



Technical Assistance Report

Project Number: 48466-001
Policy and Advisory Technical Assistance (PATA)
December 2015

Republic of Indonesia: Enhancing the Regulatory Framework of Financial Sector Development and Oversight

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 23 November 2015)

Currency unit	–	rupiah (Rp)
Rp1.00	=	\$0.00007
\$1.00	=	Rp13,648

ABBREVIATIONS

ADB	–	Asian Development Bank
BKF	–	Badan Kebijakan Fiskal (Fiscal Policy Agency)
FKSSK	–	Forum Koordinasi Stabilitas Sistem Keuangan (Financial Sector Stability Forum)
FMDIP	–	Financial Market Development and Inclusion Program
FSAP	–	Financial Sector Assessment Program
ICT	–	information and communication technology
MOF	–	Ministry of Finance
OJK	–	Otoritas Jasa Keuangan (Financial Sector Agency)
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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POLICY AND ADVISORY TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 48466-001	
Project Name	Enhancing the Regulatory Framework of Financial Sector Development and Oversight	Department /Division	SERD/SEPF
Country	Indonesia	Executing Agency	Fiscal Policy Office-Ministry of Finance
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Money and capital markets		1.50
		Total	1.50
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 3: Money and finance		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Organizational development	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Private sector development (PSD)	Promotion of private sector investment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. TA Category:	B		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		1.50	
Policy and advisory technical assistance: Technical Assistance Special Fund		1.50	
Cofinancing		0.00	
None		0.00	
Counterpart		0.08	
Government		0.08	
Total		1.58	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. INTRODUCTION

1. The proposed technical assistance (TA) aims to support the Government of Indonesia in enhancing the regulatory framework for financial sector development and its oversight at the newly established Financial Sector Agency (OJK) and at the Ministry of Finance (MOF).¹ The oversight of the financial sector in Indonesia entered a new phase with the establishment of the OJK in 2011, which is now responsible for regulating the financial sector; the MOF has taken on a new role as the policy maker for financial sector development. The TA will support the government in the implementation of Subprogram 2 triggers of the Financial Market Development and Inclusion Program (FMDIP).² The Asian Development Bank (ADB) and the government agreed on the TA impact, outcome, outputs, cost estimates, financing plan, implementation arrangements, and outline terms of reference for consultants. The design and monitoring framework is attached as Appendix 1.

II. ISSUES

2. **Indonesia's financial sector remains small compared with its regional peers.** In 2013, the financial sector assets (bank credit, market capitalization, and bonds) represented 103% of gross domestic product compared with about 194% for the Philippines and over 300% for Malaysia, Singapore, and Thailand. Moreover, the ratio of financial sector assets to gross domestic product has remained relatively constant in Indonesia since 2010, indicating that financial sector deepening, especially the creation of a more liquid and lower-cost capital market, has remained a challenge since the end of the global financial crisis. In addition to being underdeveloped, Indonesia's financial sector is not inclusive, and thus poses a development problem. In 2014, only 21.9% of the poorest 40% of the Indonesian population had savings at a financial institution and over 40% of the population did not borrow, with only 13.1% having borrowed from a financial institution.³ Among those who did not borrow, 60% said they were not considered creditworthy, which suggests that the financial services provided may not be suitable for all segments of society. In addition, while a sizable percentage of those who did not save cited lack of resources and employment as contributing factors, 7% said they either do not understand financial services or see a benefit from them. Promoting financial inclusion and financial literacy can address this challenge, as increasing basic savings and investments—especially among the poorest population—could raise income levels and reduce gaps in income distribution.

3. **Capacity development of OJK, as the new financial regulator, is needed.** The OJK law, which was approved in 2011, established the OJK as the unified financial regulator. In its new role, OJK needs to develop the technical and regulatory capacity for an independent and unified regulator to (i) strengthen the regulatory structure for financial stability, (ii) deepen the financial market, and (iii) enhance access to financial services. More specifically, on financial sector stability, there needs to be an effective coordination between the government and OJK. An effective coordination will improve information sharing, which can help to address financial stability issues in a timely and coordinated manner. In deepening the financial market, OJK will need to support an enabling environment that is conducive to financial sector development.

¹ The TA first appeared in the business opportunities section of the website of the Asian Development Bank (ADB) on 25 September 2015.

² ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan for Subprogram 1 to the Republic of Indonesia for the Financial Market Development and Inclusion Program*. Manila.

