ADB

Validation Report

Reference Number: PVR-427
Project Number: 32507-013 and 32507-023
Loan Number: 2379 and 2577
October 2015

Indonesia: Capital Market Development Program Cluster

Independent Evaluation Department

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
Bapepam-LK	–	Badan Pengawas Pasar Modal dan Lembaga Keuangan (Capital Market and Financial Institution Supervisory Agency)
CMMP	–	capital market master plan
DMF	–	design and monitoring framework
DMO	–	Debt Management Office
DOT	–	Directorate of Taxes
FSSF	–	Financial System Stability Forum
GDP	–	gross domestic product
IDX IED	– –	Indonesian Stock Exchange Independent Evaluation Department
JSX	–	Jakarta Stock Exchange
MOF	–	Ministry of Finance
NBFI	–	nonbank financial institution
OJK	–	Otoritas Jasa Keuangan (Financial Services Authority)
PCR	–	project completion report
SIPF	–	Social Investor Protection Fund
SSX	–	Surabaya Stock Exchange
TA	–	technical assistance

NOTE

In this report, “$” refers to US dollars.

Key Words

adb, asian development bank, capital markets, capital market master plan, cmmp, idx, indonesian stock exchange, nbfi, nonbank financial institution, stock exchange, validation.

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PROGRAM BASIC DATA

Project Numbers:	32507-013 and 32507-023	**PCR Circulation Date:**	Jun 2015	
Loan Numbers:	2379 and 2577	**PCR Validation Date:**	Oct 2015	
Project Name:	**Capital Market Development Program Cluster**			
Country:	Indonesia		**Approved** ($ million)	**Actual** ($ million)
Sector:	Finance	**Total Program Costs:**	600.0	600.0
ADB Financing: ($ million)	**ADF:** 0.0	**Loan:** 2379 2577	 300.0 300.0	 300.0 300.0
		Borrower:	0.0	0.0
	OCR: 2379: 300.0 2577: 300.0	**Beneficiaries:**	0.0	0.0
		Others:	0.0	0.0
Cofinancier:		**Total Cofinancing:**	0.0	0.0
Approval Date: 2379 2577	 10 Dec 2007 16 Nov 2009	**Effectiveness Date:** 2379 2577	 10 Mar 2008 10 Mar 2010	 14 Dec 2007 17 Dec 2009
Signing Date: 2379 2577	 11 Dec 2007 10 Dec 2009	**Closing Date:** 2379 2577	 31 Mar 2008 31 Mar 2010	 31 Mar 2008 31 Mar 2010
Project Officers:	V. V. Subramanian	**Location:** ADB headquarters	**From:** Dec 2007	**To:** Dec 2007
Initial Reviewers:	C. Dingcong, Consultant F. D. De Guzman, Senior Evaluation Officer, IED2	**Peer Reviewer:**	N. Subramaniam, Principal Evaluation Specialist, IED2	
Quality Reviewer:	B. Nguyen, Senior Evaluation Specialist, IED2	**Director:**	B. Finlayson, IED2	

ADB = Asian Development Bank; ADF = Asian Development Fund; IED2 = Independent Evaluation Department, Division 2; OCR = ordinary capital resources; PCR = program completion report.

I. PROGRAM DESCRIPTION

A. Rationale

1. Since the 1997 Asian financial crisis, Indonesia has undertaken key financial reforms aimed at restoring the banking sector's solvency and profitability. However, during the program preparation stage, the bank-dominated financial sector was in need of deepening to meet the country's need for long-term financing, especially in infrastructure. The nonbank financial sector remained underdeveloped, accounting for less than one-fifth of total financial assets. The capital market, although small, presented a major opportunity to contribute to growth through more efficient financial intermediation, among other things.

