ADB

Concept Paper

Project Number: 48207-001
June 2014

Proposed Programmatic Approach and Policy-Based Loan for Subprogram 1
Indonesia: Second Financial Market Development and Integration Program

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 22 August 2014)

Currency unit	–	rupiah (Rp)
Rp1.00	=	$0.00008
$1.00	=	Rp11,694

ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
CPS	–	country partnership and strategy
FMDIP2	–	Second Financial Market Development and Integration Program
FPO	–	Fiscal Policy Office
GMRA	–	Global Master Repurchase Agreement
IDX	–	Indonesian Stock Exchange
NMTDP	–	National Medium-Term Development Plan
OCR	–	ordinary capital resources
OJK	–	Otoritas Jasa Keuangan (Integrated Financial Services Authority)
P3F	–	post-program partnership framework
RRP	–	report and recommendation of the President
TA	–	technical assistance

GLOSSARY

Shariah	–	Islamic law
Sukuk	–	A financial document or certificate which represents the value of an asset evidencing an undivided pro rata ownership of an underlying asset.
Takaful	–	A form of Islamic insurance based on the principle of mutual assistance. It provides mutual protection of assets and property and offers joint risk sharing in the event of loss incurred by one of its members.

NOTE

(i) In this report, "$" refers to US dollars.

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I. THE PROJECT

A. Rationale

1. **The proposed program.** The proposed Second Financial Market Development and Integration Program (FMDIP2) is a programmatic approach, consisting of 2 subprograms, designed to continue the reforms supported under the FMDIP.[1] FMDIP, which contained a single subprogram, supported the development of the non-bank financial sector and transitioned the supervisory duties of Bapepam-LK to the newly formed, independent unified financial sector regulator, Otoritas Jasa Keuangan or "OJK". [2] To ensure an orderly reengagement, FMDIP contained a post program partnership framework (P3F). [3] FMDIP2 will now continue ADB's engagement, as anticipated by the P3F, to further develop the financial markets, increase stability and inclusion, and strengthen consumer protections consistent with the Government's expanded reform agenda. FMDIP2 is fully consistent with the National Medium-Term Development Plan (NMTDP) as reflected in the first strategic pillar of the country partnership and strategy (CPS) for 2012–2014.[4] After initially being deferred, the government has requested to proceed with FMDIP2 in 2014 in light of recent market volatility, the need to quickly strengthen OJK and the increased importance assigned to maintaining financial sector stability.[5]

2. **Encouraging progress to date.** ADB has successfully supported financial sector development in Indonesia since 1988. Initially, ADB programs helped develop the sector's basic legal, regulatory, and supervisory frameworks. During the 1997–1998 Asian Financial Crisis, ADB supported bank restructuring to restore financial sector health and initiated efforts to strengthen financial sector supervision. ADB's more recent initiatives have promoted deeper and more liquid financial markets, strengthened market surveillance and investor protections, and have helped steadily build capacity. Under FMDIP, ADB's collaboration with the government culminated in the creation of OJK. This agency, which has now absorbed banking supervision from Bank Indonesia, will strengthen investor confidence by providing independent, comprehensive and coordinated supervision of the financial sector.

3. The government's reforms have produced measurable results and have increased the effectiveness of supervisory agencies.[6] Through the 3rd quarter of 2013, local currency bonds rose to IDR1,226.3 trillion (US$108 billion), climbing 3.9% quarter-on-quarter, and 16.3% year-on-year. These growth rates represent the fastest, and second fastest growth rates in emerging East Asia, respectively. The *sukuk* market has also exhibited remarkable growth with retail and project based *sukuk* issued by the government increasing by 24% and 67% year-on-year, respectively. Ongoing reforms have also benefited the private sector. During the 3rd quarter, the corporate bond market was the fastest growing in emerging East Asia although its size, relative to GDP remains one of the smallest. Likewise, the contractual savings industry (e.g., pension and insurance) exhibits promising trends, as total assets rose from Rp192 trillion in 2006 to

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[1] ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Financial market Development and integration Program.* Manila.