³ Statistics are based on the 2014 Global Financial Inclusion Database, which can be compared over a time series. Other databases may contain different statistics depending on the methodology adopted.

Such OJK's support can be the adoption of international standards. For increasing financial inclusion, OJK can improve access to financial services by improving financial literacy and strengthening consumer protection.

4. Adoption of international standards will strengthen OJK's regulatory capacity.

These include standards recommended by the Financial Stability Board country peer review.⁴ In 2014, OJK signed the Multilateral Memorandum of Understanding Concerning Consultation and Cooperation and the Exchange of Information, thus becoming a full member of the International Organization of Securities Commissions. OJK is also committed to coordinate with and build capacities of nonfinancial sector authorities such as the Ministry of Law and Human Rights, which is responsible for company registration. OJK also joined the Islamic Financial Services Board—the international standard-setting body for Islamic banking, capital market, and insurance based on Islamic finance principles.

5. Ministry of Finance established a new Center on Financial Sector Policy under MOF's Fiscal Policy Agency (BKF).

Their functions are to (i) develop policies for the financial sector, and (ii) coordinate financial sector development across the government and OJK. The government's coordination function is particularly important for reforms that involve multiple stakeholders, such as (i) financial inclusion; and (ii) development of Islamic finance and capital market products, including policies regarding tax treatment of these instruments. The government also set up the Financial Sector Stability Forum (FKSSK) to promote better coordination and information sharing during normal times and times of distress or crisis, and to implement crisis management protocol. Each member of the FKSSK is responsible for developing a standard operating procedure, which will support the FKSSK's crisis management protocol system. BKF, as the secretariat of the FKSSK, needs to strengthen its capacity, particularly with regard to coordinating implementation of the standard operating procedures for members of the FKSSK. The TA will support the government in these areas.

6. Financial inclusion is a priority for the government and OJK.

Enhancing access to financial services will require the government and the OJK to improve the financial inclusion regulatory framework and educate different segments of society on the importance of the financial system. The TA will implement some financial inclusion initiatives related to the implementation of the FMDIP Subprogram 2 policy triggers. These initiatives include the following: (i) improvement in the regulatory framework for financial inclusion; (ii) improvement of the methodology of the OJK's financial literacy surveys and development of a database for financial literacy; (iii) establishment of a system that can monitor and supervise 500,000 microfinance institutions across Indonesia; (iv) improvement in branchless banking initiatives by expanding geographical coverage and the number of services provided; and (v) establishment of a knowledge sharing platform for better coordination and promotion of knowledge sharing, particularly among microfinance institutions in Indonesia as well as other countries. Moving forward, both the government and OJK need to implement Indonesia's National Financial Inclusion Strategy and improve the effectiveness of some of the country's financial inclusion programs. A follow-up TA project will be prepared for dedicated financial inclusion work to promote engagement on financial inclusion in FMDIP Subprogram 3 and beyond.

7. ADB has been a developing partner on Indonesia's financial sector development.

ADB has undertaken six major financial sector operations in Indonesia since 1998 aimed at addressing banking, capital markets, contractual savings, and reform of regulatory structure and oversight. One of the most significant financial sector reforms was the creation of the OJK as a

⁴ Financial Stability Board. 2014. *Peer Review of Indonesia: Review Report*. Basel.

unified and independent regulator. The establishment of the OJK can be traced to 1999 when, following policy dialogue between the government and ADB, Parliament passed the Banking Law to insulate the financial sector regulatory and supervisory framework from political interference. In 2000, the government asked ADB to support the development of a blueprint for an integrated financial services supervisory institution. ADB responded with the Financial Governance and Social Security Reform Program of 2002, supporting the implementation of nonbank financial sector reform, establishing the OJK, and amending relevant laws and regulations.⁵ Due to the 1997–1999 Asian financial crisis and concerns about the transition from several regulators into one, the People’s Consultative Assembly postponed the establishment of the OJK from 2002 to 2010. This postponement enabled ADB to continue supporting the government with policy advice and capacity building through a series of programs and TA projects, including a capital market development program and TA grant in 2007, the FMDIP, and associated TA projects which focused on the capital market and nonbank financial institutions.⁶

8. Lessons from ADB’s previous operations include: (i) financial market development is complex and involves major changes to the legal and regulatory framework, institutional arrangements, and human capacity; it should therefore be guided through a medium- to long-term strategy; (ii) financial sector supervision requires strong coordination between the regulator and the government and is best achieved through consensus building and an agreed financial sector master plan; (iii) capital market development needs to be coupled with reforms to increase access to financial services, including through services such as branchless banking, to improve financial inclusion for the poor; and (iv) donor coordination is important to avoid any overlapping activities. On the last lesson, ADB has coordinated well with other development partners, including the International Monetary Fund, the World Bank, and Australia’s Department of Foreign Affairs and Trade.

