



Completion Report

Project Number: 33399
Loan Number: 1965
November 2006

Indonesia: Financial Governance and Social Security Reform Program

Asian Development Bank

CURRENCY EQUIVALENTS

Currency Unit – rupiah (Rp)

		At Appraisal (15 July 2002)	Program Completion (31 December 2004)
Rp1.00	=	\$ 0.00011	\$ 0.000107
\$1.00	=	Rp9,050	Rp9,322

ABBREVIATIONS

ADB	–	Asian Development Bank
AML	–	Anti-money laundering
Bapepam	–	Bdan Pegawai Pasar Modal (Capital Markets Supervisory Agency)
Bapepam-LK	–	Indonesian Capital Market and Nonbank Financial Service Supervisory Agency
CMEA	–	Coordinating Ministry of Economic Affairs
DGFI	–	Directorate General of Financial Institutions
FATF	–	Financial Action Task Force on Money Laundering
FGRSDP	–	Financial Governance Reforms: Sector Development Program
FGSSR	–	Financial Governance and Social Security Reform Program
GDP	–	gross domestic product
LIBOR	–	London interbank offered rate
MOF	–	Ministry of Finance
OJK	–	Otoritas Jasa Keuangan (Financial Services Authority)
PPATK	–	Pusat Pelaporan dan Analisis Transaksi Keuangan (Center for Financial Transaction Analysis and Reporting)
SJSN	–	Sistem Jaminan Sosial Nasional (National Social Security System)
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) runs from 1 January to 31 December
- (ii) In this report, "\$" refers to US dollars.

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BASIC DATA

A. Loan Identification

1.	Country	Indonesia
2.	Loan Number	1965-INO
3.	Program Title	Financial Governance and Social Security Reform (FGSSR)
4.	Borrower	The Republic of Indonesia
5.	Executing Agency	Coordinating Ministry of Economic Affairs
6.	Amount of Loan	\$ 250,000,000
7.	Program Completion Report Number	PCR: INO 975

B. Loan Data

1.	Appraisal		
	– Date Started	15 July 2002	
	– Date Completed	2 August 2002	
2.	Loan Negotiations		
	– Date Started	11 November 2002	
	– Date Completed	12 November 2002	
3.	Date of Board Approval	10 December 2002	
4.	Date of Loan Agreement	18 December 2002	
5.	Date of Loan Effectiveness		
	– In Loan Agreement	17 March 2003	
	– Actual	19 December 2002	
	– Number of Extensions	none	
6.	Closing Date		
	– In Loan Agreement	31 December 2003	
	– Actual	31 December 2004	
	– Number of Extensions	2	
7.	Terms of Loan		
	– Interest Rate	Libor-Based	
	– Maturity (number of years)	15	
	– Grace Period (number of years)	3	
8.	Disbursements		
a.	Dates		
	Initial Disbursement	Final Disbursement	Time Interval
	23 December 2002	20 December 2004	23 months and 29 days
	(first tranche)	(second tranche)	
	Effective Date	Original Closing Date	Time Interval
	19 December 2002	31 December 2003	12 months and 13 days
b.	Amount (\$ million)		

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Net Amount Available	Amount Disbursed	Undisbursed Balance
Total	250	250	0	250	250	0

C. Program Data

1. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 31 December 2002 to 30 June 2003	Satisfactory	Satisfactory
From 31 July 2003 to 31 July 2003	Satisfactory	Partly Satisfactory
From 31 August 2003 to 31 July 2004	Partly Satisfactory	Partly Satisfactory
From 31 August 2004 to 31 December 2004	Satisfactory	Partly Satisfactory