2. The country's 2004–2009 Medium-Term Development Plan,[1] which envisaged a sustained 6% growth rate per annum, required a well-developed capital market and nonbank financial

[1] This is also known as the Rencana Pembangunan Jangka Menengah.

sector. In response to this need, the government approved the 2004 capital market master plan (CMMP) for the period, which was to focus on capital markets strengthening, increasing legal certainty, strengthening the role of market participants, expanding products, and developing Islamic financial products. To underscore the importance of having a deep and diverse financial sector, two financial sector policy packages[2] were issued by the government in July 2006 and in July 2007. Both packages promoted financial sector reform and included measures to strengthen financial system stability.

3. The program was formulated as two single-tranche subprograms anchored on the government's medium-term reform agenda and its financial sector reform programs. The program's goal was to promote the financial sector's diversification and resilience. Subprogram 1[3] undertook reforms to strengthen transparency and information disclosure essential to build confidence in capital markets and institutions, facilitate regulatory oversight, and in turn, to promote price discovery[4] and market liquidity. Subprogram 2[5] built on the policy actions initiated under subprogram 1 in line with the government's medium-term reform agenda and the CMMP. These included improving surveillance, promoting deeper and more liquid financial markets, and strengthening the role and quality of market participants. This validation is for the program completion report (PCR)[6] covering both subprograms 1 and 2 (the program).

B. Expected Impact

4. The program's expected impact is greater finance sector resilience and diversification. The impact indicator was an increase in the nonbank finance sector's share of total finance sector assets from 20% to 25%–28% by 2011–2012.

C. Objective or Expected Outcome

5. The program's targeted outcome was greater contribution by the capital market in domestic financing. The first outcome indicator was an increase in market capitalization by 20% over the medium term by 2012 (from the baseline of Rp1,249.10 trillion in 2006). This target was revised to a 50% increase in market capitalization by 2012, as performance exceeded expectations. The second indicator was the doubling number of individual holders of market securities, equity, and government bonds, including mutual funds by 2012 (from the baseline of 215,025 in December 2007).

D. Outputs

6. The program had four intended outputs as follows: (i) enhanced information disclosure and improved price discovery (Output 1), (ii) deeper and more liquid financial markets (Output 2), (iii) better market surveillance and investor protection (Output 3), and (iv) governance and human resource capacity strengthening (Output 4). The indicators for the outputs specified in

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[2] The financial sector policy package was an annual exercise that reviewed progress on a broader set of reform sectors, while identifying and setting government targets for additional sectors.

[3] 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.

[4] Price discovery is the process of determining the price of an asset in the market place through the interactions of buyers and sellers at a given time.

[5] ADB. 2009. *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 2).* Manila.

[6] ADB. 2015. *Completion Report Indonesia: Capital Market Development Program Cluster*. Manila.

the program's design and monitoring framework (DMF) were updated in subprogram 2 to reflect the achievements of subprogram 1.[7] For Output 1—on enhanced information disclosure and improved price discovery—the indicators were updated to (i) achievement of market valuation of fixed-income instruments, and (ii) improvement in corporate governance and investor protection.

7. For Output 2—on deeper and more liquid financial assets—eight indicators were listed under subprogram 1. These were eventually expanded to 14 indicators under subprogram 2. These were (i) benchmark yield for government securities developed; (ii) short-term yield curve developed; (iii) corporate bond increased to 5% of gross domestic product (GDP) by 2012; (iv) two or three financing companies established by 2010 to provide longer-term financing for infrastructure; (v) secondary market liquidity enhanced through adoption of master repurchase agreement; (vi) clearing and settlement infrastructure enhanced leading to increased secondary market training volumes and reduction in trading costs by 10%–15% by 2011–2012; and (vii) new products issued, such as sharia-based investment products, asset-backed securities, and exchange traded funds.

8. Other indicators for Output 2 were (i) the number of listed companies increased by 35.0% by 2011, (ii) the number of investors in stock market doubled by 2011–2012 from the baseline of 215,025 in 2007, (iii) trading value and/or market capitalization increased by 5.0%–7.0% every year, (iv) assets of private pension funds increased by 5.0%–7.0% every year and private gross premium[8] to GDP increased from 1.6% to 2.0%, (v) *takaful* insurance provided,[9] (vi) merger of Jakarta and Surabaya Stock Exchanges undertaken in 2008, and (vii) issuance of sharia-based products increased through removal of tax distortions on such products and on mutual funds.