III. THE POLICY AND ADVISORY TECHNICAL ASSISTANCE

A. Impact and Outcome

9. The impact will be improved resiliency and stability of Indonesia’s financial system, and expanded access to financial services for all. The impact is aligned with the government priority as reflected in the National Medium Term Development Plan, 2015–2019. The outcome will be a regulatory system for integrated supervision, adoption of international standards, and a more inclusive financial sector created. The government and OJK will introduce a number of policies to deepen the financial sector and increase financial inclusion.

B. Methodology and Key Activities

10. The TA will continue to deepen the reforms under the FMDIP. ADB will provide support to the government (through the BKF) and OJK through clearly segregated funding that will be administered by each entity. Support for the BKF will increase the agency’s capacity to (i) serve as a cross-governmental financial sector development coordination body; (ii) improve its policy-making capacity on financial sector development with a focus on nonbank financial institutions, Islamic finance, and financial inclusion; and (iii) provide vital support to the MOF as a member of the FKSSK. These efforts will deepen the government’s ability to address more difficult, cross-

⁵ 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.

⁶ 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.

sector challenges. The TA will support the OJK to strengthen its regulatory structure and integrated supervision framework, deepen the financial market, and enhance access to financial services. Priorities include strategic planning, ICT infrastructure, and the ongoing introduction of select capital market instruments and initiatives related to microfinance and financial literacy.

11. Output 1: Government's policy making and coordination of Financial Sector Stability Forum improved. The TA will (i) assist the BKF in coordinating implementation of the standard operating procedures of FKSSK members; (ii) assist the center to coordinate financial inclusion activities between relevant ministries of the government, OJK, and Bank Indonesia; and (iii) produce a policy paper that will show the importance of tax neutrality for Islamic finance and selected capital market products, such as Global Master Repo Agreement. In addition to building capacities, the TA will also procure equipment and ICT hardware for the center.

12. Output 2: Financial Sector Agency's supervisory capacity and related information and communication technology framework developed. The TA will support (i) the OJK to disseminate, implement, and monitor the consolidated financial sector master plan (para. 3); and (ii) key ICT projects, including an integrated e-licensing system, that will help the OJK in its role as an integrated supervisor. A diagnosis may be required to identify prerequisites of integrated licensing.

13. Output 3: International standards in conventional and Islamic finance implemented. The TA will support the OJK in adopting and implementing international standards, including those recommended by the Financial Stability Board country peer review, Financial Sector Assessment Program, and Islamic Financial Services Board. The TA will also assist the OJK to implement the International Organization of Securities Commissions' multilateral memorandum of understanding by coordinating with and building capacities of nonfinancial sector authorities.

14. Output 4: Financial inclusion regulatory framework strengthened with focus on microfinance, branchless banking, consumer protection, and financial literacy surveys. The TA will assist the OJK in broadening financial inclusion and literacy initiatives, including through expanding branchless banking, setting up a microfinance center, and improving the methodology of its financial literacy surveys.

15. The TA assumes a favorable global financial market. Risks stem from a sudden change in OJK's management, insufficient technical capacity of the OJK and BKF to support reforms, failure to enhance coordination of financial sector reform, and resistance to implementing international standards from vested interest groups.

C. Cost and Financing

16. The TA is estimated to cost \$1,575,000, of which \$1,500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). The government will provide counterpart support in the form of other in-kind contributions. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

17. The TA will be implemented over 2 years, and is expected to commence in January 2016 and end in January 2018. The Fiscal Policy Agency in the Ministry of Finance (MOF) is the executing agency while OJK is the implementing agency. Approval through no objection of TA

activities including consultant engagement will be based on each agency's internal process.

18. The TA will engage 188 person-months of consulting services (29 person-months of international and 159 person-months of national services) through a mix of individuals and firms. Three types of consultants will be selected by ADB: (i) a team comprising six international and three national financial sector development advisors that will be selected using quality- and cost-based selection at a ratio of 80:20, and a full technical proposal; (ii) one specialized firm for the ICT system, which will use consultants' qualification selection; and (iii) one short-term individual advisor in financial inclusion policy.