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact-Finding and Policy Consultation	10–15 February 2000	3	18	Lead financial specialist Sr. financial economist Financial economist
Loan Reconnaissance	11–25 February 2000	2	30	Lead financial specialist Sr. financial economist
Reconnaissance	10–18 April 2000	2	18	Sr. financial sector specialist Consultant, Ernst & Young
Consultation	17–26 January 2001	1	10	Sr. banking sector specialist
Reconnaissance	18–23 March 2001	5	30	Manager, Financial Sector and Industry Division East Sr. financial economist Sr. banking sector specialist Financial economist Young professional
Fact-Finding	18–22 March 2002	1	5	Sr. banking sector specialist
Consultation	17–19 July 2002	1	3	Director
Appraisal	15 July–2 August 2002	3	57	Sr. Banking sector specialist Counsel Financial economist
Loan Negotiation	10–12 November 2002	4	12	Principal financial sector specialist Sr. banking sector specialist Counsel Sr. control officer
Special Review (consultation meeting at the North-America Resident Office)	5–7 February 2003	2	6	Director Sr. financial sector specialist
Loan Review	31 July–9 August 2003	2	20	Sr. financial sector specialist Assistant program analyst
Loan Review	13–20 November 2003	3	24	Sr. financial sector specialist Counsel Assistant program analyst
Consultation	29 September–1 October 2004	3	9	Director Principal economist Project officer
Program Completion Review	27 March–7 April 2006 3–7 April 2006	2	17	Principal financial specialist Social security specialist

I. PROGRAM DESCRIPTION

1. On 10 December 2002, the Asian Development Bank (ADB) approved the cluster program, Financial Governance and Social Security Reform Program (FGSSR), and the first loan (FGSSR-I) for \$250 million from ADB's ordinary capital resources.¹ The FGSSR built upon the core reforms of Loan 1618-INO: Financial Governance Reforms: Sector Development Program (FGRSDP),² which was developed to help Indonesia overcome the effects of the 1997 Asian financial crisis. The FGSSR was designed to carry forward additional reforms to strengthen the financial sector by increasing disclosure, transparency, and enforcement of regulations; auditing enterprises; and developing legal frameworks for efforts against corruption and money laundering. The FGSSR-I aimed to support a broad framework for overall strengthening of the financial sector and the social security system to facilitate broadly based economic growth while reducing the country's vulnerability to crises.
2. The FGSSR-I was intended to facilitate the transition toward the establishment of a financial services authority (the Otoritas Jasa Keuangan or OJK) and to promote the consistency, efficiency, and harmonization of supervision across financial services and products. During the planned transition to the OJK, the FGSSR-I was to (i) support the comprehensive legal reforms necessary to transfer authority to the OJK, (ii) support the development of an anti-money laundering regime, (iii) continue strengthening regulation and supervision in relevant institutions, (iv) improve corporate governance, (v) promote the adoption of international best practices and standards for prudential regulation and supervision, and (vi) enhance the soundness of financial institutions.
3. In support of the development of a national social security system, the FGSSR-I was to (i) bring social security organizations under the OJK's jurisdiction; (ii) improve the governance of mandatory pension and provident funds; (iii) undertake measures to improve the fiscal sustainability of mandatory programs, including assessing unfunded pension liabilities and preparing plans to reduce liabilities and operating costs; (iv) support improvements to programs to provide adequate retirement income; (v) support the development of a unified identification system for social security to improve administration and the portability of benefits; (vi) assess potential options for expanding coverage by the social security system to the informal sector; (vii) undertake a special audit of the mandatory social insurance scheme for formal sector workers and independent financial reviews of insurance firms to support reforms and restructuring.
4. This program completion report provides an overview of the role the FGSSR-I played in the policy dialogue with the Government, along with an initial evaluation of the FGSSR-I's impacts and benefits. Appendix 1 presents the program matrix detailing the reform measures.

¹ ADB. 2002. *Report and Recommendation of the President to the Board of Directors on Proposed Cluster, First Loan, and Technical Assistance Grant to the Republic of Indonesia for the Financial Governance and Social Security Reform Program*. Manila (Loan 1965-INO).

² ADB. 1998. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Republic of Indonesia for the Financial Governance Reforms: Sector Development Program*. Manila (Loan 1618-INO).