[2] As an independent agency of the government, OJK could not serve as an executing agency for ADB program loans which prevented the formulation of a second subprogram. The Coordinating Ministry of Economic Affairs (CMEA), which has overall responsibility for coordinating government agencies, has now assumed that role.

[3] Key activities under the P3F include; the continuation of fiscal and operational support to OJK until 2016, development of Crisis Management Protocols, ASEAN integration, coordinated support to support financial sector development, strengthening investor confidence and encouraging financial inclusion.

[4] Within the 1st pillar, ADB will support development of the nonbank financial sector to mobilize sources of long-term finance and to enhance access to finance of MSMEs and to the emerging areas of housing and energy efficiency.

[5] A financial sector program was originally included in the CPS and scheduled for approval in 2014.

[6] CLSA. 2010. *Corporate Governance Watch 2010*. Hong Kong.

Rp889 trillion in 2013. Domestic investors have become more active as the share of foreign holdings of Indonesian bonds fell to 31.2% at the end of the quarter from 33% in 2012, although in nominal terms the level of foreign ownership represents an all-time high.[7]

4. **Financial sector supervision and stability represent emerging priorities.** With the establishment of OJK, the government has begun to redefine how it oversees policy formulation in the financial sector. For example, the technical capacity of the Fiscal Policy Office (FPO) must be enhanced as it has assumed Bapepam-LK's broader responsibilities for coordinating financial sector development, strengthening financial sector stability, and increasing financial inclusion.[8] At the same time, OJK must be strengthened and operationalized through the adoption of formal systems, including those related to the conduct of consolidated supervision. Efforts to develop the financial system must be redoubled. Despite recent growth, the debt market remains very small representing only 14% of GDP, as compared to Malaysia at 103%.[9] The government needs to foster the introduction of new financial products and services, including Islamic finance, to increase nonbank intermediation. Finally, the government has encouraged development partners to support inclusive finance to raise the public's awareness of the benefits provided by the financial markets and to protect against their misuse.[10]

B. Impact, Outcome, and Outputs

5. The impact of FMDIP2 will be an expanded nonbank finance subsector and hence more intermediation. The outcome will be greater domestic participation in the nonbank finance industry.

6. **Output 1: Strengthened Supervisory Capacity and Enhanced Financial Stability.** To ensure the safety and stability of the financial system, an inter-governmental, cabinet level Financial System Stability Council (KSSK) was formed to enhance the government's response to financial market stress.[11] To complement and strengthen these actions, FPO has increased its capacity for independent macro-financial modeling and has initiated efforts to identify leading crisis indicators, better manage FX borrowing in the private sector and reduce Indonesia's output gap, among others. The government has continued to support the ongoing development of OJK by providing budget support and resources until fiscal independence is achieved in 2016. At the same time, OJK has launched an 8-point strategic plan, a Budget and Performance System (MSAK), and a human resources function which includes a recruitment, training and retention program. To strengthen its regulatory oversight, OJK has adopted a framework for consolidated supervision in line with international standards to ensure the smooth integration of the banking supervision which began on 1 January 2014.

7. **Output 2: Accelerated Development of the Financial System.** Development of a deeper, and more diversified financial sector complements efforts to increase stability and serves to provide long-term financing for needed infrastructure. In recognition, OJK has fostered the development of Islamic Finance through a 3-pillar strategy to increase growth, improve

[7] ADB. Asia Bond Monitor. November 2013. Manila.
[8] FPO is an agency under the Ministry of Finance that has assumed the government's role and responsibilities as the key policy driver for the financial sector.
[9] The small size of the debt markets actually accentuates volatility and financial sector instability.
[10] According to the Chief Economist at Bank Mandiri, only 20 percent of the population, aged 15 years and older, has access to the financial sector. Only about 1 percent of the population can access the capital markets.
[11] The Financial System Stability Coordination Forum (KSSK) utilizes an MOU to encourage coordination between the Ministry of Finance (through FPO), Bank Indonesia, OJK and the Deposit Insurance Fund covering surveillance, exchange of information, and implementation of crisis management protocols.

prudential regulation and increase operational synergies between the sub-sectors. Regulations have been modified to enable conventional follow-on equity offerings, encourage the securitization of housing loans and to eventually allow e-sales and repurchases of mutual funds. To further international integration, the government completed a Financial Stability Board Country Peer Review and has joined IOSCO's Annex A. OJK continues to support regional integration by adopting Asean Capital Markets Forum (ACMF) guidelines for mutual recognition of prospectus for cross-border offerings of collective investment schemes and by continuing to participate in the development of cross-border dispute resolution and enforcement mechanisms.