19. The consultants' activity will be conducted under two teams: financial sector development advisory team and ICT consultant team. The financial sector development advisory team will be led by a team leader who will work with teams from the BKF and the OJK in monitoring the progress of the FMDIP. The key activities will include (i) strengthening the capacity of government (through the BKF's role as the secretariat of the FKSSK) to enable better coordination; (ii) improving Indonesia's financial inclusion regulatory framework; (iii) strengthening BKF's capacity to lead and coordinate the national financial inclusion agenda; and (iv) implementing international standards in conventional and Islamic finance in OJK. The ICT consultant team will work with the OJK to develop an integrated supervisory and ICT framework. The TA will also finance a capacity-building program and procurement of ICT hardware for the center. The consultants will be engaged by ADB in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time).⁷ Any procurement will be done in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Disbursement under the TA will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

E. Governance

19. The MOF's financial management and procurement capacity to carry out the project is adequate. In June 2014, the MOF implemented an integrated financial management system that aims to make the budgeting and budget execution process more efficient, economical, effective, transparent, and accountable.⁸ ADB has also provided support to the National Public Procurement Agency to improve regulatory framework and introduce e-procurement. As a result of the government's continuing commitment to reducing corruption, the capacity of the Corruption Eradication Commission has improved markedly.⁹ ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,500,000 on a grant basis to the Government of Indonesia for Enhancing the Regulatory Framework of Financial Sector Development and Oversight, and hereby reports this action to the Board.

⁷ To improve the effectiveness of ADB's limited staff resources and to streamline TA administration, the user unit will explore the use of lump-sum, fixed-cost, out-of-pocket expense contracts.

⁸ The prevailing regulation on the integrated financial management system is the Ministry of Finance Regulation No. 154/PMK.05/2014.

⁹ From 2003 to 2012, the Corruption Eradication Commission handled 223 high-profile cases involving top government officials; of these, 169 cases have been processed in court.

DESIGN AND MONITORING FRAMEWORK

Impact of the TA is aligned with the National Medium Term Development Plan, 2015–2019^a for improved resiliency and stability of Indonesia’s financial system, and expanded access to financial services for all.

Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
<p>Outcome A regulatory system for integrated supervision, adoption of international standards, and a more inclusive financial sector created.</p>	<p>By 2018</p> <p>a. Law on financial sector stability is passed (2015 baseline: not applicable)</p> <p>b. Integrated supervision established by the OJK (2015 baseline: not applicable)</p> <p>c. Financial sector is more consistent with international standards (2015 baseline: some basic international standards adopted)</p> <p>d. Increased access to financial services and improved financial literacy (2015 baseline: preliminary initiatives to increase access and improve financial literacy led by the OJK)</p>	<p>a. Government and OJK annual reports</p> <p>b. Mission review</p> <p>c. Reports from international bodies</p> <p>d. Mission review and national financial literacy survey</p>	<p>Sudden change in OJK’s management</p>
<p>Outputs 1. Government’s policy making and coordination of FKSSK improved</p>	<p>By 2017</p> <p>1a. Action plan formulated for coordinating implementation of standard operating procedures for FKSSK members</p> <p>1b. Framework developed for coordination of financial inclusion activities between MOF, OJK, and Bank Indonesia (2015 baseline: not applicable)</p> <p>1c. Policy paper on adoption of tax neutrality to develop Islamic finance products prepared and Global Master Repo Agreement (2015 baseline: not applicable)</p> <p>1d. Equipment and ICT hardware procured for the center (2015 baseline: not applicable)</p>	<p>1a. TA review mission and FKSSK publicly disclosed information</p> <p>1b. TA review mission</p> <p>1c. TA review mission</p> <p>1d. TA review mission</p>	<p>Technical capacity of the OJK and BKF insufficient to support the contemplated reforms</p> <p>Enhanced coordination of financial sector reform is not achieved</p>
<p>2. OJK’s integrated supervisory and ICT framework developed</p>	<p>By 2017</p> <p>2a. Action plan to disseminate, implement, and monitor consolidated financial sector master plan prepared (2015 baseline: road map being</p>	<p>2a. TA review mission</p>	

Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	<p>developed)</p> <p>2b. Diagnosis provided for integrated e-licensing system (2015 baseline: not applicable)</p> <p>2c. e-licensing system implemented, including designing and maintaining of application and support for project work related to extensible business reporting language (2015 baseline: preliminary stage of implementation underway)</p>	<p>2b. TA review mission and OJK report</p> <p>2c. TA review mission and OJK report</p>	
<p>3. International standards for conventional and Islamic finance implemented</p>	<p>By 2017</p> <p>3a. Work plans developed to adopt standards recommended by the IFSB, Financial Stability Board country peer review, and the FSAP (2015 baseline: not applicable)</p> <p>3b. Annual workshops organized on disseminating and building capacities for IOSCO's MMOU (2015 baseline: not applicable)</p>	<p>3a. TA review mission, dialogue with IFSB, and OJK report</p> <p>3b. TA review missions and attendance in workshops</p>	<p>Vested interest groups resist implementation of international standards</p>
<p>4. Financial inclusion regulatory framework strengthened with focus on microfinance, branchless banking, consumer protection, and financial literacy surveys</p>	<p>By 2017</p> <p>4a. Annual work plan developed for international learning center for microfinance (2015 baseline: not applicable)</p> <p>4b. Policy paper prepared on improving methodology for financial literacy surveys (2015 baseline: not applicable)</p> <p>4c. Workshops on branchless banking organized outside of Jakarta (2015 baseline: ongoing but limited coverage)</p>	<p>4a. TA review mission</p> <p>4b. TA review mission and OJK report</p> <p>4c. TA review mission and attendance in workshops</p>	

Key Activities with Milestones

Output 1. Government's policy making and coordination of FKSSK improved (October 2015–June 2017)

- 1.1 Procure equipment and ICT hardware for the center (January 2016)
- 1.2 Review status of standard operating procedures for each FKSSK member (April 2016)
- 1.3 Develop action plan to support FKSSK in coordinating standard operating procedures (June 2016)
- 1.4 Consult the MOF, OJK, and Bank Indonesia on their respective financial inclusion initiatives (August 2016)
- 1.5 Assist MOF in developing framework for coordination of financial inclusion (November 2016)

<p>Key Activities with Milestones</p> <p>1.6 Assist MOF in analyzing impact assessment of tax implications on Islamic finance and capital market products (June 2016)</p> <p>1.7 Consult government and OJK on findings (January 2017)</p> <p>Output 2. OJK's integrated supervisory and ICT framework developed (October 2015–June 2017)</p> <p>1.8 Workshops held to socialize consolidated master plan (November 2015)</p> <p>1.9 Consult OJK and provide necessary support for implementation and monitoring of master plan (January 2016)</p> <p>1.10 Diagnostic assessment of prerequisites of integrated e-licensing (November 2015)</p> <p>1.11 Consult with OJK ICT department and user department on implementation of e-licensing (March 2016)</p> <p>1.12 Implement agreed ICT technical work, including designing and maintaining application and support for project work related to extensible business reporting language, to finalize e-licensing framework (throughout TA period)</p> <p>Output 3. International standards in conventional and Islamic finance implemented (October 2015–June 2017)</p> <p>1.13 Review existing implementation of international standards (January 2016)</p> <p>1.14 Develop work plans to adopt standards recommended by the IFSB and Financial Stability Board country peer review, and FSAP (March 2016)</p> <p>1.15 Provide technical support, including review of draft regulations, to implement these standards (throughout TA period)</p> <p>1.16 Consult with OJK on which nonfinancial sector authorities to target for workshop on IOSCO's MMOU (February 2016)</p> <p>1.17 Support workshops for OJK to discuss the MMOU with these authorities (throughout TA period)</p> <p>Output 4. Financial inclusion regulatory framework strengthened with focus on microfinance, branchless banking, consumer protection, and financial literacy surveys (October 2015–June 2017)</p> <p>1.18 Identify areas to support in setting up microfinance center, including consultation with other development partners (November 2015)</p> <p>1.19 Develop annual work plan for microfinance center (March 2016)</p> <p>1.20 Review existing methodology of financial literacy surveys (March 2016)</p> <p>1.21 Draft policy paper to improve methodology (September 2016)</p> <p>1.22 Discuss findings with OJK and provide support to implement revised methodology and develop database (November 2016)</p> <p>1.23 Organize workshops on branchless banking outside Jakarta at least annually (throughout TA period)</p> <p>Inputs</p> <p>Asian Development Bank: \$1,500,000</p> <p>Note: The government will provide counterpart support in the form of counterpart staff, and other in-kind contributions.</p> <p>Assumptions for Partner Financing</p> <p>Not applicable.</p>

BKF = Fiscal Policy Agency, FKSSK = Forum Koordinasi Stabilitas Sistem Keuangan (Financial Sector Stability Forum), FSAP = financial sector assessment program, ICT = information and communication technology, IFSB = Islamic Financial Services Board, IOSCO = International Organization of Securities Commissions, MMOU = multilateral memorandum of understanding, MOF = Ministry of Finance, OJK = Otoritas Jasa Keuangan (Financial Sector Agency), TA = technical assistance.