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

5. The Asian financial crisis hit Indonesia the hardest of all the Southeast Asian economies. In 1998, gross domestic product (GDP) contracted by 14% following three decades of high growth. ADB's support to the financial sector was an integral part of an International Monetary Fund-led multidonor rescue package to help Indonesia overcome the financial crisis. In 1998, ADB approved the FGRSDP for \$1.2 billion. The Program focused on helping restructure the banking sector, strengthening financial governance, and reinforcing the financial sector's legal and regulatory framework. The intent of the FGRSDP was to help Indonesia respond to the immediate exigencies of the crisis, as well as to reduce the country's vulnerability to future crises. By 2002, Indonesia was slowly recovering, and posted modest economic growth of 2.9% of GDP. However, continued weaknesses in financial sector governance undermined the potential for higher growth. Weak and uneven regulation and supervision capabilities contributed to the development of a fragile, structurally unbalanced, financial sector. The regulatory framework and the supervisory capacity needed strengthening to improve the stability of the financial sector so that it could effectively play its role in facilitating long-term economic growth.

6. In 2000, the Government asked ADB to provide support for developing the concept of and blueprint for an integrated financial services supervisory institution.³ In 2001, ADB, together with the Ministry of Finance (MOF), organized a workshop to discuss the establishment of such an institution, later referred to as the OJK. The workshop concluded that Indonesia needed to move toward an integrated regulatory structure to be able to cope better with financial conglomeration and innovation and to lower the cost of regulation by making efficient use of scarce regulatory resources.

7. The FGSSR aimed to support the effective implementation of nonbank financial sector reform, including establishing the OJK, restructuring pension plans, amending relevant laws and regulations, and consolidating the insurance sector. The intent of Program I was to create an enabling environment and framework for sound financial supervision, governance, and social awareness and a follow-up Program II for the institutional development of the OJK and a unified social security system.

B. Program Outputs

8. Outputs under the FGSSR-I can be grouped into five broad areas as outlined in the following subsections.

1. Strengthening Framework for Consolidated Regulatory and Supervisory Authority

9. The Banking Act of 1999 required that an independent supervisory board (the OJK), which was to be established by legislation, would be responsible for banking supervision tasks and the supervision of nonbank financial services. The same legislation stipulated coordination

³ ADB. 2001. *Proposed Technical Assistance to the Republic of Indonesia for the Development of a Financial Services Supervisory Institution*. Manila (TA 3620-INO).

and cooperation between the OJK and Bank Indonesia as the central bank. The OJK was to be established no later than 31 December 2002.

10. Based on the original requirements of the Banking Act, the Government prepared a draft OJK Law with ADB technical assistance (TA)⁴ and adopted a blueprint for the creation of the OJK in 2002. The draft law defined the OJK's functions, powers, and responsibilities. As required under the second tranche of the FGSSR-I, the Government submitted the draft OJK Law to Parliament in May 2003. Amendments to related laws (the Capital Market Law, the Insurance Law, and the Pension Fund Law) were also submitted to Parliament as a package with the draft OJK Law. In December 2003, Parliament amended the Banking Act, following Bank Indonesia resistance to the proposed OJK, to enhance oversight of Bank Indonesia and to extend the date for establishing the OJK from 2002 to no later than 2010 to permit smooth transition of bank supervision. To date, both the OJK Law and amendments to related laws are still in Parliament.

11. In 2004, the MOF prepared an action plan to improve the regulation and supervision of nonbank financial institutions, using ADB TA to support implementation of the plan.⁵ A first major step toward improving coordination among nonbank financial sector regulators was the merger of the Capital Market Supervisory Agency (Bapepam) and the Directorate General of Financial Institutions (DGFI), both of which were under the MOF, into the Indonesian Capital Market and Nonbank Financial Service Supervisory Agency (Bapepam-LK).⁶ Bapepam-LK will be in a better position to harmonize the regulation and supervision of the nonbank financial sector, achieve synergies among its staff, and pursue policy for the sector as a whole in a coherent manner. A limitation is that Bapepam-LK is still under the MOF and does not have the same independence and flexibility in terms of organizational structure, staffing, and salaries as Bank Indonesia.

