

DEVELOPMENT COORDINATION

A. Major Development Partners: Strategic Foci and Key Activities

1. The proposed Financial Market Development and Inclusion Program (FMDIP) builds on reforms initiated under earlier program-based loans of the Asian Development Bank (ADB), notably the Financial Market Development and Integration Program,¹ the Capital Market Development Program Cluster,² and the Financial Governance and Social Security Reform Program,³ which supported government reforms to develop and deepen the financial market.

2. The program focuses on financial sector deepening by strengthening the regulatory structure for financial stability, deepening the financial market, and enhancing access to financial services. The government has indicated in the National Medium Term Development Plan, 2015–2019 the importance of the financial sector as one of the key components to accelerate growth and promote inclusive growth. The program takes into account assistance provided by other multinational and bilateral aid agencies to develop aid synergies for the highest possible program effectiveness. The table below provides a summary of the recent programs of development partners in core areas related to the program.

Major Development Partners

Development Partner	Project Name	Main Areas of Support	Duration	Amount (\$ million)
ADB	Financial Governance and Social Security Reform Program (program loan and TA)	Support for OJK Blue print and non-bank financial institutions.	2002-2005	250 (loan) 1.0 (TA)
	Capital Market Development Program Cluster (program loan and TA)	Capital market development	2007–2009	600 (loan) 3.0 (TA)
	Financial Market Development and Integration Program (program loan and TA)	Capital market reforms and building capacity for long-term savings instruments	2012	300 (loan) 1.5 (TA)
	Financial Market Development and Inclusion Program (program loan)	Support for OJK as a unified regulator and financial inclusion	2015-2019	400 (loan)

¹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to the Republic of Indonesia for the Financial Market Development and Integration Program*. Manila.

² ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Technical Assistance Grant to the Republic of Indonesia for the Capital Market Development Program Cluster (Subprogram 1)*. Manila (Loan 40250-INO); ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the Capital Market Development Program Cluster (Subprogram 2)*. Manila.

³ ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Cluster, First Loan and Technical Assistance Grant to the Republic of Indonesia for the Financial Governance and Social Security Reform Program*. Manila.

Development Partner	Project Name	Main Areas of Support	Duration	Amount (\$ million)
	Enhanced Financial Sector Development (TA)	Strengthening MOF's capacity, strengthening OJK's capacity, financial market deepening, and financial inclusion	2015	1.5 (TA)
Australia	Australia Indonesia Partnership for Economic Growth	Supporting OJK through (i) audit industry oversight and regulation, (ii) strengthening risk based supervision for the insurance industry, and (iii) developing a strong human resources management and development capacity in OJK	2011–2015	27.9
	Risk Management, Economic Sustainability, and Actuarial Science Development in Indonesia	Increase the number and quality of Indonesian actuaries, and strengthen the actuarial science and risk management profession in Indonesia.	2015–2020	20
International Monetary Fund	Resident Adviser Program	International expert provided to strengthen OJK's financial conglomerate supervision function	2015-2017	Not Specified
US Treasury	Resident Adviser Program	Support for (i) capital markets, including resident adviser in Debt Management Office; (ii) insurance; and (iii) pension funds	2013-2014	Not Specified
World Bank	Financial Sector and Investment Climate Reform and Modernization Development Policy Operation (program loan)	Financial sector stability, financial sector deepening, and investment climate reform	2013	400
	Financial Sector Reform and Modernization Development Policy Operation (program loan)	Financial sector stability, financial sector deepening, and financial inclusion	2015	500
	Indonesia Financial Sector Strengthening Trust Fund	Financial sector stability, financial sector deepening, and financial inclusion	2013–2015	5

ADB = Asian Development Bank, MOF = Ministry of Finance, OJK = Otoritas Jasa Keuangan (Financial Services Authority), TA = technical assistance, USAID = United States Agency for International Development.

Sources: Asian Development Bank and development partners.

B. Institutional Arrangements and Processes for Development Coordination

3. A formal and regular development partners' forum has not been reestablished since the dissolution of the Consultative Group for Indonesia process in 2007. ADB missions regularly include dialogue with development partners to exchange information. ADB coordinates with development partners including the International Monetary Fund and the World Bank. Coordination for FMDIP will be based on the government's process through the Center for Financial Sector Policies (The Center). ADB supports the Center together with the Australia Indonesia Partnership for Economic Governance, the World Bank, and the International Monetary Fund.

4. For the implementation of FMDIP, the Center set up within Ministry of Finance will monitor the implementation of the policy action under the Policy Matrix. It will coordinate with the International Department within OJK in undertaking this task.

C. Achievements and Issues

5. Technical assistance is often provided by different development partners in support of policy actions identified by the Government of Indonesia. Close coordination between ADB's policy-based lending and the World Bank's development policy loan supports have allowed ADB and the World Bank, along with other development partners, to build on the natural synergies and complementarities that exist across their portfolios. The harmonized approach at policy and operational levels has provided a solid foundation to maximize synergies, reduce the transaction burden, and better align support with the client's needs. The proposed program provides a further platform for close coordination between development partners under a large support program, enabling a consistent approach to the investment climate, infrastructure development, and public procurement reforms as critical challenges for the country's development.

D. Summary and Recommendations

6. The proposed program builds on the success of earlier program-based loans from ADB and development partners, and the synergies and complementarities created by their harmonized approach. The modality for the program is based on continued productive dialogue with the government and development partners to support efforts to develop and implement priority medium-term reforms that are expected to bolster the country's competitiveness and economic growth. ADB's support for OJK's consolidated master plan is important as an anchor of reforms in the financial sector as well as coordinating with development partners in different areas and sub sectors.