^a Government of Indonesia, National Development Planning Agency. 2014. *National Medium Term Development Plan 2015–2019*. Jakarta (<http://www.bpkp.go.id/sesma/konten/2254/Buku-I-II-dan-III-RPJMN-2015-2019.bpkp> (accessed 20 July 2015)).

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	620.8
ii. National consultants	323.2
b. International and local travel	139.5
c. Reports and communications	46.5
2. Training, seminars, and conferences	100.0
3. Office equipment ^b	75.0
4. Miscellaneous administration and support costs ^c	45.0
5. Representative for contract negotiations	30.0
6. Contingencies	120.0
Total	1,500.0

Note: The technical assistance (TA) is estimated to cost \$1,575,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of other in-kind contributions. The value of the government contribution is estimated to account for 5% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

^b Equipment includes computers and software, computer video projectors, printers, and photocopiers, which will be procured or rented in accordance with ADB's Procurement Guidelines (2015, as amended from time to time). Equipment will be turned over to the executing agency upon completion of the TA.

^c Includes an administration fee, bank charges, foreign exchange fluctuations (if any), and TA administration missions.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The technical assistance (TA) will engage the following consulting services: (i) a long-term team of international and national advisors specializing in financial regulatory issues; (ii) one team of national advisors specializing in information and communication technology systems in the financial sector; and (iii) a short-term individual advisor in financial literacy.

A. Financial Sector Advisory Team

2. **International financial sector development advisor and team leader** (firm, 12 person-months, intermittent). The consultant will have appropriate postgraduate qualifications in economics, finance, or public administration, and be experienced in the management of large TA teams, preferably in Indonesia. Significant experience is required in policy aspects of financial sector development, including financial inclusion and Islamic finance. The consultant's main tasks and outputs to be delivered include the following lead, manage, and coordinate all aspects of the TA; prepare and have approved by the Fiscal Policy Agency (BKF) (the executing agency), the Financial Sector Agency (OJK) (the implementing agency), and the Asian Development Bank (ADB) an inception report focusing on management arrangements for achieving agreed outputs; support other consultants in the production of all outputs and milestones, contributing to timeliness and quality; monitor the progress of indicative policy action for ADB's Financial Market Development and Inclusion Program Subprogram 2; and, identify, in consultation with the BKF and OJK, important policy papers for publication.

3. **National financial sector development advisor, deputy team leader** (firm, 18 person-months, intermittent). The consultant will have appropriate postgraduate qualifications in economics, finance, or public administration, and be experienced in participating in and supporting the management of medium to large TA teams. Significant experience is required in financial policy aspects, including financial inclusion and Islamic finance. The consultant will work closely with and under the supervision of the team leader. The consultant's main tasks and outputs to be delivered include the following: support the leadership, management, and coordination of all aspects of the TA, including acting as team leader when the team leader is absent; support preparation and approval of an inception report, which focuses on management arrangements for achieving required outputs; assist in monitoring the progress of indicative policy action for ADB's Financial Market Development and Inclusion Program Subprogram 2; and, assist in regular discussions with the BKF and OJK on progress and issues related to implementation of indicative actions under the Financial Market Development and Inclusion Program Subprogram 2, including recommending resolutions to bottlenecks.

1. Output 1: Government's Policy Making and Coordination of Financial Sector Stability Forum Improved

4. **International financial sector stability advisor** (firm, 3 person-months, intermittent). The BKF, as the secretariat of the Financial Sector Stability Forum (FKSSK), needs to have a resident advisor that can provide input given the Ministry of Finance's new role as the policy maker for financial sector development. To support this new role, the Center for Financial Sector Policy, which focuses on financial sector development, has been established within the BKF. The resident advisor will help the BKF and the center (i) build capacities on crisis management protocol, (ii) develop an action plan for maintaining the standard operating procedures of FKSSK members, and (iii) provide policy advice to support coordination of the FKSSK. The advisor should have significant experience within the Indonesian financial market

(banking and capital market operations), with practical knowledge in financial stability and crisis management protocol.