12. In line with the action plan, regulations and supervisory practices for the nonbank financial sector are gradually being strengthened and brought in line with international standards. Additional work is needed to comply with the principles of the International Organization of Securities Commission (IOSCO) and of the International Association of Insurance Supervisors (IAIS), and also the guidelines of the Organisation for Economic Co-operation and Development (OECD) in relation to occupational pensions.⁷

13. On-site supervision and regulatory enforcement of the capital market by Bapepam are still inadequate. During the past 5 years, the Enforcement Bureau has investigated an average of 38 cases per year and completed an average of 21 cases per year (Appendix 2, Table A2.1). Most of these cases resulted in fines and other administrative sanctions. The types of matters investigated include disclosure violations, conflicts of interest, and market manipulation. A typical investigation is completed in 6 or 7 months.⁸ Bapepam-LK needs to further develop adequate capacity for monitoring and enforcement to ensure a better flow of information so that it can impose administrative sanctions more effectively.

⁴ See footnote 3.

⁵ ADB. 2002. *Proposed Technical Assistance to the Republic of Indonesia for the Establishment of a Financial Services Authority*. Manila (TA 3850-INO).

⁶ The Government first publicly announced plans to carry out the merger on 1 November 2004. Presidential Decree No. 62/2005 realizing the merger was signed in November 2005 and was followed by MOF Decree No. 606/KMK.01/2005 stipulating the organizational structure and staffing of the merged entity. Bapepam and DGFI were effectively merged in January 2006.

⁷ ADB. 2006. *Indonesia. Financial Sector Roadmap*. Jakarta.

⁸ ADB. 2006. *Report on Nonbank Financial Sector Regulatory Enforcement*. Jakarta (TA 3850-INO).

14. Bank Indonesia has also strengthened its supervisory capacity significantly. To be better prepared to manage a potential systemic crisis, a financial safety net is being put in place. In August 2004, Parliament passed the Deposit Insurance Agency Law to gradually phase out the blanket deposit insurance introduced during the Asian financial crisis and to introduce a limited deposit insurance scheme that would cover depositors up to Rp100 million, or about \$12,000.⁹ The establishment of the Deposit Insurance Agency on 22 September 2005 is a continuation of the Government's efforts to restore public trust in the financial system. The agency will also have to deal with the exit of banks that have defaulted. On 30 December 2005, the Deposit Insurance Agency, MOF and Bank Indonesia signed a memorandum of understanding regarding the establishment of the Financial System Stability Forum, which coordinates the sharing of information by the institutions for the purpose of maintaining financial system stability.

2. Strengthening Financial and Corporate Governance

15. Weak governance, including weak implementation of the legal and regulatory system for the financial sector, is undermining public confidence. Actions necessary to improve financial sector governance include enforcing existing rules and regulations, issuing new legislation to address gaps in investor protection and supervisory powers, and increasing sanctions. The FGSSR-I called for amendments to the Capital Market Law, the Insurance Law, the Pension Law, and the Company Law to strengthen supervision and regulation and to incorporate international best practices and standards. Bapepam and the DGFI were to improve their guidance, regulation, and day-to-day supervision of the capital market.

16. The Company Law of 1995, together with rules and regulations issued by Bapepam, regulates corporate governance. Under the law, a company is a separate legal entity in which directors and commissioners represent the company. Even though amendments to the Company Law imposing liability on directors and commissioners¹⁰ still have to be approved, Bapepam has issued a new capital market rule¹¹ imposing liability for directors and commissioners for entities under its jurisdiction, including listed companies and new issuers of capital market instruments. The Bapepam rule applies to issuers¹² and public companies¹³ as defined in the Capital Markets Law of 1995. The introduction of the rule, prepared with ADB TA,¹⁴ is a substantial step forward in relation to good corporate governance for issuers and public companies.

17. An additional measure of good corporate governance to be prepared under the FGSSR-I was a draft Public Accountants Law with provisions that would establish significant liability for auditors for negligence in conducting audits. The draft law, prepared by the MOF, specifies that a public accountant who states an opinion on a financial report that is not based on valid, relevant, and sufficient audit evidence or who manipulates data may be convicted, imprisoned for up to 6 years, and fined a maximum of Rp300 million.¹⁵ Even though the draft law was

⁹ Lindgren, Carl-Johan. 2005. *Indonesia. An Overview of Recent Developments and Pending Issues in the Financial Sector*. Southeast Asia Department, Occasional Paper No. 05-01. Manila: ADB.