9. For Output 3—on better market surveillance and investor protection—six indicators were specified. These were (i) an appropriate regulatory structure developed leading to enhanced stability and improved regulation and operations of the capital markets and nonbank financial institutions (NBFIs) through amendments of three sector laws, (ii) investors in Indonesia gaining access to about 120 more quality stocks through participation in the Association of Southeast Asian Nations (ASEAN) trading board by 2011–2012, (iii) risk-based parameters for insurance companies and pensions funds strengthened, (iv) the insurance industry consolidated through increase in minimum capital requirements for insurance companies, (v) investor protection enhanced through investor protection fund set up by 2010–2012,and (vi) anti-money-laundering regime strengthened.

10. For Output 4—on stronger governance and human resource capacity—three indicators were identified. The first indicator was to establish the Capital Market Institute[10] in 2009 to enhance the quality of industry professionals. The second indicator was for the government to allocate a total of $18 million to meet capacity-building needs over the 2008–2012 period. The third indicator was to set up a database and user-friendly website by 2010 to provide consolidated market information.

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[7] The accomplishments of subprogram 1 exceeded some of the performance indicators such as market capitalization, number of investors, and listed companies originally envisaged in the DMF. The indicators presented in this report are based on the updated DMF.

[8] This refers to the gross premium income for contractual savings, such as for pension funds and insurance.

[9] Type of insurance system devised to comply with sharia laws, in which money is pooled and invested.

[10] This was established through the collaborative effort of the Indonesia Stock Exchange (IDX), Indonesian Clearing and Guarantee Corporation, Indonesian Central Securities Depository, University of Indonesia, and Bapepam-LK.

E. Provision of Inputs

11. Subprogram 1 (Loan 2379) was approved on 10 December 2007 and became effective on14 December 2007, a few months ahead of the envisaged effective date (Target: 10 March 2008). Subprogram 2 (Loan 2577) was approved on 16 November 2009 and became effective on 17 December 2009, also ahead of the target effectiveness date (10 March 2010). There was no loan extension for both loans. Loan 2379 was closed on 31 March 2008 and Loan 2577 on 31 March 2010. The Asian Development Bank (ADB) provided $300 million for subprogram 1 and $300 million for subprogram 2. Both subprograms were disbursed in a single tranche.

12. The program was classified Category C for involuntary resettlement, and impact on indigenous peoples and the environment under the ADB environmental categorization requirements. It was not expected to entail any involuntary resettlement nor have a negative impact on indigenous peoples or the environment.

13. Two advisory technical assistance (TAs) were attached to the program. The TA on Strengthening Regulation and Governance was approved together with subprogram 1. It was to support the capacity-building needs of the Capital Market and Financial Institution Supervisory Agency (Bapepam-LK) and to provide the government with timely advice. The TA completion report assessed it *less than successful* largely due to the limited delivery of outputs (PCR, Appendix 6, p. 49).The TA on Strengthening Indonesia's Capital Market was processed separately from subprogram 2. It was aimed at supporting the continuation of the reforms beyond the program, including the policy measures outlined in the post-program framework. The TA completion report rated the TA *successful* (PCR, Appendix 7, p. 51).The PCR did not indicate the number of person-months of consultancy services that were provided under the program.

F. Implementation Arrangements

14. The Bapepam-LK was the executing agency for both subprograms 1 and 2. It was responsible for monitoring and facilitating the implementation of the agreed reform actions. The implementing agencies for subprogram 1 were the Debt Management Office (DMO) and the Directorate of Taxes (DOT)—both under the Ministry of Finance (MOF)—the Bapepam-LK, the State Ministry of State Owned Enterprises, and the Financial System Stability Forum (FSSF). The envisaged program coordination committee was established to oversee the implementation of the policy actions and provide guidance and direction to the executing and implementing agencies. The committee was chaired by the Bapepam-LK with representatives from the DMO, DOT, State Ministry of State Owned Enterprises, National Development Planning Agency (also known as BAPPENAS), and the FSSF.

