satisfactory**.
- **PA20:** Three regulatory issuances directly addressed gaps in the legal framework governing the LPS as the deposit insurer and the bank resolution authority. As the implementing regulation of Law No. 2/2020 (which converted the extraordinary fiscal and financial sector measures taken during the COVID-19 crisis into permanent law), Government Regulation (PP) No. 33/2020 set out how LPS may exercise its expanded powers to address financial-system stability problems arising from threats to national economic and financial stability. The regulation (a) granted LPS additional authority to intervene early when risks to financial-system stability emerged, rather than waiting until a bank had failed; (b) enabled LPS to prepare and intensify bank-resolution measures, including conducting pre-resolution preparations, escalating monitoring and solvency assessments, and taking steps to address emerging solvency issues; (c) authorized LPS to place funds in banks as part of its enhanced solvency-risk-mitigation toolkit; (d) broadened the criteria LPS would consider when determining whether to rescue or not rescue a failing bank; and (e) strengthened LPS's capacity to meet liquidity needs during resolution actions. LPS Regulation No. 3/2020 set out the operational rules for implementing Government Regulation No. 33/2020. It (a) detailed the procedures for early intervention, bank-resolution preparation, and the placement of LPS funds in banks; (b) established the criteria and procedures for determining bank-handling strategies; (c) formalized joint LPS-OJK examinations to assess bank conditions that may require intervention or resolution; and (d) defined the procedures for intensified solvency-risk preparation. LPS Regulation No. 1/2021 established the framework, obligations, and procedures for resolution planning by commercial banks, requiring banks (especially SIBs and other institutions designated by LPS) to prepare, maintain, and submit resolution plans to the LPS. The advanced plans, data, and analyses prepared by the banks would serve as critical inputs to the resolution process, enabling LPS to resolve failing institutions more efficiently, while not binding LPS's ultimate resolution decisions. The relevance of PA20 is rated **Satisfactory**.
- **PA21:** The government strengthened the role of the LPS in maintaining financial stability. Chapter III (Institutional) of the FSOL: (a) elevated LPS's role within the Financial System Stability Committee (KSSK), giving it a more formalized and expanded mandate in systemic-risk surveillance, early-intervention deliberations, and the coordinated activation of crisis-management protocols; (b) broadened LPS's resolution toolkit and legal authority by introducing bridge-bank powers, purchase-and-assumption (P&A) transactions, temporary capital placement, liquidation, and more flexible resolution-decision criteria beyond the traditional least-cost test; and (c) mandated enhanced



information-sharing among BI, OJK, LPS, and the MOF, while expanding LPS's statutory access to bank-depositor data. These reforms aligned with the recommendations of the 2017 Indonesia FSAP, which emphasized the need to strengthen LPS's role in resolving both systemic and non-systemic banks. The relevance of PA21 is rated **Satisfactory**.

**Reform Area 8: Implementing Sustainable Finance Practices.** The financial system faced major climate-related challenges due to the economy's heavy reliance on carbon-intensive sectors and the country's broad exposure to climate hazards. Managing climate-related financial risks required financial institutions to integrate ESG frameworks into their operations and to align regulatory and supervisory practices with global climate finance standards and best practice principles. At the same time, realizing the opportunities of a low-carbon transition, consistent with the National Development Plan (RPJMN) 2005-2025, will depend on establishing a strong legal and regulatory foundation for green finance and ensuring active participation by financial institutions in developing green finance markets and a national carbon credit exchange.

- **PA22:** OJK introduced supervisory tools to monitor compliance with OJK Regulation No. 51/POJK.03/2017, which mandated all financial service institutions (FSIs) to integrate environmental, social, and governance (ESG) considerations into their business strategies, investment decisions, and risk management practices. Issued in 2017 and implemented starting with large banks in 2019, the rule required FSIs to: (a) develop green finance products and services; (b) expand their green portfolios; (c) publish annual sustainability reports; and (d) adjust their organizational structures accordingly. To track progress on ESG integration, the prior action directed the OJK to begin developing a supervision framework for monitoring and evaluating compliance with the regulation and its implementing rules (*Technical Guidelines for Banks on the Implementation of OJK Regulation No. 51/POJK.03/2017*). Recent analysis recommended the preparation of this framework, focusing on metrics and internal capacity development (*World Bank, 2018, Indonesia - Sustainable Banking Network Country Progress Report, Addendum*). Since the prior action required only the initiation of preparatory work, and not the completion of a final supervision framework, the relevance of PA22 is rated **Moderately Unsatisfactory**.
- **PA23:** OJK's Monitoring Assessment of Banks' Sustainability Reports tracked compliance by major banks with OJK Regulation No. 51/POJK.03/2017. The assessment covered BUKU III banks (with core capital above IDR 5 trillion and up to IDR 30 trillion) and BUKU IV banks (with core capital exceeding IDR 30 trillion). The prior action assumed the availability and functionality of the supervisory framework for implementing OJK Regulation No. 51/POJK.03/2017 (PA22). The focus on large national banks and top-tier banks with international operations was considered appropriate, as these institutions would have greater capacity for risk-taking and therefore faced more stringent regulatory obligations. Compliance by these leading banks was expected to generate broader adoption of sustainable finance practices across OJK-supervised entities through demonstration effects. The relevance of PA23 is rated **Moderately Satisfactory**.
- **PA24:** Apart from supervising and monitoring FSI compliance with sustainable finance mandates, OJK issued a green taxonomy for Indonesia – a classification system that defines which economic activities and investments are considered environmentally sustainable. The taxonomy would serve as a common language to guide finance toward green goals such as climate adaptation and mitigation, while preventing “greenwashing” or misleading sustainability claims. OJK Statement Letter No. S-3/MS.41/2023 introduced the Indonesia Green Taxonomy, Edition 1.0 (2022) to: (a) provide a framework for investors and lenders in green finance; (b) help mobilize private financing for green and



low-carbon recovery; (c) address barriers posed by unclear definitions of green assets; (d) provide clarity and consistency to FSIs, boosting demand and supply for green finance products; and (e) generally support energy efficiency, renewable energy, and sustainability goals. Aligned with the *ASEAN Taxonomy for Sustainable Finance* (ASEAN Taxonomy Board, Sustainable Finance Institute Asia), the taxonomy was expected to foster an enabling environment for climate-smart investments and green growth, while encouraging ESG compliance in the financial and real sectors, advancing the country's climate goals (*World Bank, 2023, Indonesia Country Climate and Development Report*). The relevance of PA243 is rated **Satisfactory**.