8. **Output 3: Strengthened Consumer Protections, Financial literacy and Inclusiveness.** Guided by the 3-pillar action plan prepared by the Office of the Vice President, OJK has launched a financial inclusion outreach program supported by MOU's signed with various educational institutions and societal groups'.[12] OJK has provided an enabling environment for both conventional and Shariah based microfinance, through legislation, which covers licensing, operations and permitted activities. In addition, OJK has conducted pilots for branchless banking in 5 provinces and has issued a road map to develop micro-insurance. To strengthen consumer protections, OJK launched a financial consumer complaint hotline and an informational website and has established a Securities Investor Protection Fund to cover equity holdings of small investors to IDR50 billion per event.

9. **Subprogram 2.** A total of 36 indicative actions have been identified which largely reflect the completion of reforms begun under subprogram 1. For example, OJK will achieve full independence and initiate the conduct of consolidated supervision. Likewise, FPO will be provided with a formal legal mandate and issue actionable policy recommendations. Finally, the government will implement its financial inclusion action plan, adopt a number of measures to strengthen consumer protections and launch a Sharia compliant pension fund.

C. Program Costs and Financing

10. Subprogram 1 of FMDIP2 will be set at $400.0 million and will be funded from ADB's ordinary capital resources (OCR). The loan size reflects the government's financing needs for 2014 which are budgeted at $13.0 billion, of which programmed official external borrowing amounts to $3.6 billion. Development expenditures associated with FMDIP2 remain significant with direct government support again expected to exceed $400 million.

Table 1: Tentative Financing Plan

Source	**Amount** ($ million)	**Share of Total** (%)
Asian Development Bank	400.0	100.0
Total	**400.0**	**100.0**

Source: ADB

D. Indicative Implementation Arrangements

11. The executing agency will be the Coordinating Ministry of Economic Affairs, reflecting the government's desire to assure cross-agency coordination. The implementing agencies will be: (i) FPO; (ii) Bank Indonesia; (iii) and OJK. Subprogram 1 will be implemented from October 2012 to June 2015 and will be disbursed upon accomplishment of all agreed policy actions. Subprogram 2 will be implemented from July 2015 to March 2017 with the size of the program dependent on the strength and progress of reforms.

[12] This plan is based on the recently completed financial literacy survey.

II. DUE DILIGENCE REQUIRED

12. The absence of a national procurement law coupled with weak procurement capacity increases the vulnerability of the procurement system to corruption risks. Nonetheless, these risks are being progressively mitigated by the government's efforts to combat corruption. Laws and regulations have been promulgated to strengthen state finance, state treasury and state audit. Key budget documents are now available on the web and audits by the Supreme Audit Board show an improvement in the quality of government financial statements. An Anti-Corruption Commission (KPK) and Financial Transaction Reports and Analysis Center (PPATK) have been established with mandates to fight corruption. Building on this momentum, ADB is supporting improvements in the transparency and efficiency of public procurement processes.[13] Progress is demonstrated in Transparency International's Corruption Perception Index for Indonesia, which has improved from 2.6 and 126th place in 2008 to 3.0 and 100th place in 2011.

III. PROCESSING PLAN

A. Risk Categorization

13. FMDIP2 is classified as "complex" as the program size exceeds $50 million. However, risk is mitigated somewhat as ADB's previous experience in the sector has been satisfactory and all executing and implementing agencies have proven to be reliable partners.