5. **National financial inclusion coordinator specialist** (Firm, 4 person-months, intermittent). The Government of Indonesia plans to deepen financial inclusion. The specialist is expected to contribute to improving coordination between the BKF, other government agencies involved in financial inclusion, and the OJK and Bank Indonesia. The specialist will have a postgraduate degree in banking, finance, or an equivalent field and at least 10 years of recognized professional experience in microfinance, focusing on microfinance institution regulation, development of national strategies for financial inclusion, institutional reform, development, and project management. Experience in Southeast Asia, especially knowledge of financial inclusion in Indonesia and having worked on some of the government's ongoing financial inclusion programs, would be a plus.

6. **International public finance expert: taxation (firm, 2 person-months, intermittent)**. The expert should have at least 15 years of relevant experience. The expert should have a thorough understanding of general taxation of the financial sector in developed markets and of taxation of common financial products (e.g., repurchase agreements, securities lending, insurance, and margin trading) in those markets. This experience can be from either a legal or accounting perspective. In addition, the consultant should have at least 5 years of international experience in advising on taxation in developing markets. The consultant should have a civil law background or significant experience consulting in a civil law environment. Some of this experience should have been gained within Asia as a market participant, regulator, or capital markets consultant. The expert will (i) review Indonesia's existing tax structure and code and identify key aspects that affect the financial sector and financial products covering both capital markets banking and insurance; (ii) provide benchmark key aspects of financial sector taxation in Indonesia against developed markets (e.g., Australia; Hong Kong, China; Singapore; and the United States) and regional peers (e.g., Thailand and Malaysia); (iii) identify elements in the tax code that have a significant and adverse effect on financial transactions and financial sector development; and (iv) prepare and deliver a policy paper to be presented to stakeholders outlining key taxation issues to be prioritized and addressed along with a preliminary assessment of revenue lost due to the proposed rationalization of the tax code, particularly for Islamic finance and capital market products.

2. **Output 2: Financial Sector Agency's Integrated Supervisory and Information and Communication Technology Framework Developed**

7. **International financial sector monitoring and evaluation expert** (firm, 2 person-months, intermittent). The OJK has drafted a consolidated financial sector master plan with ADB's assistance. The master plan is expected to be launched by the end of September 2015. To make the master plan credible, the OJK needs to monitor its implementation. The expert should have significant experience in implementing and monitoring financial sector master plans. The expert will provide support to the technical team within OJK in developing a framework for monitoring and evaluating the master plan, including recommending indicators and deliverables if necessary. Experience working in financial regulation would be an advantage.

3. **Output 3: International Standards in Conventional and Islamic Finance Implemented**

8. **International Islamic finance regulatory specialist** (firm, 3 person-months, intermittent). The government and OJK have stated the importance of Islamic finance as part of the country's financial sector development program. The main regulation will need to promote international best practice on Islamic finance to help the private sector introduce new Islamic finance products to the market. The specialist will have a postgraduate degree in banking, finance, or an equivalent field, and at least 15 years of recognized professional experience in Islamic finance. The specialist will need to have experience in working on advising government in improving their Islamic finance regulation and has also experience in introducing new Islamic finance products to the market.

9. **International financial sector (conventional) standards specialist** (firm, 3 person-months, intermittent). The specialist should have an educational background in finance, law, or a related field, with a minimum of 8 years of work experience. The specialist must be familiar with the review mechanism of the Financial Sector Assessment Program (FSAP) and Financial Stability Board. Work experience as part of an assessment team of either the FSAP or Financial Stability Board is an advantage. The specialist will (i) review FSAP and Financial Stability Board recommendations provided to the OJK, (ii) discuss existing commitments with the OJK to adopt the standards and recommendations and establish priority that can be completed during the TA implementation period, (iii) develop a work plan to adopt the standards and recommendations; and (iv) support the OJK in reviewing regulations or circulars to adopt the standards and recommendations.

4. **Output 4: Financial Inclusion Regulatory Framework Strengthened with Focus on Microfinance, Branchless Banking, Consumer Protection, and Financial Literacy Surveys**

10. **National Islamic microfinance specialist** (firm, 3 person-months, intermittent). The specialist should have at least 8 years of working experience on Islamic microfinance and broader financial inclusion in Indonesia. The specialist will work together with the Directorate Shariah Financing of Ministry of Finance in introducing new a financial product that is Shariah-compliant and can reach a wider range of investors, such as retail.