- **PA25:** To encourage capital and financial flows toward sustainable finance, the government established the legal bases for incorporating sustainable finance into financial regulation and supervision and enabling carbon trading activities via a carbon exchange. Dedicated to sustainable finance, Chapter XVII (Implementation of Sustainable Finance) of the FSOL: (a) required financial institutions and public companies to implement sustainable finance, including policies, norms, standards, products, and transactions aligned with sustainability principles; (b) mandated development of frameworks and a classification system to drive private sector financing toward climate and sustainability goals; and (c) empowered the OJK to oversee and enforce compliance, including issuing regulations for taxonomy, risk management, and reporting. Integrating carbon trading into the financial system. Chapter V (Capital Market, Money Market, and Foreign Exchange Market) of the FSOL provide the legal basis for: (a) creating Emission Reduction Credits (ERCs); (b) establishing and operating a carbon exchange for trading carbon credits and setting the rules for trading the carbon units and credits as financial instruments; (d) stimulating the development of other carbon-linked financial products (e.g., derivatives); (e) assigning supervisory authority to the OJK to regulate carbon trading platforms and participants; and (d) ensuring transparency, integrity, and compliance with climate commitments under national and international frameworks. Markets for carbon credits had been growing rapidly globally (*World Bank, 2022, States and Trends of Carbon Pricing*), and it was anticipated that the market could emerge and thrive as well in Indonesia. The relevance of PA243 is rated **Satisfactory**.

**Reform Area 9: Establishing Disaster Risk Finance Mechanisms.** The economy and financial sector faced substantial downside risks from natural disasters and climate change. Annual central government spending on disaster response ranged from US\$90-500 million (0.01–0.05 percent of GDP), with subnational governments adding about US\$250 million. Combined post-disaster spending reached 0.11–0.38 percent of total government expenditure, rising sharply in severe disaster years such as 2018, when major earthquakes and a tsunami occurred. Increasing environmental threats (including flooding, sea-level rise, and coastal inundation) further strained fiscal resources. Disaster funding relied mainly on fixed contingent budget lines and supplementary budgets, creating fiscal inefficiencies and uncertainty, while delays in budget allocation and execution weakened the timeliness of disaster response. After adopting the Disaster Risk Financing and Insurance Strategy in October 2018, the government aimed to operationalize it by strengthening risk-layering approaches and expanding market-based risk-transfer mechanisms to improve the efficiency of disaster-risk management.

- **PA26:** According to the Program Document for the first operation, the government "decided to develop" and "has then taken steps to establish the legal framework" for a disaster mitigation pooling fund, a financial mechanism aggregating resources from multiple contributors, such as government agencies, insurers, or donors, into a single fund that can be used to manage and mitigate the financial impact of disasters. The proposed fund would align with ongoing efforts by many countries globally to increase the capacity of national and subnational governments to provide immediate emergency



funding in response to disasters, as well as long-term funding for reconstruction and development (World Bank, 2014, *Financial Protection Against Natural Disasters: An Operational Framework for Disaster Risk Financing and Insurance*). The 2020 fiscal planning document to be submitted to Parliament would tag the fund as a priority, while Article 45 of Law No. 20 of 2019 (the State Budget Law for Fiscal Year 2020) would empower the government to issue regulations and the MOF to manage budget mechanisms. But Law No. 20 of 2019 does not mention a disaster pooling fund, so these documents do not themselves create or operationalize the fund. The relevance of PA26 is rated **Moderately Unsatisfactory**.

- **PA27:** Presidential Regulation No. 75/2021 established the Joint Fund for Disaster Management, which covers funding for all disaster phases (pre-disaster, emergency response, and post-disaster recovery) sourced from the state budget, regional budgets, and contributions from other parties. Its purpose is to provide adequate, timely, and targeted funding in response to disasters. Minister of Finance Decree No. 407/KMK.010/2021 designated the Indonesia Environment Fund (BPD LH) within the MOF as the official manager of the Joint Disaster Management Fund. The Fund serves as a central mechanism to coordinate financing for climate events and natural disasters, ensuring transparent and efficient fund flows to agencies, enabling faster social assistance and improved preparedness. The relevance of PA27 is rated **Satisfactory**.

**Reform Area 10: Advancing Financial Sector Oversight.** The financial-supervision architecture strengthened substantially after the creation of the OJK in 2011 as a single supervisor for conglomerates spanning banking, insurance, and capital markets. However, several structural weaknesses persisted. Financial conglomerates faced three overlapping risk assessments (solo, consolidated, and conglomerate), creating unnecessary administrative burdens for supervisors. OJK and other financial authorities lacked adequate legal protection, undermining both supervisory effectiveness and crisis-management capacity. The OJK Law did not provide immunity for staff acting in good faith, exposing them to potential civil and criminal liability. International standards such as the Basel Core Principles and FSB Key Attributes emphasize that strong legal protection for central banks, prudential supervisors, and resolution authorities is essential for independent and effective policy implementation. In addition to legal safeguards, better transparency and ex-post accountability mechanisms were needed to support robust oversight.

- **PA28:** To ensure a more effective risk-based use of supervisory resources, OJK narrowed its definition of financial conglomerates for supervisory purposes. OJK Regulation 45/2020 introduced thresholds to identify financial conglomerates posing systemic risks and requiring integrated supervision – groups with total assets exceeding IDR 100 trillion and operating across more than one sector. This change reduced the number of conglomerates subject to integrated supervision from 49 to 14. Previously, the *2018 World Bank Technical Assistance to OJK* observed that the regulator applied Level-3 integrated supervision to a large number of banking groups, but concluded that Level-2 consolidated supervision was more appropriate for most. The shift would free resources for a more intensive focus on harmonizing the supervisory framework and strengthening quality assurance within the OJK. The relevance of PA28 is rated **Moderately Satisfactory**.
- **PA29:** To enhance the independence of the financial supervisors, the government strengthened the legal protections for OJK and LPS officials to perform their duties. Chapter III (Institutional) and Chapter IV (Banking) of the FSOL: (a) granted legal protection to OJK and LPS officials from civil or criminal prosecution for actions taken in good faith under prevailing laws; and (b) allowed legal assistance to officials if sued. The protections aimed to reduce political interference, forbearance, and



inaction bias, enabling more independent and informed supervisory and resolution decisions by financial supervisors. The *2017 FSAP* had recommended that legal protection for the agencies, their staff, and contractors involved in oversight and crisis management be strengthened in line with international standards. The relevance of PA29 is rated **Satisfactory**.