15. For subprogram 2, the implementing agencies were the Bank Indonesia, Bapepam-LK, DMO, DOT, and the Indonesian Stock Exchange (IDX). The envisaged program coordination committee was established to coordinate the implementation of the program actions and to guide and direct both Bapepam-LK and the implementing agencies. The government successfully complied with the 45 key policy actions in subprogram 1 and the 48 policy actions in subprogram 2 (paras. 24−27). The loan covenants of both subprograms were satisfactorily complied with. There were no delays in implementing the program.

II. EVALUATION OF PERFORMANCE AND RATINGS

A. Relevance of Design and Formulation

16. The PCR rated the program *relevant*. It indicated that the program design was relevant to the government's reform agenda and its goals of developing a market-oriented finance sector and private sector-led economy. This validation assesses that the program was aligned with the ADB country strategy and program for Indonesia, which identified the deepening of the finance sector to promote enhanced finance sector resilience as an area for support.[11] Specifically, it helped the government's finance sector program by focusing on capital markets with policy outcomes aligned with the government's FSSP and CMMP, which incorporated the development objectives of the Medium-Term Development Plan, 2004–2009.

17. In this validation's view, the program adequately addressed the constraints in capital market development that included weak governance, inadequate regulatory structure, lack of market transparency, shallow equities market, limited corporate bond markets, limited market products, inadequate market surveillance, lack of investor protection, and lack of industry skills. It shares the same view as the PCR that the program cluster approach was appropriate since it provided the flexibility to refine policy actions for future subprograms. The reforms were properly sequenced, building on the government's achievements in the sector. The proceeds of the subprogram loans contributed to meeting the financing needs of the government during the global financial crisis in 2008/2009.

18. Revisions were made in the policy triggers approved for subprogram 2. Eight new policy triggers were introduced to deepen the capital market, strengthen the governance of the stock exchange, strengthen the autonomy and accountability of the regulator, promote regional cooperation, enhance risk-based supervision of NBFIs, and improve the skills of market players. This validation is of the view that these new policy actions were appropriate, took into account the government's achievements, and addressed emerging needs in the market. Based on these observations, this validation assesses the program *relevant*.

B. Effectiveness in Achieving Program Outcomes and Outputs

19. The PCR rated the program *effective*. It indicated that considerable financial deepening occurred. The governance framework for capital market development likewise improved with stronger price information disclosure. Outcome targets were met. Market capitalization increased from the baseline of RP1,249 trillion in 2006 to Rp4,127 trillion in 2012, substantially exceeding the revised outcome target of a 50% increase in market capitalization. In 2009, the number of individual holders of market securities, equity, and government bonds through mutual funds was 351,489—a 63% increase from the baseline of 215,025 in 2007.[12]

20. The targets for enhanced information disclosure and improved price discovery (Output 1) were met. The pricing of market valuation of fixed-income instruments was achieved. Improved corporate governance and investor protection was realized when the Consolidated Supervisory Authority for Financial Services (OJK) implemented good governance and the Securities Investment Protection Fund (SIPF) was established.

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[11] ADB. 2006. *Country Strategy and Program: Indonesia, 2006–2009.* Manila.

[12] The target was to double the individual holders by 2012. However, no data was presented by PCR for 2012. Nonetheless, it is likely that target was met given the growth already achieved in 2009 and the improvements in the capital market.