¹⁰ The Board of commissioners supervises and advises directors on running the company. The Board of directors is responsible for company management.

¹¹ Decision No. KEP-45/PM/2004 of the chair of Bapepam.

¹² An issuer is defined as someone who makes an offering of securities to more than 100 people or whose offering results in sales to more than 50 people.

¹³ A public company is defined as a company that has at least 300 shareholders and paid in capital of at least Rp3 billion.

¹⁴ See footnote 5.

¹⁵ Criminal Provisions, Chapter X, Article 39.

heavily contested by the accounting profession, it was submitted to the State Secretary Office¹⁶ on 2 July 2004 after an extensive socialization process. After the appointment of the new president in October 2004, however, the draft law was returned to the MOF following the introduction of a new procedure for preparing draft legislation issued by the new president.¹⁷ Subsequently, an independent team chaired by a former finance minister has reviewed the draft law and it is still awaiting presentation to the finance minister.

3. Developing an Anti-Money Laundering Regime

18. Until recently, money laundering was not a crime in Indonesia. As a result, in June 2001, the Organisation for Economic Co-operation and Development placed Indonesia on its Financial Action Task Force on Money Laundering (FATF) list of noncooperative countries and territories. In 2002, Indonesia introduced an Anti-Money Laundering (AML) Law.¹⁸ Further improvements were, however, required to avoid the imposition of FATF countermeasures that could have severely affected Indonesia's recovery. ADB TA supported the Government in the implementation of the AML Law and the development of an AML regime.¹⁹

19. In September 2003, Parliament approved amendments to the AML Law²⁰ to address deficiencies cited by the FATF. Issues included (i) removing the RP500 million threshold from the definition of proceeds of crime, (ii) including explicit provisions against tipping off customers and strengthening reporting parties, (iii) reducing the deadline for reporting suspicious transactions from 14 days to 3 days, and (iv) adding provisions to allow mutual (international) legal assistance. Implementing regulations were also issued as required, including a regulation on protection for reporting parties.²¹ Guidance notes were prepared for financial service providers, money changers, and money remittance agents. Bank Indonesia, Bapepam, and the MOF have issued Know Your Client Rules and Know Your Customer Principles applicable to the financial services industry.²²

20. Based on the AML Law, the Center for Financial Transaction and Reporting Analysis (Pusat Pelaporan dan Analisis Transaksi Keuangan or PPATK), the financial intelligence unit to combat money laundering, was created and became operational in October 2003. In December 2003, the PPATK permitted the submission of suspicious transaction reports via an online, web-based system. In 2004, the PPATK received 838 suspicious transaction reports. By 31 October 2006, the PPATK had received a total of 6,530 suspicious transaction reports, of which 6,299 were from commercial banks and 231 were from nonbank financial institutions. The upward trend in suspicious transaction reports reflects the success of the PPATK and other regulatory agencies in Indonesia to encourage greater reporting of suspicious transactions (Appendix 2, Table A2.2). To date, the PPATK has reported 413 cases to the National Police, derived from the analysis of 710 suspicious transaction reports and 6 cases to the prosecutor derived from the analysis on 14 suspicious transaction reports. Since June 2004, the PPATK

¹⁶ The State Secretary Office assists the president with various tasks.

¹⁷ Presidential Decree No. 68/2005, dated 14 November 2005.

¹⁸ Law No. 15 of 2002 on Money Laundering Crimes.

¹⁹ ADB. 2002. *Proposed Technical Assistance to the Republic of Indonesia for the Development of an Anti-Money Laundering Regime*. Manila (TA 3849-INO).

²⁰ Money Laundering Law No. 25 of 2003.

²¹ Government Regulation No. 57 of 2003.

²² These regulations include an obligation by providers of financial services to provide copies of account opening and customer identification policies and procedures to the regulator and specify account and transaction monitoring obligations in relation to suspicious transaction reports.

has been accepted as a member of the Egmont Group of financial intelligence units,²³ which at its plenary meeting formally recognizing the PPATK as an operational financial intelligence unit.