## Rating

Satisfactory

## 4. Relevance of Results Indicators

### Rationale

Results Indicator	Associated Prior Action	Relevance Rating	Baseline	Target	Actual Value	Actual Change in Results Indicator Relative to Targeted Change, in Percent	Achievement Rating
<b>Objective 1 - To increase the depth of the financial sector</b>							
<b>RI1:</b> Adults with transactional accounts by gender, in percent	PA1 PA2 PA3	Satisfactory	Females: 51 Males: 46 [2017]	Females: 60 Males: 59 [2024]	Females: 58 Male: 55 [2024]	Females: 78 Males: 69	Substantial
<b>RI2:</b> Sex-disaggregated financial inclusion data regularly collected and made publicly available	PA1 PA2 PA3	Moderately Satisfactory	No [2020]	Yes [2024]	Yes [2024]	100	Substantial
<b>RI3:</b> Outstanding IDR-denominated private debt	PA4 PA5 PA6	Satisfactory	412 [2018]	600 [2024]	469.9 [Nov 2024]  489.0 [Apr 2025]	31 [Nov 2024]  41 [Apr 2025]	Modest



securities, in IDR trillion							
<b>RI4:</b> Portion of short-term investments (cash, bank deposits) in pension fund portfolios, in percent	PA7 PA8 PA9	Satisfactory	19.3 [2017]	17.5 [2024]	15.0 [Dec 2024]	239	High
<b>Objective 2 - To improve the efficiency of the financial sector</b>							
<b>RI5:</b> Number of insolvency cases opened by the court, evidencing greater access by firms	PA10 PA11 PA12	Satisfactory	307 [2018]	430 [2024]	199 [2024]	-95	Negligible
<b>RI6:</b> Number of Financial Services Providers (FSPs) undergoing financial consumer protection examinations (offsite or onsite) per year	PA13 PA14 PA15	Moderately Satisfactory	10 [2019]	30 [2024]	213 [2023]	1015	High
<b>RI7:</b> Adults making and receiving digital payments, in percent	PA16 PA17 PA18	Satisfactory	Females: 35; Males: 34 [2017]	Females 42; Males: 38 [2024]	Females: 43; Males: 42 [2024]	Females: 102; Males: 111	High
<b>RI8:</b> Number of banks and fintechs participating in the Open API standard for	PA16 PA17 PA18	Satisfactory	0 [2021]	96 [2024]	118 [Feb 2025]	123	Substantial



payments (SNAP)							
<b>Objective 3 - To strengthen the resilience of the financial sector</b>							
<b>RI9:</b> Number of days for LPS to pay out insured depositors in closed commercial banks	PA19 PA20 PA21	Satisfactory	90 [2018]	14 [2024]	5 [May 2025]	92	Modest
<b>RI10:</b> Number of bank resolution plans finalized by the LPS	PA19 PA20 PA21	Satisfactory	0 [2019]	All systemic banks [2024]	All systemic banks [Jun 2024]  All systemic banks and non-systemic banks [Dec 2024]	100	High
<b>RI11:</b> Commercial banks issuing sustainability reports, in percent	PA22 PA23 PA24 PA25	Moderately Satisfactory	0 [2019]	75 [2024]	99 [Jun 2024]	132	High
<b>RI12:</b> New green bonds/sukuks issued in domestic markets in line with the Green Taxonomy (current edition), in percent	PA22 PA23 PA24 PA25	Satisfactory	0 [2022]	100 [2024]	100 [Jun 2024]	100	High
<b>RI13:</b> Utilization of the pooling fund for disaster	PA26 PA27	Moderately Satisfactory	Disaster Mitigation Pooling Fund not established [2019]	Disaster Mitigation Pooling Fund is operational and ready to be used	Disaster Mitigation Pooling Fund established and will be fully	100	Substantial



response financing				in disaster response, including climate-related events [2024]	operational this year (2025), following the Minister of Finance regulation issuance [Apr 2025]		
<b>RI14:</b> Number of financial conglomerates receiving more intense integrated supervision	PA28 PA29	Satisfactory	49 [2020]	14 [2024]	14 [Jun 2024]  17 [Dec 2024]	100	Modest

**Objective 1 - To increase the depth of the financial sector**

Reform Area 1: Expanding Financial Access and Inclusion. With women identified as a key underserved population, results indicators referencing access to, and use by, women of financial services serve as relevant indicators of prior actions to improve financial access and inclusion.

- **RI1:** Adults with transactional accounts, disaggregated by gender, is a strong indicator of the progress achieved in harmonizing banking and e-money service schemes and agent networks, and in digitizing G2P payments. The latter is particularly relevant in Indonesia, where disbursements for the country's 80 social assistance programs are made mostly to women, further reinforcing the importance of gender-inclusive financial access. The relevance of RI1 is therefore rated **Satisfactory**.
- **RI2:** Sex-disaggregated financial inclusion data that is regularly collected and made publicly available serves as an appropriate indicator for assessing the impact of the National Financial Inclusion Strategy, particularly in improving access and inclusion for underserved populations. This indicator rests on the assumption that gender-disaggregated data enables evidence-based policymaking and supports targeted interventions to close gender gaps in financial access. However, a more powerful indicator would have captured the actual use of these data in policymaking, rather than only their availability. Accordingly, the relevance of RI2 is rated **Moderately Satisfactory**.

Reform Area 2: Broadening Financial Market Products. With corporate bond and structured product markets remaining poorly developed compared with the equity and government bond markets, an indicator measuring the volume of corporate bonds outstanding would appropriately capture progress in broadening the range of financial market products.

- **RI3:** Outstanding IDR-denominated private debt securities, in IDR trillion, is an appropriate indicator of the impact of measures that improve the enabling environment for the issuance of, and investment in, corporate bonds in the domestic market. The relevance of RI3 is therefore rated **Satisfactory**.

Reform Area 3: Mobilizing Long-Term Savings. For pension funds, long-term assets help match long-dated, predictable pension liabilities; deliver higher and more stable returns than short-term instruments; provide



inflation protection (crucial for preserving the purchasing power of retirees over decades); enhance portfolio diversification and risk management; and capture illiquidity premiums that short-term investments cannot offer.

- **RI4:** The portion of short-term investments (such as cash and bank deposits) in pension fund portfolios, expressed as a percentage, is an appropriate indicator of a fund's capacity to shift resources toward long-term assets, thereby strengthening alignment between its asset composition and its long-term obligations. This indicator reflects the impact of the five OJK regulations and FSOL Chapter XII, which were designed to support the development of long-term finance in both the pension fund and insurance industries. Accordingly, the relevance of RI4 is rated **Satisfactory**.

## Objective 2 - To improve the efficiency of the financial sector

Reform Area 4: Strengthening the Insolvency and Creditor Rights Frameworks. Reforms to strengthen the legal, regulatory, and supervisory frameworks governing insolvency, bankruptcy, and court-supervised debt restructuring signal a clear preference for formal restructuring processes over informal workout schemes.

- **RI5:** The number of insolvency cases opened by the courts serves as a useful indicator of how effectively the reforms have strengthened the country's formal insolvency, bankruptcy, and debt-restructuring regime. The relevance of RI5 is rated **Satisfactory**.

Reform Area 5: Protecting Consumers. A proposed new data protection and privacy law, together with the authorities' shift toward market-conduct oversight rather than purely prudential supervision, aims to prevent unfair, deceptive, or abusive practices in financial markets and to ensure fairness, transparency, and consumer safety for users of banking and credit products.

