

RISK ASSESSMENT AND RISK MANAGEMENT PLAN

Risk Description	Risk Assessment	Mitigation Measures or Risk Management Plan
Public Financial Management		
<p>The medium-term expenditure framework performance-based budgeting needs further improvements in relation to capital and recurrent cost implications and determination of budget ceiling for future years and baseline –to strengthen allocative efficiency of the government budget.</p>	<p>Medium</p>	<p>The Government Financial Management and Revenue Administration Project, under implementation since 2004, supports reforms aimed at strengthening efficiency, governance, and accountability in public financial management (PFM), especially in budget execution, together with treasury modernization and revenue administration. In addition, the government's 2012 medium-term strategy note seeks to improve PFM reform oversight, including strengthening the process of allocating budget resources of priority sectors, linking planning and budgeting, and strengthening the results orientation of the budget. PFM reforms are also increasingly aligned with the priorities identified in Indonesia's medium-term development plan.</p> <p>The 2012 Public Expenditure and Financial Accountability (PEFA) point to a well-functioning PFM system in Indonesia. PEFA 2012 repeat assessment, following the first assessment in 2007, demonstrates continuous progress in several aspects, albeit incrementally, resulting in tangible improvements in the quality of its PFM, together with increased transparency and independent oversight of public expenditures. Substantive improvements were identified in five of the six PEFA categories.</p>
Anticorruption		
<p>2. There are concerns on inadequate institutional accountability in the public sector, including in local governments; threats to the authority of the Corruption Eradication Commission (KPK); and revelation of judicial corruption pose a risk to development management.</p>	<p>Medium</p>	<p>Beyond the general corruption risk at the national level, OJK introduced whistle blower framework to reduce the risk of corruption. This includes OJK's Code of Ethics Infringement Reporting System (SPP OJK) to submit, manage and follow-up on reports of infringement allegedly committed by members of OJK Board of Commissioners and OJK employees. SPP OJK service is an implementation of OJK's commitment to improve the integrity of all OJK personnel as well as to support the prevention and eradication of corruption crime in OJK.</p> <p>Furthermore, ADB projects and programs will be effectively insulated from corruption risks in accordance with ADB's Anticorruption Policy (1998, as amended to date).</p>
Macroeconomic stability		
<p>3. The sharp decline in commodity prices has exposed structural weaknesses in the economy</p>	<p>Medium</p>	<p>The government has set targets of 8.0% GDP growth and reducing poverty to 7.0%–8.0% by 2019 in the National Medium Term development Plan 2015-2019. The government recognizes that promoting financial</p>

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as reflected in the adjustment to a lower economic growth path, persistent current account deficit and slow growth in exports of manufactured goods in recent years. The sharp reversals in capital flows also reflect Indonesia's vulnerability to modest shocks to global financial markets.		stability, capital market development, and improving access to financial services for the poor, are integral to meet these targets. The plan targets the financial sector growing by 10.4% per annum by 2019 compared with 8.2% in 2014. The Government has also set up the Financial Sector Stability Forum (FKSSK), which consists of Ministry of Finance, Bank Indonesia, OJK and the Deposit Insurance Corporation to oversee stability of financial sector.
Coordination for financial sector reform		
4. Coordination between government, OJK and Bank Indonesia is being improved but requires improvement for information sharing and coordinated action for financial sector reform	Medium	The Centre for Financial Sector Policies established under MOF will act as the cross ministerial government coordination mechanism. For FMDIP, the Center will coordinate with the international department of OJK.
Capacity of government and regulators		
5. Insufficient capacity of the Center of Financial Sector Policies and OJK. Capacity of the different sectors within OJK is also uneven with the capital market and non-bank financial sector supervisors lagging behind their banking counterparts.	High	Proposed CDTA will support OJK and FPA to implement proposed reforms to strengthen supervisory capacity and enhanced financial stability. The national TA will also be supplemented with regional TAs on capital market integration and implementation of prudential standards in Islamic finance. ADB supports the Center and OJK together with the Australia Indonesia Partnership for Economic Governance, the World Bank, and the International Monetary Fund.
Overall	Medium	These risks will be mitigated through sustained and ongoing policy dialogue over the period of the subprograms and targeted technical assistance

ADB = Asian Development Bank, BPKP = Badan Pengawasan Keuangan dan Pembangunan (Central Government Internal Auditor), FKSSK = Forum Koordinasi Stabilitas Sistem Keuangan (Financial Sector Stability Forum), KPK = Komisi Pemberantasan Korupsi (Corruption Eradication Commission), OJK = Otoritas Jasa Keuangan (Financial Services Authority), PEFA = Public Expenditure and Financial Accountability PP = Peraturan Pemerintah (Government Regulation), RKA-KL = Renkana Kerja dan Anggaran Kementerian/Lembaga (ministry/agency budget and work plan), RKP = Rencana Kerja Pemerintha (government work plan), SPAN = Sistem Perbendaharaan dan Anggaran Negara (State Treasury and Budget System), TA = technical assistance.