21. In 2004, the National Coordination Committee on Money Laundering was formed to enhance strategic implementation and coordination among agencies and ministries.²⁴ To improve information sharing and coordination, the PPATK signed operational memorandums of understanding with national organizations such as Bank Indonesia, Bapepam, the DGFI, the Directorate General of Tax, the Directorate General of Customs and Excise, the National Police, the Attorney General's Office, the Commission for Eradication of Corruption, and the Ministry of Forestry. The PPATK also signed international memorandums of understanding with Australia, Belgium, China, Hong Kong, Italy, the Republic of Korea, Malaysia, Mexico, Peru, the Philippines, Poland, Romania, Spain, Thailand, and, most recently, with Canada and Myanmar.

22. Following the establishment of the PPATK, and as a result of its continuing efforts to eradicate money laundering, Indonesia was removed from the FATF list of noncooperative countries and territories on 11 February 2005. In February 2006, the FATF announced that it no longer intended to closely monitor the Indonesian regime to combat money laundering.²⁵ ADB TAs provided follow-up support in building capacity to effectively implement legislation against money laundering.²⁶

4. Undertaking Insurance Sector Reforms and Restructuring

23. Historically, capital requirements for companies in the insurance sector were lax and licensing requirements were loose. The industry was sheltered from international competition, and there was significant state involvement in the sector. The Indonesian insurance industry is small, but highly fragmented. As of September 2005, Indonesia had 157 insurance companies, with total assets equivalent to 2.9% of GDP and gross premiums equivalent to 1.8% of GDP. After absorbing the full impact of the economic crisis, the insurance industry has been growing since 1999 (Appendix 2, Table A2.3). During 2000–2004, assets and premiums in the life insurance subsector more than doubled. In the non-life insurance subsector, assets increased by almost 60% while premiums doubled. Nevertheless, the industry is not financially healthy, with five insolvent non-life companies and five insolvent life companies that are still operating.²⁷

24. The Government has introduced several measures to strengthen insurance sector supervision and regulation, and industry practices. The MOF issued decrees under the FGSRR-I regulating the insurance sector, including a decree on how insurance and reinsurance companies should conduct business, a decree on audits of insurance companies, a decree on the financial solvency of insurance and reinsurance firms, and decrees on the licensing of insurance companies.²⁸ In 2004, the DGFI issued supporting guidelines, including guidelines on the inspection of insurance companies. These measures will increase disclosure and

²³ The Egmont Group is an informal international organization established in 1995 to foster the development of financial intelligence units and a global information network.

²⁴ Presidential Decree No. 1 of 2004. The committee is a ministerial committee chaired by the coordinating minister of politics and security affairs.

²⁵ FATF undertakes assessments of the regimes against money laundering of its member states on a rotational basis except for those assigned a close monitoring status.

²⁶ ADB. 2002. *Proposed Technical Assistance to Indonesia for the Development of an Anti-Money Laundering Regime*. Manila (TA 3849-INO); ADB. 2004. *Technical Assistance to Indonesia for Development of an Anti-Money Laundering Regime II*. Manila (TA 4550-INO).

²⁷ World Bank. 2006. *Unlocking Indonesia's Domestic Financial Resources for Development: The Role of Non-Bank Financial Institutions*. Jakarta.

²⁸ MOF decrees no. 421–426.

accountability in the sector, increase protection for policyholders, and support a more effective supervisory and regulatory framework for insurance companies.

25. A key condition of the FGSSR-I was to improve the soundness of the insurance industry by allowing a transition period for insurance companies to comply with solvency margin requirements²⁹ by the end of 2004. Companies failing to meet these standards were required to prepare a recapitalization plan and to implement it by this date. The MOF took decisive steps to revoke the licenses of six companies (three life insurance companies and three nonlife insurance companies) in 2004 for failing to come up with such plans. Regulatory forbearance has continued with one major life insurer. The Government has completed a performance audit of this insurer with the help of ADB TA.³⁰

26. As part of strengthening the insurance industry, ADB TA is being provided to support the actuarial profession.³¹ The Indonesian Association of Actuaries needs to increase its capacity by such means as certification and training programs to bring it in line with international standards.