- **RI6:** The number of financial service providers undergoing financial consumer-protection examinations (off-site or on-site) each year is an appropriate indicator of the impact of the new data-protection law and the shift toward market-conduct supervision. However, a stronger indicator would have captured the outcomes of these examinations, such as the number of compliance violations identified, the corrective actions required, the monetary penalties imposed, or even the compliance grades assigned to institutions (with improving grades over time signaling the effectiveness of the reforms). Accordingly, the relevance of RI6 is rated **Moderately Satisfactory**.

Reform Area 6: Strengthening Payment Systems. Two indicators were defined to measure improvements in the payment systems, the first pertained to the use by consumers of digital payments, and the second, to the acceptance by payment service providers of Open API standardization.

- **RI7:** Adults making and receiving digital payments, in percent, is an adequate measure of the impact of improvements to the payment systems. Higher use of digital payments reflects stronger technological adoption, reduced informality, expanded financial inclusion, and enhanced efficiency. The relevance of RI7 is rated **Satisfactory**.
- **RI8:** The number of banks and fintechs participating in SNAP serves as an indicator of how widely the national Open API standards have been accepted by the financial industry. Broader participation reflects greater system interoperability, reduced integration costs, and improved security – enabling faster transactions, better user experiences, and greater efficiency across the payment ecosystem. Accordingly, the relevance of RI8 is rated **Satisfactory**.



### Objective 3 - To strengthen the resilience of the financial sector

Reform Area 7: Strengthening the Resolution Framework. Reforms to strengthen the bank resolution framework focused on marginal improvements with the deposit insurance payment system and with resolution planning by systemically important banks and the OJK.

- **RI9:** The number of days required for LPS to pay out insured depositors in closed commercial banks would measure progress in improving the efficiency and effectiveness of the deposit-insurance payout process. It is not clear, though, that a shorter payout period represents a significant accomplishment, as Indonesia has not reported had systemic problem with its insured deposit payout system since the inception of the LPS in 2005. Accordingly, the relevance of RI19 is rated **Moderately Satisfactory**.
- **RI10:** The number of bank resolution plans finalized by LPS serves as an appropriate indicator of the impact of reforms aimed at strengthening the bank resolution framework. The target focused on systemically important banks – institutions whose failure or instability could threaten the broader financial system due to their size, interconnectedness, and complexity. Resolution plans vetted by OJK demonstrate a proactive approach to mitigating risks to financial stability arising from potential crisis events. Accordingly, the relevance of **RI10** is rated **Satisfactory**.

Reform Area 8: Implementing Sustainable Finance Practices. Sustainable finance initiatives focused on the adoption of ESG principles by financial institutions, the issuance of the Green Taxonomy, and the establishment of a carbon exchange.

- **RI11:** The proportion of commercial banks issuing sustainability reports provides one measure of the extent to which financial institutions adopt ESG principles. However, this indicator captures only a narrow dimension of ESG integration. It does not reflect other important aspects, such as the development of ESG-aligned products and services, the incorporation of ESG metrics into risk management frameworks, or the integration of ESG factors into lending and investment decisions. Given these limitations, the relevance of RI11 is rated **Moderately Satisfactory**.
- **RI12:** New green bonds or sukuk issued in domestic markets in accordance with the current edition of the green taxonomy, expressed as a percentage, would reflect the impact of the Green Taxonomy on capital market activity. A rising proportion would signal progress toward green investing. The relevance of RI12 is rated **Satisfactory**.

Reform Area 9: Establishing Disaster Risk Finance Mechanisms. The creation of a disaster mitigation pooling fund served as the headline measure for strengthening the country's disaster risk finance framework.

- **RI13:** The utilization of the disaster mitigation pooling fund would indicate progress in establishing disaster risk finance mechanisms in Indonesia. By "utilization," the Program Document meant that the fund was "operational and ready to be used in disaster response." The relevance of RI13 is rated **Moderately Satisfactory**.

Reform Area 10: Advancing Financial Sector Oversight. Stronger supervision focused on oversight of financial conglomerates.

- **RI14:** The number of financial conglomerates receiving more intense integrated supervision would measure the impact of strengthening oversight of financial conglomerates. This indicator assumes that the authorities would have strictly adopted and applied the supervision principles espoused by the BIS



for financial conglomerates (the globally recognized standard for supervising financial conglomerates, issued in 2012). The relevance of RI14 is rated **Satisfactory**.

## Rating

Satisfactory

## 5. Achievement of Objectives (Efficacy)

### OBJECTIVE 1

#### Objective

Objective 1 - To increase the depth of the financial sector

#### Rationale

**Theory of Change.** The results chains underlying the objective to increase financial depth were logical, with mutually reinforcing causal links between the prior actions, at one end, and the program objective, at the other. Expanding financial access and inclusion deepens the financial sector by increasing the number and diversity of participants, mobilizing savings into larger pools of investable capital, expanding credit markets, strengthening risk management through insurance, and stimulating overall economic activity (Sahay et. al., 2015, *Financial Inclusion: Can It Meet Multiple Macroeconomic Goals?*, International Monetary Fund (IMF) Staff Discussion Note 15/1). In turn, a more developed financial system can support and enable greater financial access, though it does not guarantee inclusion, as poor households and small firms may remain excluded, suggesting that economies must both expand system size and promote outreach (Beck et. al., *Access to Financial Services: Measurement, Impact, and Policies*, The World Bank Research Observer, Vol. 24, No. 1). Broadening financial market products, such as developing equity, fixed income, and derivatives markets alongside banking, helps deepen the financial sector by creating multiple channels for capital flows, expanding savings and investment opportunities, increasing the volume of financial assets and transactions, and allowing securities markets to complement banks in allocating capital across the economy (Demirguc-Kunt et. al., 2012, *The Evolving Importance of Banks and Securities Markets*, NBER Working Paper No. 18004). In turn, a deeper financial system provides the infrastructure and liquidity needed to support new products and markets, enabling innovation, fostering diversification, and attracting foreign participation. Mobilizing long-term savings deepens the financial sector by expanding the financial system's asset base, providing stable capital for long-term investments, reducing rollover risks for businesses, allowing households to smooth consumption and manage life-cycle income, developing patient institutional investors (pension funds and insurance companies) that support diverse, long-duration assets, and reducing liquidity risk and promoting stability (World Bank, 2015, *Global Financial Development Report 2015-16 - Long Term Finance*). In turn, by fostering higher rates of economic growth, financial deepening tends to reinforce the accumulation of long-term savings, although the effects may exhibit non-linearities once financial depth surpasses certain thresholds (Emara, *Threshold Effects of Financial Depth on Domestic Savings*, Economic Analysis and Policy, Volume 86, June 2025).



**Outcomes.** The program made significant advances in improving access to finance and mobilizing long-term savings, but only modest progress with broadening financial market products.