B. Resource Requirements

14. Project preparatory work is being supported by TA7466 and TA8326 which are funding a variety of reforms in both FPO and OJK.[14] [15] In addition, regional TA 7576 is being used to support the implementation of reforms under the ACMF.[16]

C. Processing Schedule

15. The proposed processing schedule is in Table 2 below.

Table 2: Proposed Processing Schedule[17]

Milestones	Expected Completion Date
Concept paper clearance	16-30 June 2014
Loan fact-finding mission	6-10 October 2014
Management review meeting	8-12 December 2014
Loan negotiations	19-23 January 2015
Board circulation	5 March 2015
Board consideration	26 March 2015

Source: ADB

IV. KEY ISSUES

16. None.

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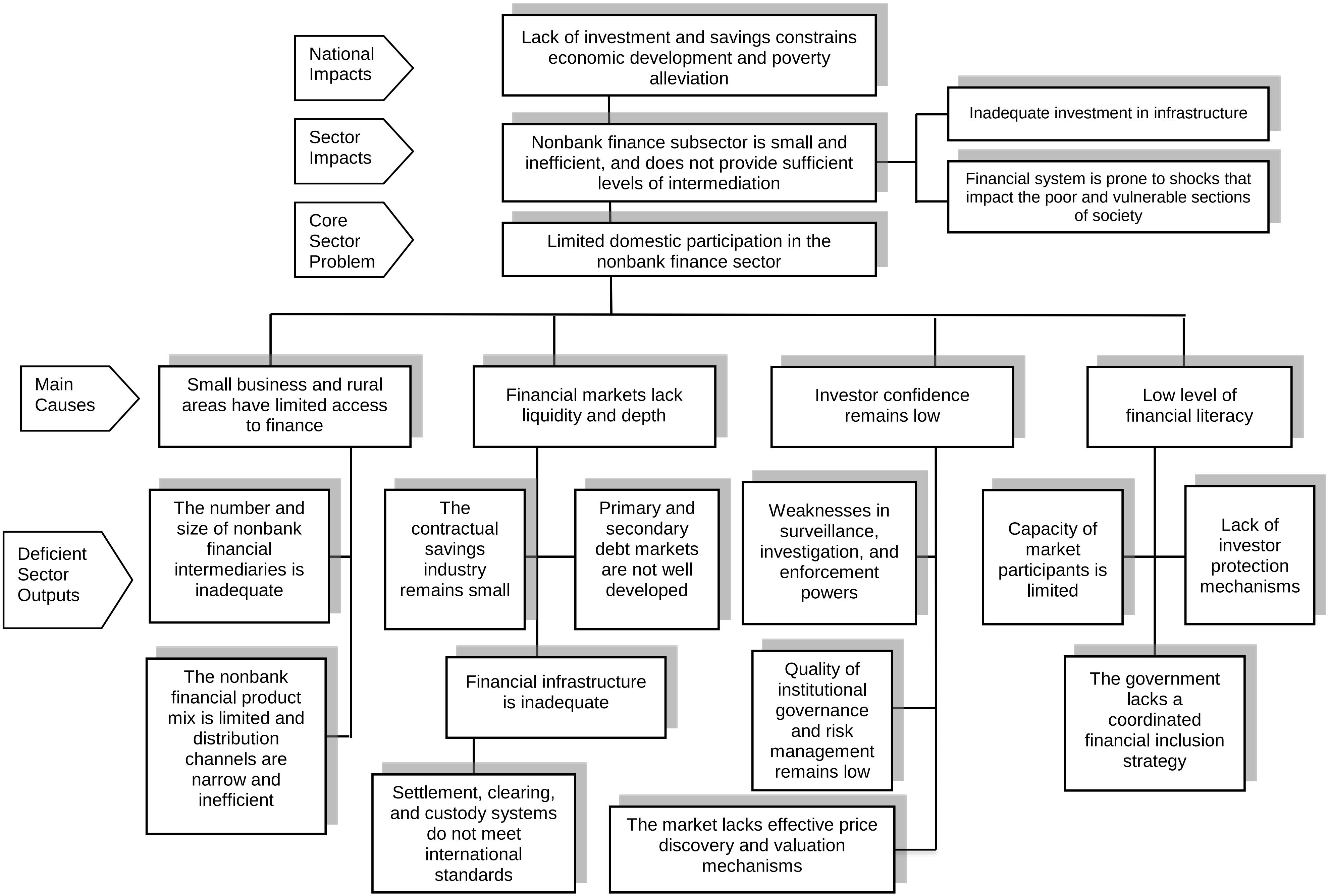
[13] ADB. 2010. *Technical Assistance to Indonesia for Strengthening National Public Procurement Processes*. Manila.
[14] ADB. 2010. *Technical Assistance to Indonesia for Strengthening the Capital Market*. Manila.
[15] ADB. 2013. *Technical Assistance to Indonesia for Enhancing Financial Sector Governance, Risk Management and Depth.* Manila.
[16] ADB. 2010. *Regional Technical Assistance Promoting an Interlinked ASEAN Capital Market.* Manila.
[17] The program is listed as standby for 2104 and firm for 2015.