21. Of the 14 targets for deeper and more fluid financial markets (Output 2), 12 were met. The number of listed companies grew by more than 40% from 2006 to 2013, while the number of investors in the stock market increased by 67% from 2007 to 2012. Assets of private pension funds reached Rp183 trillion in 2015, exceeding expectations from a baseline of Rp74,806 billion in 2006. In 2008, the Surabaya Stock Exchange (SSX) merged with the Jakarta Stock Exchange (JSX) and was renamed IDX. The benchmark yield for government securities and the short-term yield curve were developed. The targeted increase in corporate bond market to 5% of GDP was met. Infrastructure financing companies were established and the clearing and settlement infrastructure was enhanced. Asset-backed securities and ETFs were introduced in the IDX. In 2009, *takaful* insurance was provided. There were two unmet output indicators. At the time of PCR completion in 2014, the global master repurchase agreement was still in process. Also, sharia-based products were still charged an income tax rate of 15% by the DOT, which limits the increase in the issuance of said products.[13]

22. On better market surveillance and investor protection (Output 3), four of the six targets were met. These included the (i) establishment of a unified regulator (i.e., the OJK), (ii) implementation of risk-based supervision for insurance companies and pension funds, (iii) introduction of the SIPF, and (iv) strengthening of the anti-money-laundering regime. The two unmet targets were (i) the participation of the IDX to the ASEAN trading link, which was not realized due to the lack of a dispute-settlement system; and (ii) the consolidation in the insurance industry, which was yet to be realized.[14]

23. To strengthen governance and human resource capacity (Output 4), the Capital Market Institute was established in 2010, enhancing the quality of industry professionals. The database and user-friendly website was set up to provide consolidated market information. To enhance human resource capacity, the government was to allocate $18 million during 2008–2012 to build the institutional capacities of regulatory agencies and market institutions. However, the attainment of this target cannot be determined because data was not available.[15]

24. The policy actions of the two subprograms were achieved. Output 1 achieved the goal of enhancing information disclosure and price discovery. The regulations issued by the MOF through Bapepam-LK strengthened the progress toward real-time information. The market valuation of fixed-income securities was enhanced when a bond pricing agency was operationalized by the private sector. Market transparency was improved when Bapepam-LK issued the disclosure rules and improved its internal processes and systems to enable prompt disclosure of changes in the ownership and management of public companies.

25. Actions taken for Output 2 promoted deeper and more liquid capital markets. The government bond market was enhanced when benchmark yields for government bonds were developed, the primary dealer system was established, and regular updates to the annual auction calendar and short-term treasury bills were issued by the DMO. Regulations on short selling and margin trading in securities were revised in line with international best practices. New regulations were introduced that allowed new financial products, such as exchange traded funds and asset-backed securities. The government enacted a revised insurance law in 2014. With the merger of the JSX and the SSX, ownership of the stock exchange was broadened and governance strengthened. To promote a more conducive tax environment for capital market

[13] Government regulation 25/2009 (March) provides for same tax treatment for sharia-based products as conventional transactions.
[14] The number of insurance companies is much the same in 2013 (140) as it was in 2009 (144).
[15] The DMF in the PCR reported that data cannot be found.

development, the MOF submitted to the Parliament amendments to tax laws to (i) address tax disincentives in shariah-based products, and (ii) the full application of exempt–exempt–taxable tax treatment for pension fund investment portfolios, among other things.

26. Actions taken for Output 3 improved market surveillance and market protection. The OJK was established as an independent body to supervise capital markets, NBFIs, and banks with an oversight board. Risk-based supervisory practices were introduced to the contractual savings subsector, particularly to the pension industry. Bapepam-LK developed an implementation plan for securities market investor protection and the SIPF Corporation was established.

27. Actions taken for Output 4 strengthened governance and human resource. The foundation for stronger financial sector coordination was built when the FSSF under subprogram 1 was established, which was expanded to include the Deposit Insurance Corporation and OJK. Bank Indonesia and MOF further committed to evaluate the Financial Sector Assessment Program for a comprehensive and up-to-date diagnosis of financial vulnerabilities. On the whole, the outputs were largely met, the policy actions of the two subprograms were achieved, and the outcome of greater contribution by the capital market to domestic financing was realized. This validation assesses the program *effective.*

C. Efficiency of Resource Use in Achieving Outcomes and Outputs

28. The PCR rated the program *efficient*. Subprograms 1 and 2 were completed on schedule. The 45 key policy actions in subprogram 1 and 48 policy actions in subprogram 2 were all achieved within the agreed time frame. In this validation's view, the programmatic approach taken by the program was efficient, with the reforms properly sequenced.