Reform Area 1: Expanding Financial Access and Inclusion. The share of females with an account at a financial institution or mobile money provider increased from 51 percent in the baseline in 2017 to 58 percent by closing in 2024, partially meeting the target of 60 percent (World Bank, 2025, *The Global Findex Database 2025 - Connectivity and Financial Inclusion in the Digital Economy*). For males, account ownership rose from 46 percent to 55 percent, against the target of 59 percent. The achievement of RI1 is rated **Substantial**. Gender-disaggregated financial inclusion data were regularly collected and published, meeting the program objective, as confirmed by the OJK *National Survey for Financial Inclusion and Literacy* of 2024. The achievement of RI2 is rated **High**.

Reform Area 2: Broadening Financial Market Products. Outstanding IDR-denominated private debt securities increased from IDR 412 trillion in the baseline in 2018 to IDR 469 trillion in November 2024 and IDR 489 trillion in April 2025, partially meeting the target of IDR 600 trillion (OJK *Weekly Capital Market Statistics*). Issuance plans were scaled back following a surge in sovereign borrowing during the COVID-19 pandemic, as massive stimulus and emergency spending boosted government debt sales and crowded out private debt issuance. The achievement of RI3 is rated **Modest**.

Reform Area 3: Mobilizing Long-Term Savings. The portion of short-term investments (cash and bank deposits) in pension fund portfolios declined from 19.3 percent in the baseline in 2017 to 15 percent by closing in December 2024, exceeding the target reduction to 17.5 percent. The achievement of RI4 is rated **High**.

The degree of achievement of the objective to increase the depth of the financial sector is rated **Satisfactory**.

## Rating

Satisfactory

## OBJECTIVE 2

### Objective

Objective 2 - To improve the efficiency of the financial sector

### Rationale

**Theory of Change.** The results chains underlying the objective to improve the efficiency of the financial sector are logical. Strengthening insolvency and creditor rights frameworks improves financial efficiency by enabling faster, more predictable, and transparent debt resolution processes, which raise lender recovery rates, reduce borrowing costs, and expand access to credit. Robust frameworks help shift resources from distressed, failing firms to productive ones, lowering non-performing loans, reinforcing credit markets, and supporting economic growth through transparent insolvency regimes and effective debt resolution mechanisms. (World Bank, 2021, *Principles for Effective Insolvency and Creditor/Debtor Rights*).

Protecting consumers improves financial efficiency by reducing information asymmetries and power imbalances between users and providers of financial services. It boosts confidence in the financial sector,



fostering higher uptake of services, enhancing market competition, and promoting stable, transparent, and inclusive financial markets (World Bank, 2014, *Global Survey on Consumer Protection and Financial Literacy*). Strengthening payment systems boosts financial efficiency by accelerating transaction speeds, reducing processing costs, and enhancing cash flow management for businesses and individuals. Modernized, secure, and automated, these systems minimize human error, improve liquidity, and increase transaction security, which lowers operational risks and optimizes working capital (World Bank, 2018, *Payment Systems Worldwide*).

**Outcomes.** While the program failed to meet its results target for strengthening the insolvency and creditor rights frameworks, it fared better with protecting consumers of financial services. Meanwhile, efforts to strengthen the payment systems show mixed outcomes.

Reform Area 4: Strengthening Insolvency and Creditor Rights Frameworks. The number of insolvency cases opened by the courts – defined as the number of cases opened and recognized for processing in bankruptcy procedures – declined from 307 in the baseline in 2017 to 199 by closing in 2024, failing to achieve the target increase to 430. The ICR clarified that although the number of cases filed (bankruptcy and the suspension of debt payment obligations) was 633 in 2024, only 199 could be strictly recognized as insolvency cases – the data was obtained from the Supreme Court rather than the recently reorganized Ministry of Law. The ICR notes the following: (a) the prevailing preference for mediation and informal settlement reduces the resort to formal insolvency proceedings; (b) out-of-court resolutions and court-ratified settlements discourage the opening of formal insolvency cases; (c) persistent structural issues, such as lengthy and expensive proceedings, contribute to operational inefficiency in insolvency cases (World Bank, 2024, *Business Ready (B-READY) 2024*); (d) more structural reforms are likely necessary; and (e) publicly available insolvency data is scarce, and the best way to obtain data would be to manually collect the information from state gazettes and court announcements. The achievement of RI5 is rated **Negligible**.

Reform Area 5: Protecting Consumers. The number of Financial Services Providers (FSPs) undergoing on-site or off-site financial consumer protection examinations annually rose from 10 in the baseline in 2019 to 213 before closing in 2023, exceeding the target of 30. The OJK significantly expanded its market conduct supervision activities during this series. The achievement of RI6 is rated **High**

Reform Area 6: Strengthening the Payment Systems. The share of females making and receiving digital payments was 43 percent by closing in 2024, exceeding the target of 42 percent (World Bank, 2025, *The Global Findex Database 2025 - Connectivity and Financial Inclusion in the Digital Economy*). The share of males was 42 percent, exceeding the target of 38 percent. The achievement of RI7 is rated **High**. The number of banks and fintechs participating in SNAP was 118, exceeding the target of 96. The data was obtained from internal and unpublished BI reports, raising questions about measurability and accuracy. For this reason, the achievement of RI8 is rated **Substantial**.

The degree of achievement of the objective to improve the efficiency of the financial sector is rated **Moderately Satisfactory**.

## Rating

Moderately Satisfactory



## OBJECTIVE 3

### Objective

Objective 3 - To strengthen the resilience of the financial sector

### Rationale

**Theory of Change.** The results chains underlying the objective to strengthen the resilience of the financial sector and the two sets of prior actions were credible. Green finance and disaster risk finance foster financial resilience and stability. Implementing sustainable finance practices, including green investment frameworks, green macroprudential policies, and green financial instruments and markets, enjoin financial institutions to internalize the risks of high-carbon activities, incentivize the financial sector to ease the financing constraints and scale-up investment in green projects, redirecting capital away from high-risk, carbon-intensive assets and toward more resilient, lower-risk sectors, and enables the economy to implement national climate adaptation and mitigation strategies, managing the challenges posed by climate-related risks to the stability of the financial system more effectively (Monasterola et. al., 2022, *The Role of Green Financial Sector Initiatives in the Low-Carbon Transition: A Theory of Change*, World Bank Policy Research Working Paper No. 10181). Establishing disaster risk finance mechanisms builds financial resilience by enabling governments, businesses, and households to proactively manage the shocks of disasters through pre-arranged funding, such as insurance and contingent credit. It reduces budget volatility, speeds up recovery, and prevents long-term poverty by ensuring immediate liquidity for relief efforts.