BASIC PROJECT INFORMATION

Aspects	Arrangements
Modality	The Second Financial Market Development and Integration Program (FMDIP2) is a programmatic based program cluster consisting of two subprograms.
Financing	Financing will be sourced from ADB's ordinary capital resources (OCR). Subprogram 1 is programmed for $400 million while subprogram 2 has been programmed for an indicative amount of $400 million depending on the strength and pace of reforms.
COBP/ RCOBP	FMDIP2 is fully aligned with the 1st pillar of the CPS for 2012–2014 which is inclusive growth. ADB will support programs and catalytic projects, including PPPs, within five areas of focus, including; i) development of the nonbank financial sector to mobilize sources of long-term finance, ii) increasing access to finance for MSMEs, and iii) support to the emerging areas of housing finance and funding for energy efficiency. At the request of the government, FMDIP2 was dropped from the CPS for 2014 given the transitional nature of the newly created Integrated Financial Services Authority, or "OJK'. However, the government has now requested ADB to restore FMDIP2 for processing in 2014 based on the disposition of OJK transition issues, the significant development costs associated with these efforts and the heightened focus on financial sector stability in the wake of the tapered withdrawal of quantitative easing by the U.S Federal Reserve System.
Classification	Sector (subsectors): Finance (finance sector development, money and capital markets, insurance and contractual savings) Themes (subthemes):Economic growth, governance, capacity development, and private sector development (widening access to markets and economic opportunities, economic and financial governance, institutional development and policy reforms) Targeting classification: General intervention Gender mainstreaming category: No gender elements (SP1 and SP2) Location impact: National (high) Safeguards: C (Environment); C (Involuntary Resettlement); C (Indigenous Peoples)
Risk categorization	Complex.
Partnership(s)	ADB will not engage in co-financing or other partnership agreements.
Use of a PBA	Yes
Parallel PIU	No
Department and division	Southeast Asia Department (SERD) Public Management, Financial Sector, and Trade Division (SEPF)
Mission leader and members	S. Schuster, Senior Financial Sector Specialist – Mission Leader R. Hattari, Public Management Economist, SERD S. Ismail, Financial Sector Specialist, SERD Senior Counsel, Office of the General Counsel L. Jovellanos, Senior Economics Officer, SERD M. Parra, Operations Assistant, SERD

ADB = Asian Development Bank; COBP = country operations business plan; CPS = country partnership and strategy; FMDIP2 = Second Financial Market Development and Integration Program; MSME = micro, small, and medium-sized enterprises; OCR = ordinary capital resources; OJK = Otoritas Jasa Keuangan (Integrated Financial Services Authority); PBA = programmatic based approach; PIU = project implementation unit; PPP = Public Private Partnership; RCOBP = regional cooperation operations business plan; U.S. = United States.