5. Developing a National Social Security System

27. In 2002, the Government amended the Constitution stipulating social security as a basic human right.³² The same year, a drafting team was created to prepare a law on a National Social Security System (Sistem Jaminan Sosial Nasional or SJSN). The existing schemes are legislated under multiple laws and are being delivered under different programs and systems, with coverage restricted to formal sector workers. To strengthen the SJSN, the FGSSR-I supported the development of a law to improve supervision and governance, and included conditions bringing mandatory programs under the jurisdiction of the OJK. The SJSN Law was enacted on 19 October 2004. ADB TA was provided to help develop the SJSN in line with key policies and priorities established by the drafting team and other agencies.³³

28. The SJSN Law prescribes mandatory participation by members of the labor force, both formal and informal, in five social security programs, namely: (i) health insurance, (ii) employment injury, (iii) old-age pension (provident fund), (iv) retirement pension, and (v) death benefits. However, the law remains short on details. Implementing guidelines on the law are yet to be fully developed. The law created a two-level structure: the National Social Security Council, which is responsible for formulating general policies and monitoring the system, and the Social Security Administering Body, which is responsible for implementing the social security programs. The administering body consists of the existing social security organizations. Even though the law is effective immediately, it foresees a 5-year transition period during which social security organizations will need to adjust to the law. Each institution operates under its own legal framework. Currently, the social security organizations remain outside the scope of the prudential framework established by the 1992 Insurance Law, which seriously curtails the jurisdiction of the MOF, the regulator of the insurance sector, over the social security organizations.³⁴ Given their significant social role and the weak governance entrenched in these

²⁹ The solvency margin is the ratio of current assets to minimum funds required to cover claims and possible losses.

³⁰ ADB. 2002. *Technical Assistance to the Republic of Indonesia for Capacity Building for Financial Governance*. Manila (TA loan 1620-INO).

³¹ ADB. 2002. *Proposed Technical Assistance to the Republic of Indonesia for Financial Governance and Social Security Reform*. Manila (TA 4024-INO).

³² Amended 1945 Constitution, Article 28H, para. 3, and Article 34, para. 2.

³³ See footnote 31.

³⁴ World Bank. 2006. *Unlocking Indonesia's Domestic Financial Resources for Development: The Role of Non-Bank Financial Institutions*. Jakarta.

organizations, it would require a sustained and fully committed effort by the government to improve their operations and governance structure.

29. In recognition of the underlying governance issues, the government has completed a limited special audit of Jamsostek, the social security organization for the private sector, with ADB assistance.³⁵ The special audit report identified serious shortcomings in corporate governance, operations, investment activities, and actuarial review. Since 2005, following the assignment of a new president director, Jamsostek has undertaken a number of initiatives to improve its administrative performance. Some of these initiatives also respond to changes required under the SJSN Law. In anticipation of the change in status from a for-profit and taxable entity to a not-for-profit, nontaxable trust fund, Jamsostek is considering segregating assets belonging to employees and assets belonging to Jamsostek. It also plans to establish a board of trustees that will include representatives of its members, the workers and the employers. To improve compliance of its members, Jamsostek has initiated training programs with labor inspectors in the Ministry of Manpower, who are responsible for enforcing compliance. An immediate result was that a few big employers, such as the Post Office, started registering their workers. In 2005, the number of contributors increased from 7.78 million to 7.92 million. During the same year, the old-age provident fund increased from Rp28.4 trillion to Rp32.7 trillion.³⁶ Following approval of the new SJSN Law, Jamsostek started to register informal sector workers on a voluntary basis.

30. An effective social security administration must have a system for assigning unique personal identification numbers at the national level to track member accounts and administer entitlements. Such a system currently does not exist in Indonesia, and members of a particular social security program can have multiple identification numbers and accounts. In 2005, ADB provided TA to the Ministry of Home Affairs to develop a unified registration system that can be used for multiple purposes, including for social security administrators to improve the administration and portability of benefits.³⁷ At the same time, Jamsostek, together with Askes, the health insurance scheme for the public sector, and a number of private banks, is preparing a system whereby all members will be registered in a centralized database with a unique identification number. Both systems could complement each other, with Ministry of Home Affairs providing basic data for all citizens, and the social security database providing regularly updated data on its members.