Strong resolution frameworks and financial sector oversight contribute to financial resilience and stability. Strengthening the resolution framework enhances financial resilience by enabling the orderly failure of banks and financial institutions without triggering systemic harm, ensuring that losses fall on investors and creditors rather than taxpayers, thereby reducing moral hazard and strengthening market discipline, protecting critical banking functions and maintaining credit flows to households and enterprises, and preventing cross-border contagion – all of which contribute to a safer, more stable financial system (World Bank, 2020, *Using the FSB Key Attributes to Design Bank Resolution Frameworks for Non-FSB Members: Proportionality and Implementation Challenges*). Strengthening financial sector oversight promotes financial resilience and stability by curbing excessive risk-taking, ensuring adequate capital buffers, enhancing transparency and market discipline, enabling swift supervisory action, and keeping oversight frameworks aligned with evolving technological and market developments. Effective supervision helps banks remain sound during economic shocks, reduces the risk of contagion within the financial system, and supports a steady flow of credit to households and businesses (World Bank, 2019, *Global Financial Development Report 2019/2020 - Bank Regulation and Supervision A Decade After the Global Financial Crisis*). For financial conglomerates, whose complex structures span both regulated and unregulated entities across multiple sectors, robust supervision requires covering the full range of risks and potential costs posed by all of their activities on the stability of the financial system (BIS, 2012, *Principles for the Supervision of Financial Conglomerates*).

**Outcomes.** The program had a mixed record in strengthening the resolution framework, but better results with strengthening financial sector oversight. The program had greater success with green finance than with disaster risk finance.

Reform Area 7: Strengthening the Resolution Framework. The average number of working days for the LPS to fully pay out insured depositors in closed commercial banks (i.e., from when the banking license is



revoked) was reduced from 90 days in the baseline in 2018 to 20 days by closing in 2024, partially achieving the target reduction to 14 days. The ICR notes the following: (a) the achievement applied to rural banks as there were no commercial bank closures in 2024; (b) the rural banks may be imperfect proxies to commercial banks – commercial banks have more complex operations and more depositors than rural banks; (c) the 14-day target was not aligned with the 7-day standard of the International Association of Deposit Insurers (IASI), the result of a deliberate decision made at appraisal in consideration of the "complexities" of the Indonesian banking system. Because of the imperfect measure (rural versus commercial banks), the achievement of RI9 is rated **Modest**, rather than Substantial. The LPS finalized the bank resolution plans for all systemic and non-systemic banks by closing, exceeding the target, which was set only for all systemic banks. The ICR notes the following: (a) resolution plans are prepared by the banks; (b) the LPS vets the plans (i.e., conducts a resolvability assessment); (c) with the achievement, all banks were now compliant with Articles 5 and 315 of LPS Regulation No. 2 of 2024, which amended the original LPS Regulation No. 1 of 2021; and (d) the amendment to the resolution plan process and the resolution plan function under LPS Regulation No. 2 of 2024 aligned with the provisions of the FSOL. The achievement of RI10 is rated **High**.

Reform Area 8: Implementing Sustainable Finance Practices. The proportion of commercial banks issuing sustainability reports reached 99 percent by closing in June 2024, exceeding the target of 75 percent. The achievement of RI11 is rated **High**. The proportion of new green bonds/sukuku issued in the domestic market that were in line with the latest edition of the Green Taxonomy was 100 percent, meeting the target. The achievement of RI12 is rated **High**.

Reform Area 9: Establishing Disaster Risk Finance Mechanisms. The Disaster Mitigation Pooling Fund was not operational and ready to be used in disaster response by closing in June 2024, failing to achieve the program target. According to the ICR, the government was unable to issue the final regulation governing the Fund following the presidential election in February 2024 and the subsequent prolonged political transition. Since then, the Minister of Finance issued PMK No. 28/2025 in April 2025 to implement Presidential Regulation No. 75/2021. PMK No. 28/2025 sets the rules for the collection of funds from the state budget (APBN), regional budgets (APBD), and other sources; investment and management of these resources; disbursement procedures for financing disaster preparedness, emergency response, and recovery; and reporting and accountability requirements to ensure transparency, effectively launching the operationalization of the Fund. PMK No. 28/2025, however, is a prior action for the new Indonesia Productive and Sustainable Investment Development Policy Loan approved in June 2025. In a strict sense, RI13 is an achievement of the new DPL rather than of this programmatic series. Hence, the achievement of RI13 under this programmatic series is rated **Modest**.

Reform Area 10: Advancing Financial Sector Oversight. The number of financial conglomerates receiving more intense integrated supervision was 14 in June 2024 and 17 in December 2024, meeting the target. The ICR notes the following: (a) the adoption by OJK of advanced supervisory methodologies and technology strengthened its institutional and technical capacity; (b) the Indonesia FSAP for FSAP 2023/2024 recognized the substantial progress made by the OJK in adopting a more effective, integrated supervisory model; but (c) challenges remained with the supervision of financial conglomerates with non-regulated entities; and (d) further regulatory harmonization and continued implementation of the FSOL were required to achieve higher standards of integrated supervision. The achievement of RI14 is rated **High**.

The degree of achievement of the objective to strengthen the resilience of the financial sector is rated **Satisfactory**.



## Rating

Satisfactory

## Overall Achievement of Objectives (Efficacy)

### Rationale

The efficacy of the programmatic series is rated **Moderately Satisfactory**.

### Overall Efficacy Rating

Moderately Satisfactory

## 6. Outcome

### Rationale

The relevance of prior actions is rated Satisfactory. The efficacy is rated Moderately Satisfactory. The outcome is rated **Moderately Satisfactory**.

#### a. Rating

Moderately Satisfactory

## 7. Risk to Development Outcome

**Political Risk.** Indonesia underwent a major political changeover in 2024, following the elections in February and the installation of parliamentarians and the new president in October. The government has postponed critical reforms across energy and climate policy, flagship social programs (froze spending on public housing programs), public-sector digital transformation (created new “public service malls” (MPP) with little integration into a coherent digital platform), and governance system redesign (dismantled the Civil Service Commission). These disruptions risk diminishing the reform momentum and weakening institutional capacity in these sectors.

**Financial Sector Risk.** Risks to sector reform programs appear better mitigated in the financial sector. Indonesia remains strongly committed to partnering with the World Bank on financial sector reforms. The ongoing Finance and Private Sector Program ASA provides technical assistance, capacity building, and analytical support, laying the foundation for broader Bank engagement and ensuring continuity from prior



development policy loans while creating a pipeline for follow-on operations. Building on the closed programmatic series, the Indonesia Productive and Sustainable Investment Development Policy Loan, approved for US\$1.5 billion in June 2025, aims to strengthen the financial sector by expanding digital financial services, removing credit infrastructure constraints, deepening capital markets, and integrating climate and disaster risk considerations.

## 8. Assessment of Bank Performance

### a. Bank Performance – Design

#### Rationale

**Analytical Underpinning.** The series drew on recommendations from the 2017 Joint IMF-World Bank Indonesia Financial Sector Assessment Program (FSAP), as well as other analytical work produced by the Bank, the IMF, and the government (see Sections 3.A, 3.B, 4, and 5).