11. **National access to finance specialist** (firm, 6 person-months, intermittent). The specialist should have at least 8 years of working experience on access to finance and broader financial inclusion in Indonesia. The Government of Indonesia has indicated access to finance as an important agenda in its poverty alleviation program. Lack of access to finance has been shown as a key obstacle not just for poor and vulnerable communities in Indonesia but even for micro and small enterprises, the majority of which run their businesses using their own funds. The expert must have deep understanding of access to finance issues in Indonesia, and a minimum of 10 years of recognized professional experience in financial inclusion. The expert is tasked to provide input on the design of financial inclusion regulatory frameworks, with the aim of improving access to finance in Indonesia.

12. **National financial survey expert** (firm, 2 person-months, intermittent). The OJK also plans to improve its financial literacy surveys to cover a more extensive range of stakeholders. The expert is expected to improve the survey methodology. The expert must have deep understanding of and a minimum of 10 years of recognized professional experience in, financial inclusion, and at least 3 years of experience in financial literacy, including survey methodology.

Experience in Southeast Asia, especially knowledge of microfinance in Indonesia, is a must. The expert is tasked with reviewing existing methodology of financial literacy surveys, drafting a policy paper to improve the methodology, discussing findings with the OJK, and providing support to implement a revised methodology and develop a database.

B. Information and Communication Technology Solution Team

(firm, 18 person-months, seven persons, continuous)

13. **National financial services strategic information consultant and team leader** (firm, 18 person-months, continuous). The OJK has identified multiple priority initiatives under its strategic information technology business plan, including e-reporting and e-licensing. Both of these initiatives are considered critical to the OJK's ability to implement consolidated supervision in an efficient, legal, and effective manner. To support these initiatives, the OJK requires TA from a financial services strategic information consultant as a knowledge partner to assist with overall design, implementation, and project management. The consultant should have at least 5 years of experience within Indonesia in the financial services sector. The consultant will (i) undertake a stock-take diagnostic assessment on requirements to complete integrated e-licensing; (ii) provide strategic information advisory support, including design, guidance, and implementation of strategic information frameworks; (iii) provide packaged solution implementation support, development of a data model for operational and analytical information infrastructure, identification of best practices, and quality assurance and audit; (iv) assist the OJK in overcoming implementation issues and challenges, such as integration, security, and performance; (v) provide miscellaneous advisory services, based on challenges encountered, during planning and implementation activities; and (vi) perform project management assistance or support functions, including detailed project planning, project execution, and monitoring.

14. **National information and communication technology expert: application development consultant** (Firm, two persons, 18 person-months, continuous). The OJK has migrated some applications from Bank Indonesia since it took over the banking supervision function. To develop and implement e-licensing, these applications will need to be maintained and synchronized with licensing applications from the other subsectors. Some new applications to support integrated e-licensing may also need to be developed. The expert should have at least 3 years of experience and will (i) provide development and implementation support for e-licensing phase 1, strategic management business applications (general ledger, budgeting, payables and receivables), securities companies and the Self-Regulatory Organization surveillance system, and enhancements to the issuer reporting system; (ii) synchronize applications of the different subsectors and develop new applications to support integrated e-licensing; (iii) develop in-house capabilities to maintain and develop business applications internally; and (iv) perform quality audit and quality assurance.

15. **National extensible business reporting language experts: business analyst** (firm, four persons, 18 person-months each, continuous). To provide essential support to the internal business process reengineering activities of the OJK's information communication technology infrastructure, the OJK will assemble a special supervision unit to perform cross-sector analysis. The business analyst will support the identification and analysis of information system requirements that will arise from the planned organization and process changes. The expert should have at least 2 years of experience, with demonstrated proficiency in application development. The expert will (i) coordinate the information and communication technology (ICT) business analyst team to outline and map the ICT requirement for licensing, regulatory reporting, and supervision requirement related to business process reengineering activities; and

(ii) support the implementation of the ICT solution, including business case development, identification and documentation of information and communication technology requirements, project planning, quality assurance and audit, and post-implementation review.

C. Short-Term Individual Advisor

16. **International financial inclusion policy advisor** (individual, 4 person-months, intermittent). The advisor should have at least 15 years of working experience in developing a financial inclusion regulatory framework in a developing country. Experience with the Government of Indonesia would be an advantage. The government and the OJK plan to implement the National Financial Inclusion Strategy. The key task of the advisor is to provide input on the design of financial inclusion regulatory frameworks, with the aim of improving the financial, consumer protection, legal, and regulatory frameworks in Indonesia.