PROBLEM TREE



DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact: An expanded nonbank finance subsector and hence more intermediation	By 2018: Increase in nonbank finance subsector assets to 68% of GDP (2012 baseline: 62% of GDP)	OJK quarterly reports	**Assumptions:** Economic conditions remain positive and conducive to business expansion. **Risks:** Enhanced coordination of financial sector reform is not achieved.
Outcome: Increased domestic participation in the nonbank finance subsector	By 2017: The level of domestic ownership of tradable government securities increases to 75% (2012 baseline: 67%) Proportion of government bonds held by the domestic contractual savings subsector increases to 28%. (2012 baseline: 22%)	DMO periodic reports Asia Bonds Online website	**Assumptions** Market volatility does not significantly reduce risk appetite of investors. **Risks** Continuity of reforms is lost in the transition of Executing Agencies.
Outputs 1. Strengthened Supervisory Capacity and Enhanced Financial Stability	By 2015: OJK issues guidelines for consolidated supervision (2012 baseline: non-bank supervision only) At least 500 new staff hired by OJK. (2012 baseline = 0) KSSK meets at least quarterly each year. (2012 baseline = less than quarterly) By 2017: OJK achieves fiscal independence. (2012 baseline = budget from government) FPO establishes Centre for Financial Sector Development. (2012 baseline = not established) OJK Performs at least one fully consolidated on-site	OJK quarterly reports OJK quarterly reports OJK quarterly reports OJK quarterly reports MOF website OJK quarterly reports	**Assumptions** The political process does not prevent or delay OJK's effective exercise of fiscal and operational independence. FPO receives a continuing budget allotment beginning in 2015. The legislative process approves the amended sector laws in a reasonable timeframe. **Risks** Technical capacity of OJK and FPO prove insufficient to support the contemplated reforms Implementation of pension reform is protracted.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	examination. (2012 baseline = consolidated supervision not practiced)		
2. Accelerated Development of the Financial System.	By 2015: At least one international capital markets related organization joined. (2014 baseline = OJK had not yet joined international agreements)	OJK quarterly reports	
	Strategy for development of Islamic finance launched. (2012 baseline = no strategy)	OJK quarterly reports	
	By 2017: At least 1 IPO with follow-on offerings. (2012 baseline = 0)	OJK quarterly reports	
	At least one cross-border offering of debt, equity or common investment schemes. (2012 baseline = 0)	OJK quarterly reports	
	Number of Islamic securities increases by 15%. (2012 baseline = 321)	OJK quarterly reports	
3. Strengthened Consumer Protections, Financial literacy and Inclusiveness	By 2015: Financial inclusion outreach program initiated and covers at least 1,000 individuals. (2012 baseline = no financial inclusion outreach program)	OJK quarterly reports	
	Customer complaint hotline and financial literacy website launched. (2012 baseline = 0)	OJK quarterly reports	
	By 2017: Financial inclusion outreach program covers a cumulative 10,000 individuals at least 40% of which are women. (2012 baseline = no financial inclusion outreach program)	OJK quarterly reports	
	Total number of microfinance loans increases by 15% (2012 baseline = TBD)	Source TBD	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	Customer complaints resolved exceeds 4,000 per year. (2012 baseline = 506 per quarter)	OJK quarterly reports	
Activities with Milestones **1. Strengthened Supervisory Capacity and Enhanced Financial Stability** 1.1 Government budget for OJK finalized (July 2014). 1.2 500 new staff assumes day-to-day responsibilities in OJK (December 2014). 1.3 KSSK fully authorized in law (September 2015). 1.4 OJK issues own budget (December 2015). 1.5 FPO begins issuance of own policy statements and progress reports (April 2016). 1.6 Harmonized sector laws socialized and published as priority legislation (December 2016). **2. Accelerated Development of the Financial System.** 2.1 Strategy for development of Islamic finance approved and initiated (September 2014). 2.2 Corporate governance roadmap published (June 2015). 2.3 Government adopts ACMF harmonized standards for issuance of debt/equity securities (December 2015). 2.4 OJK approves issuance of debt security backed by home mortgage loans (April 2016). 2.5 Expanded mutual fund distribution guidelines adopted (June 2016). 2.6 Sharia pension launched (September 2016). **3. Strengthened Consumer Protections, Financial literacy and Inclusiveness**. 3.1 Financial literacy outreach program establishes gender aggregated data collection (December 2014). 3.2 OJK releases 1st regulation to implement microfinance law (September 2015). 3.3 Alternative dispute resolution mechanisms become effective and begin resolving cases (March 2016). 3.4 OJK completes stakeholder consultations in support of establishing a policy holder protection fund (June 2016)		**Inputs** **ADB:** Subprogram 1: $400,000,000 Subprogram 2: $400,000,000 (indicative)	