The Indonesia Financial Sector Technical Assistance (IFSTA) Programmatic Advisory and Analytics (PASA) (2019-2024) delivered advisory support and analytical work across six areas – supervision, crisis prevention and management, innovation and digitalization for individuals, innovation and digitalization for firms, climate finance, and long-term finance. A central contribution was its support to the government in drafting the FSOL, which incorporated many of the required prior actions in this series.

**Links with Other Bank Operations.** The series expanded the reforms launched under two earlier Bank development policy operations.

- The Indonesia Financial Sector and Investment Climate Reform and Modernization Development Policy Loan (US\$100 million, 2012-2013) aimed to promote the development of a sound, efficient, and inclusive financial sector by: (a) reinforcing financial system stability – 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; (b) promoting financial sector diversification – strengthening the protection of investors and customers in the financial sector, and enhancing the soundness and capacity of the insurance sector; (c) enhancing financial inclusion – promoting policy coordination, developing innovative financial products targeted to the poor, and strengthening monitoring and evaluation systems; and (d) supporting investment climate regulatory reform – improving policy coordination and strengthening contractual enforcement mechanisms.
- The Indonesia Financial Sector Reform and Modernization Development Policy Loan (US\$500 million, 2014-2015) aimed to promote a stable, efficient, and inclusive financial sector by: (a) reinforcing financial system stability – operationalizing the Financial System Stability Coordinating Forum, improving the supervision of non-banks and capital markets under the Financial Services Authority Law, and strengthening the regulatory framework for minimum capital adequacy requirements for commercial banks; (b) promoting financial sector diversification – enacting the Microfinance Law and adopting a strategy for microinsurance product development; and (c) enhancing financial inclusion – issuing a regulation on consumer protection in financial services, revising guidelines for “no-frills” savings accounts, and adopting a national strategy for financial literacy.



**Consultation with Stakeholders.** The government conducted extensive consultations with stakeholders on the reform program, as well as the drafting of the FSOL, which implemented many of the prior actions. The MOF led multiple rounds with key agencies – BI, OJK, LPS, MOLHR, and the National Development Planning Agency (BAPPENAS). Public consultations included parliamentary expert hearings and online dissemination of the FSOL draft. Industry-specific consultations informed policy actions on: (a) agent banking – pilot projects were discussed and stakeholder input obtained; (b) Open API standard (SNAP) – was developed with payment industry representatives, with proposed regulations circulated for comment; (c) SCV-based reporting – LPS consulted banks extensively; (d) capital markets and institutional investors – OJK mandated public comment periods and focus groups; and (e) disaster risk finance – MOF held civil society consultations on environmental and social safeguards. The consultations mobilized broad stakeholder support for the reform objectives.

**Collaboration with Development Partners.** The Bank actively consulted with development partners on the reform program.

- The French Development Agency (AFD) provided Euro (EUR)100 million in parallel financing for the first operation in 2020 and EUR50 million for the second operation in 2021, adopting the same policy matrix used for this series (see Section 2.C).
- The Swiss State Secretariat for Economic Affairs (SECO) assisted with several reform measures. The SECO Indonesia Financial Sector Strengthening Program Phase II (IFSSP II) supported reforms on financial access (Reform Area 1), consumer protection (Reform Area 5), payment systems (Reform Area 6), and bank resolution (Reform Area 7). The SECO Global Capital Market Strengthening Facility, together with Global Affairs Canada (GAC) Infrastructure Finance Development Program, backed reforms on broadening financial market products (Reform Area 2) and mobilizing long-term savings (Reform Area 3). The SECO Multi-Country Investment Climate Program funded an International Finance Corporation (IFC) Advisory Program that supported insolvency reforms (Reform Area 4), while the IFC Sustainable Finance Program assisted with sustainable finance initiatives (Reform Area 8). The SECO Global Trust Fund on Disaster Risk Finance supported disaster risk finance (Reform Area 9).
- The Asian Development Bank (ADB) supported complementary reforms through two policy-based loans (PBLs) under the Promoting Innovative Financial Inclusion Program for Indonesia. The First PBL (December 2020) provided US\$500 million, plus US\$227 million co-financing from Germany's Kreditanstalt für Wiederaufbau (KfW), to improve financial inclusion targeting, expand MSME access to finance using technology, and strengthen regulation of digital financial services, data privacy, and consumer protection. The Second PBL (November 2022) provided another US\$500 million, plus US\$301.3 million co-financing from KfW, to advance similar objectives, including enhancing financial literacy.

**Program Risk and Mitigation Measures.** The program's overall risk was consistently rated Moderate throughout the series, although the specific risks assessed as Substantial varied by stage. At the outset (during appraisal of the first operation), technical design and institutional capacity risks were considered Substantial. During the pandemic, macroeconomic risk increased, adding a third Substantial risk. By the final assessment (at appraisal of the third operation), technical design risk had improved to Moderate, while institutional capacity risk remained Substantial. Mitigation measures were applied throughout the series, and the Bank judged that the benefits of the operation outweighed the residual risks.

- Technical design risk was Substantial in the first two operations due to complex reforms, multi-agency coordination, and tight timelines. Institutional capacity risk also remained Substantial, reflecting the series' technical complexity, the need for sustained collaboration, and the MOF's limited influence over some implementing agencies. The Bank mitigated these risks through strong technical assistance, close



stakeholder coordination, and a focus on inter-agency partnerships, while adapting flexibly to emerging priorities.

- Macroeconomic risk rose to Substantial by the second operation due to the potential impact of the COVID-19 crisis on financial sector resilience. Liquidity and solvency pressures threatened bank profitability and asset quality, while slowing credit growth risked disrupting economic activity. The series itself helped mitigate these risks by improving insolvency frameworks (Reform Area 4), strengthening bank resolution (Reform Area 77), and enhancing oversight (Reform Area 10). By the third operation, macroeconomic risk declined to Moderate, though vulnerabilities persisted amid slow global growth, the war in Ukraine, monetary tightening, and domestic inflation. Remaining risks included potential capital outflows, rupiah depreciation, and tighter financing conditions. Mitigation measures included strong external buffers, the central bank's market-stabilization capacity, and reforms under the program, such as mobilizing long-term savings (Reform Area 3).
- Stakeholder risk was rated Moderate as the government began preparing the FSOL in mid-2022. The law sought to consolidate and reform financial-sector legislation by amending 17 existing laws across 27 chapters and 341 articles. While broadly consistent with the Bank-supported reforms, there were concerns that this effort could divert attention and resources from implementing the series. By actively engaging with the MOF and providing technical advice and international expertise, the Bank turned this risk into an opportunity to align the program and the FSOL.

The Bank performance at design is rated **Highly Satisfactory**.

## Rating

Highly Satisfactory

## b. Bank Performance – Implementation

### Rationale

**Implementation Supervision.** The Bank monitored the reform program closely and prepared Implementation Status and Results Reports (ISRs) for the three operations. The ISRs tracked progress with all results indicators.