29. The PCR indicated that loan proceeds for each subprogram were subsequently disbursed to defray government fiscal costs and administrative expenses incurred by various institutions that were implementing program reform measures. The size of the subprogram loans was based on the financial needs of the government, the importance of the financial sector, the significance of the reforms over the medium term, and the envisaged development impact of the program. However, the PCR did not indicate both the estimated and actual adjustment costs that were incurred. On the whole, this validation assesses the program *efficient*.

D. Preliminary Assessment of Sustainability

30. The PCR assessed the program *likely sustainable.* It indicated that laws were enacted, rules and regulations were issued, systems introduced, and the supporting infrastructure was set in place to strengthen and increase confidence in the capital market. The PCR also indicated that the government showed commitment to the program during implementation. Thus, it is likely that the reforms will be sustained. However, this validation notes that further capacity building is needed among concerned agencies, particularly for Bapepam-LK's regulatory functions. The support mechanism to institutionalize and sustain capacity development, by designating staff to appropriate positions, needs to be strengthened. This validation holds a similar view as that of the PCR that the inclusion of a post-program partnership framework to the program's design could help maintain policy dialogue beyond program completion. It could also assist in ensuring the continuation of future reforms. Given these observations, this validation assesses the program *likely sustainable*.

E. Institutional Development

31. The PCR did not have a separate assessment on institutional development. This validation is of the view that the program contributed significantly to institutional development. Laws were enacted and regulations introduced to support a more conducive environment for the capital market. The amendment of Presidential Decree 61/1998 in 2009 allowed the establishment of finance companies that could provide long-term financing for infrastructure, thus, deepening the financial market. A revised insurance law was passed to enhance the performance of the contractual savings subsector. Bapepam-LK introduced new regulations to allow new financial products in the market, such as ETFs. Disclosure rules were also issued to improve market transparency. Regulations on short selling and margin trading were revised to incorporate international best practices. Likewise, new institutions were established. These included (i) the setting up of a unified regulator—the OJK, (ii) the merger of the JSX and SSX into the IDX that strengthened the governance of the stock exchange, (iii) the SIPF Corporation that provided investor protection, (iv) the FSSF that coordinated the financial sector, and (v) the Capital Markets Institute that was built to provide professional training on capital markets. A user-friendly website was also set up to provide consolidated market information. This validation assesses the institutional development of the program *significant*.

F. Impact

32. The PCR adequately assessed the impact of the program but did not explicitly provide a rating. It noted the added value of the program to the positive developments in the finance sector. Public confidence in the capital market had increased as evidenced by the rise in market capitalization from 38.1% of GDP in 2006 to 45.3% in 2012. The number of listed domestic companies increased from 344 in 2006 to 459 in 2012. As of December 2014, the assets of the nonbank finance sector reached 13% of GDP or 33% of the finance sector's total assets, exceeding the target set in the DMF of 25%–28% by 2011–2012. On these bases, this validation rates the program impact *significant*.

III. OTHER PERFORMANCE ASSESSMENTS

A. Performance of the Borrower and Executing Agency

33. The PCR rated the performance of the government *satisfactory*. It noted that the government demonstrated strong ownership of the program from design to implementation. The agreed policy actions were achieved without delay. The PCR indicated that Bapepam-LK and the implementing agencies were committed to the reforms that enabled the successful implementation of the program. This validation assesses the performance of the government *satisfactory*.

B. Performance of the Asian Development Bank

34. The PCR assessed the performance of ADB *satisfactory*. It indicated that ADB closely monitored the progress of implementation and ensured that policy triggers are successfully completed. It also indicated that the ADB staff was responsive to the MOF requests for guidance and technical support. During program implementation, ADB was an effective partner in capital market development and led policy dialogue with the government on the reform agenda. On these bases, this validation views ADB performance *satisfactory*.

IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

A. Overall Assessment and Ratings

35. The PCR assessed the program *successful*. This validation also rates the program *successful.* It assesses the program *relevant* since it addressed the constraints to capital market development. The program was aligned with the government's development plans and the ADB country and sector strategies for the country. This validation rates the program *effective* in achieving the outcome of greater contribution by the capital market to domestic financing. Envisaged outputs were also largely met. It also rates the program *efficient* since it was implemented as planned and both subprograms were completed within the agreed time frame and within the allocated funds. This validation also assesses the program *likely sustainable* on account of the enabling laws enacted, improved regulatory structure, and institutions that were established to support capital market development.

Overall Ratings

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness in achieving outcome	Effective	Effective	
Efficiency in achieving outcome and outputs	Efficient	Efficient	
Preliminary assessment of sustainability	Likely sustainable	Likely sustainable	
Overall assessment	**Successful**	**Successful**	
Institutional development	Not rated	Significant	Refer to para. 31.
Impact	Not rated	Significant	Refer to para. 32.
Borrower and executing agency	Satisfactory	Satisfactory	
Performance of ADB	Satisfactory	Satisfactory	
Quality of PCR		Satisfactory	Refer to para. 39.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.
Source: Independent Evaluation Department.

B. Lessons

36. The PCR identified a few important lessons. It pointed out that adopting a long-term perspective based on a capital market master plan is important in guiding and shaping policy design and implementation. It also affirmed that the use of the program cluster approach provided flexibility in refining policy actions, and this could be adopted by succeeding subprograms to reflect government achievements, changes in the environment, and lessons learned. It noted that substantial TA resources are needed to implement a medium-term program and increase the likelihood of success, especially for a comprehensive program that introduces various relatively new concepts. The PCR noted that a significant number of foreign bond holders could affect fiscal sustainability during a global financial crisis, which suggests that there are new forms of risks associated with an economy transitioning from a centrally controlled economy to a market-led economy. This validation finds the lessons in the PCR suitable. This validation adds the lesson on the need for a strong ownership of the government and stakeholders to help ensure the successful implementation of a reform program.

C. Recommendations for Follow-Up

37. The PCR recommended that ADB should continue monitoring the progress of capital market reforms and to work closely with the newly established OJK. This validation agrees with the recommendation of the PCR that the momentum of the reforms spurred by the program be sustained under the next finance sector program cluster and TA projects. Some activities that are important in continuing capital market reforms include (i) increasing the capacity of the regulator in NBFIs, (ii) the passage of the law on capital markets, (iii) implementation of the insurance law, and (iv) continued discussion on tax issues affecting the capital market. This validation finds the PCR recommendations appropriate and has no additional recommendation to offer.

V. OTHER CONSIDERATIONS AND FOLLOW-UP

A. Monitoring and Evaluation Design, Implementation, and Utilization

38. ADB, in cooperation with the MOF and Bapepam-LK, carried out periodic reviews of the progress and outcomes of both subprograms. The government complied with the covenant to furnish ADB with quarterly reports and accomplished the targets and policy actions set out in the policy letter and policy matrix. This validation is of the view that the indicators in the DMF, particularly for Output 2, were too many and difficult to track.

B. Comments on Project Completion Report Quality

39. This validation rates the PCR quality *satisfactory.* The report is clear and provided adequate evidence to substantiate the ratings. The discussion on program outputs was comprehensive. The lessons presented were suitable and the recommendations were sound. The appendices clearly summarized the achievements of the program and the status of compliance with the actions on the policy matrix. Likewise, the time series data shown in Appendix 5 provided useful information on the growth of the capital market.

C. Data Sources for Validation

40. Sources used for this validation were the PCR, report and recommendation of the President for subprograms 1 and 2, and loan review mission reports.

D. Recommendation for Independent Evaluation Department Follow-Up

41. None is recommended.