GDP = Gross domestic Product, DMO = Debt Management Office, FPO = Fiscal Policy Office, IPO = Initial Public Offering, KSSK = Financial System Stability Council, MOF = Ministry of Finance, OJK = Otoritas Jasa Keuangan or the Integrated Financial Services Authority.
Source: Asian Development Bank

INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Indonesia	Project Title:	Second Financial Market Development and Integration Program, Subprogram 1
Lending/Financing Modality:	Policy-Based Program Loan Cluster	Department/ Division:	Southeast Asia Department/Public Management, Financial Sector, and Trade Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy: The government incorporated the goals and objectives of its Poverty Reduction Strategy Paper (2005) into Indonesia's National Medium-Term Development Plan (NMTDP) for 2004–2009. The Country Strategy and Program (CPS) 2006–2009 incorporated and supported the goals of the NMTDP and identified five areas of engagement, including deepening of the financial sector. This emphasis has continued into the new NMTDP for 2010–2014 and has been incorporated into pillar 1 of the ADB's CPS for 2012–2014, which is inclusive growth. As a basis for these programs, the government has determined that the Indonesian economy will need to grow an average 6.4%–6.8% per annum over the term of the NMTDP to achieve inclusive growth, a poverty rate below 10%, and an unemployment rate below 6%. To attain these targets, aggregate domestic investment of Rp11.9 billion–Rp12.5 trillion will be required and a large portion of this amount will have to come from the bank and nonbank financial subsectors.

B. Targeting Classification:

☒General Intervention ☐Individual or Household (TI-H) ☐Geographic (TI-G) ☐Non-Income MDGs (TI-M1, M2, etc.)

The greatest impact of the proposed program loan will nation-wide by enlarging the finance sector and providing an enabling environment for capital market development. The program loan will not target any specific population segment or geographic area although parts of the program, including the development of microfinance and micro-insurance, will likely have a positive impact on the rural poor.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. The financial system is under-developed and must be deepened and enlarged to ensure the government can achieve its over-arching targets for aggregate domestic investment, and in turn economic growth, poverty reduction and employment. Limited financial sector development also has a disproportionate impact on the poor. The recently completed financial inclusion survey indicates that only half of the total population is served by the formal financial system. Approximately 80% of Indonesia's poor have no access to formal financial services and nearly 20% do not have access to financial services at all with the excluded concentrated in rural areas outside of Java and working in the agricultural sector.[18] Studies show that informal lending carries annual interest rates in excess of 40%, which are 2x the rates offered through the formal financial sector. This lack of access to savings, affordable loans and money transfer services constrains the ability of the poor to improve their lives.

2. Impact channels and expected systemic changes: Empirical studies, including one by the International Monetary Fund have supported the direct relationship between financial sector development and poverty reduction, and have identified 3 discrete channels of transmission.[19] First, the link between economic growth and financial sector development is well known, has been empirically supported, and serves as the basis of the government's focus on financial sector development to reduce poverty. The government's focus on financial inclusion recognizes the contribution of the second channel, access to finance. This channel is direct as financial sector development allows more entrepreneurs, especially those less well-off, to obtain affordable credit which can then be used to expand and grow their productive endeavors. In addition, the government's increased focus on financial literacy holds the potential to empower consumers, especially those less well off, to increase savings and to utilize financial services in more responsible ways. The third channel is indirect as financial sector development generally increases financial sector stability. Stability benefits the poor because poor households have fewer and less diversified assets and are thus much more vulnerable to instability in the financial sector than the rich.

3. Focus of (and resources allocated in) the PPTA or due diligence. PPTA will not be utilized.

4. Specific analysis for policy-based lending. Program impact is high level leading to economic growth which is expected to occur over the medium (4-10 years) to long term. However, more immediate reforms, such as the development of low cost savings, increased availability of affordable credit, and cheaper remittance channels are expected to have a more immediate impact over the short-term (1–3 years).