**Adaptation.** The Bank adjusted the reform measures as the series advanced from the first to the second and third operations. Of the nine indicative triggers in the first operation (planned prior actions for the second), two were strengthened (the first to advance a broader financial inclusion framework with a gender focus, and the second to establish a more forward-looking regulatory framework for the payment system), one was dropped, and six were rewritten for clarity. Of the ten indicative triggers in the second operation, two were strengthened (one to enhance competition among fintechs and another to strengthen regulation in the payments industry), and six were revised to align with the final provisions of the FSOL (enacted in 2023).

**Continuing Technical Assistance.** The Bank continued to engage the government in policy dialogue and to provide advisory support through the IFSTA PASA, both to reinforce the reforms supported by this series and to help develop a pipeline of operations to advance the financial sector reform agenda over FY2025–27.

The Bank's performance during implementation is rated **Highly Satisfactory**.



## Rating

Highly Satisfactory

### c. Overall Bank Performance

#### Rationale

The overall Bank performance is rated **Highly Satisfactory**.

### Overall Bank Performance Rating

Highly Satisfactory

## 9. Other Impacts

### a. Social and Poverty

The Program Documents stated that, based on the Poverty and Social Impact Analysis (PSIA), the series was expected to generate positive social and poverty impacts over the long term. Specifically: (a) expanding access to finance and digital payments would benefit the poor, women, and small entrepreneurs; (b) consumer protection measures would reduce financing costs for households; (c) sustainable finance reforms would mobilize green investments, create jobs, and mitigate health risks that disproportionately affect the poor; and (d) a disaster pooling fund would enable rapid financing for disaster response, reducing harm to vulnerable communities.

The ICR reiterated these claims but did not provide any quantitative evidence of ex-post impacts.

### b. Environmental

The Program Documents asserted that the series would have positive environmental impacts. Specifically: (a) the promotion of investments aligned with the green taxonomy would support climate mitigation, adaptation, and environmental protection; (b) embedding environmental sustainability in financial industry practices would establish the legal basis for carbon trading, directly advancing climate mitigation; and (c) operationalizing the Disaster Pooling Fund would strengthen disaster response capacity for climate-related events.

Other prior actions were not expected to have environmental effects; however, if such effects arose, mitigation measures were available. Indonesia's environmental management system (based on the risk-based approach under Law No. 11/2020) was considered robust, though implementation challenges persisted (e.g., uneven capacity, weak enforcement, and low awareness). The green finance taxonomy and financial sector reporting



under this program would further strengthen the country's environmental management framework. In addition, the Bank continued to support the country's environmental management objectives through various initiatives, including the Network of Learning Centers for Safeguards and technical assistance for the transition to risk-based management.

The ICR reiterated these claims but did not provide any quantitative evidence of ex-post impacts.

### **c. Gender**

The Program Document for the second operation highlighted that, although Indonesia had recently closed the gender gap in financial account ownership (55.6 percent for women versus 55.7 percent for men), significant disparities persisted in three key areas: (a) digital access and literacy – 72 percent mobile ownership among women compared to 80 percent among men, and financial literacy at 33 percent for women versus 40 percent for men; (b) access to credit and collateral – women tended to receive smaller loans and faced greater hurdles in accessing credit; and (c) data gaps – the financial system lacked sex-disaggregated data on loans, credit ratings, and SME ownership, limiting the ability to design targeted policy responses. To address these gaps, the second operation expanded financial inclusion activities to strengthen outreach to women (and the youth) through the establishment of the Financial Inclusion Council (to help close gender gaps in financial inclusion and support women entrepreneurs) and the mandate for a sex-disaggregated financial inclusion data system (PA2.1). Furthermore, the third operation introduced gender disaggregation for two results indicators in the series: the proportion of adults with transactional accounts, by gender (RI1); and the proportion of adults making and receiving digital payments, by gender (RI7).

The ICR reported that the program delivered gender-focused financial sector reforms that significantly advanced financial inclusion for women in three key areas: access to financial services, payment systems and competition, and disaster risk financing. Account ownership increased to 58 percent for women, versus 55 percent for men in 2024, up from 51 percent and 46 percent, respectively, in 2017. Gender-disaggregated data were regularly collected and published. Digital payments emerged as a critical entry point, with 43 percent of women and 42 percent of men actively using them by 2024, supported by the adoption of SNAP by over 100 banks and fintechs. These reforms fostered innovation, competition, and broader usage, enabling women to access credit and other financial services. As a result, an estimated 1.7 million additional women began using debt financing since program implementation. Finally, integrating gender considerations into disaster risk financing helped reduce vulnerability and losses for women, who are disproportionately affected by climate-related shocks.

### **d. Other**

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## **10. Quality of ICR**

### **Rationale**

Given the extensive scope of the operation – comprising three overarching objectives, ten reform areas, and twenty-nine prior actions (including twelve with multiple sub-components) implemented across three sequential operations – the ICR offers a valuable and coherent overview of Indonesia's financial sector reform program.



The rationale, analytical foundations, operational modalities, and anticipated results associated with each prior action are most comprehensively articulated in the Program Documents. The ICR, for its part, delivers a detailed and systematic account of the outcomes achieved under these prior actions. Its assessment of the Bank’s performance during the design phase is appropriately comprehensive, and its discussion of the lessons emerging from this series is notably perceptive and analytically grounded.

**a. Rating**

High

**11. Ratings**

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Highly Satisfactory	Highly Satisfactory	
Relevance of Results Indicators	---	Satisfactory	
Quality of ICR	---	High	

**12. Lessons**

The first lesson comes from the ICR; the second, from this ICR Review.

**Political transitions pose significant risks to program implementation and reform continuity.** The 2024 presidential election and the subsequent government reorganization hindered progress in several reform areas by disrupting engagement with key institutional counterparts. The split of the Ministry of Law and Human Rights into two ministries led to the reassignment or replacement of crucial officials, complicating the supervision of reforms to the insolvency and creditor rights frameworks. Similarly, the division of the Fiscal Policy Agency into two new directorates slowed the processing of regulations essential for operationalizing the disaster mitigation pooling fund. The prolonged governmental restructuring also made it more difficult to coordinate with core financial-sector regulators and supervisors. These challenges underscore the need for a clear transition strategy, ensuring that when counterparts are replaced or reassigned, their successors are promptly engaged by the Bank and the authorities.

**An omnibus bill, which consolidates multiple and otherwise distinct legislative proposals into a single statutory instrument, can serve as an efficient mechanism for advancing financial-sector reforms.** In this series, Indonesia drafted and enacted the FSOL as a unifying legislative framework, introducing substantive and amendatory provisions to 17 existing laws and thereby facilitating broad-based statutory reform across the financial sector. By codifying eight prior actions from the third operation within seven chapters of the FSOL, the government completed – through a single legal instrument – the requisite reforms across eight of the areas supported by this programmatic series.



### 13. Project Performance Assessment Report (PPAR) Recommended?

No