[18] National Strategy of Financial inclusion Working Group. 2012. *National Strategy for Financial inclusion*. Jakarta.

[19] G. Jeannwney, S. Kpodar and K Kpodar. 2008. Financial Development and Poverty Reduction: Can there be a benefit without a cost? *Working Paper #62.* Washington, DC: International Monetary Fund.

II. GENDER AND DEVELOPMENT
1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program? The recently concluded financial inclusion survey noted that only about half the population of Indonesia has access to financial services. This means there are more than 110 million people who have little or no access to formal financial institutions. Approximately 80 per cent of Indonesia's poor has no access to formal financial services, and nearly a fifth do not have access to financial services at all. Residents outside of Java and those working in the agricultural sector generally have less access to financial services. The survey also identified a number of issues which pertain to women. First, approximately 80 per cent of migrant workers are women and more than 85 per cent of these women work in the informal sector and originate from dominantly poor agricultural households from rural and low-income regions. While they lack access to financial services generally, their primary needs are for a quick and low cost funds transfer service to remit their earnings to their families. In addition, among those who do access formal financial services, women exhibit different priorities. For example, women men and women in Indonesia are equally likely to have savings accounts but women are more likely to be motivated to have a bank account in order to save for future needs. Likewise, women more often purchase education insurance, whereas men prefer life insurance, and to a lesser degree, asset insurance.
2. Does the proposed project or program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? ☐ Yes ☒ No While no gender elements have been explicitly identified, the program supports a number of reforms which carry significant potential to increase access to finance for women, provide tailored support to dispute resolution and to improve consumer protection and financial literacy in a targeted way. Consultations with the government will seek to modify existing policy reforms and associated performance targets sufficient to raise SP2 to a category of Some Gender Elements (SGE).
3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality? ☐ Yes ☒ No The program provides high level support to further deepen the financial sector and to increase financial literacy, protection and stability. While no gender elements have been explicitly identified, the reforms are unlikely to widen gender inequality or to have a negative impact on women.
4. Indicate the intended gender mainstreaming category: ☐ GEN (gender equity theme) ☐ EGM (effective gender mainstreaming) ☐ SGE (some gender elements) ☒ NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT
1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. Consultations with the government were conducted prior to, and during program processing by way of missions to conduct policy dialogue with stakeholders, including OJK as financial market regulator, and the private sector including both intermediaries and investors.
2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? Program content is based, in part, on the recently completed financial literacy survey which included large segments of the poor.
3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design? NA ☐ Information generation and sharing ☐ Consultation ☐ Collaboration ☐ Partnership
4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed? ☒ Yes ☐ No Covered by the financial literacy survey.

II. SOCIAL SAFEGUARDS
A. Involuntary Resettlement Category ☐ A ☐ B ☒ C ☐ FI
1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? ☐ Yes ☒ No 2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? ☐ Resettlement plan ☐ Resettlement framework ☐ Social impact matrix ☐ Environmental and social management system arrangement ☒ None
B. Indigenous Peoples Category ☐ A ☐ B ☒ C ☐ FI 1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? ☐ Yes ☒ No 2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? ☐ Yes ☒ No

3. Will the project require broad community support of affected indigenous communities? ☐ Yes ☒ No
4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?
☐ Indigenous peoples plan ☐ Indigenous peoples planning framework ☐ Social Impact matrix
☐ Environmental and social management system arrangement ☒ None

III. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design? NA
☐ Creating decent jobs and employment ☐ Adhering to core labor standards ☐ Labor retrenchment
☐ Spread of communicable diseases, including HIV/AIDS ☐ Increase in human trafficking ☐ Affordability
☐ Increase in unplanned migration ☐ Increase in vulnerability to natural disasters ☐ Creating political instability
☐ Creating internal social conflicts ☐ Others, please specify __________________
2. How are these additional social issues and risks going to be addressed in the project design? NA

VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (v) other social risks. Are the relevant specialists identified?
☐ Yes ☒ No PPTA will not be utilized

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence? NA