31. The main challenge regarding financial governance for Taspen, the pension scheme for the public sector, is the large unfunded pension liabilities of its mandatory pension plans for civil servants. According to the 2002 external valuation ordered by Taspen, the liability of the pension program is estimated at Rp326 trillion. In 2006, the World Bank commenced a project to assist the MOF with the actuarial assessment of the Taspen pension scheme and to study options for reform.³⁸

³⁵ See footnote 30.

³⁶ Jamsostek. 2006. *Report by the President Director on 2005 Performance and 2006 Planning*. PowerPoint presentation. Jakarta.

³⁷ ADB. 2003. *Technical Assistance to the Republic of Indonesia for Technical Support for a Unified Registration System*. Manila (TA 4250-INO).

³⁸ FIRST. 2006. *Strategic Options for Reforming Indonesian Civil Service Pension and Savings Scheme (Taspen)*. Jakarta.

C. Program Costs and Disbursements

32. The FSSSR-I was supported by a loan of \$250 million from ADB's ordinary capital resources. The loan was to be released in two tranches and an additional incentive tranche. The first tranche of \$100 million was disbursed in December 2002 upon loan effectiveness. The additional incentive tranche of \$50 million that had been targeted for the first half of 2003 was released in January 2004. The second and final tranche of \$100 million, originally planned for June 2003, was disbursed in December 2004. The Government actively pursued implementation of the FGSSR-I and its tranche conditions; however, given the complexity of the agenda and its wide-ranging implications across many segments of the economy, delays in implementation occurred.

D. Program Schedule

33. The loan closing date was extended from June 2003 to December 2004 because of opposition to amendments to the Company Law and the Public Accountants Law. These laws were important conditions under the FGSSR-I to raise the level of corporate governance. Both drafts were recommended for forwarding to Parliament, but they were withheld, confirming the difficulties the authorities faced in reforming the corporate sector and improving its governance. In the interim, Bapepam issued a new capital markets rule to deal with errant commissioners and directors of public companies and new issuers under its jurisdiction. The draft Public Accountants Law is currently back with the MOF for review by an independent team.

E. Implementation Arrangements

34. The Coordinating Ministry for Economic Affairs (CMEA) was the Executing Agency and performed adequately to coordinate implementation of the Program. It held regular coordination meetings to monitor progress and provided regular reports. The CMEA's role was particularly crucial in relation to the timely pursuit of activities under the AML component. The CMEA recognized the FATF's threat to impose sanctions as posing a risk to the smooth functioning of the banking sector, elevated this issue to the Office of the President, and recommended measures to avoid it.

35. The MOF has been proactive in maintaining the course of implementation by Bapepam and the DGFI. The ministry was particularly concerned with any delays in the disbursement of program loan resources needed for fiscal support if the conditions under the FGSSR-I were not met. Senior MOF officials have demonstrated strong ownership in ensuring the success of the Program by recognizing how weak financial sector supervision and corporate governance could threaten macroeconomic stability.

F. Conditions and Covenants

36. The policy matrix of the FGSSR-I consisted of three tranches and a total of 79 covenants: 32 for the first tranche, 11 for the incentive tranche, and 34 for the second tranche (Appendix 3). All 32 tranche conditions for the first tranche were fully met upon loan effectiveness. Given the complexity of the agenda and its wide-ranging implications across all segments of the economy, implementation of the incentive and second tranche covenants was delayed, and thus both tranche releases were deferred to later dates. While loan reviews were conducted on a regular basis, the policy dialogue with senior Government officials intensified throughout 2003 and 2004

to develop a better understanding of some of the outstanding conditions. The results of these exchanges led to progress in relation to compliance with outstanding conditions.

37. At the second tranche release on 20 December 2004, three of the four core conditions were fully met, but the fourth core condition on legislative reforms was rated as partially met because of the status of one of the five subcomponents. The condition on amending the Company Law, including provisions imposing liability on commissioners and directors, was only partially met by Bapepam's issuance of a new capital markets rule. Nevertheless, the introduction of this rule for public companies and issuers is a substantial step forward in promoting sound governance of corporate business. In line with the tranche condition on insurance, the Government has introduced several measures to strengthen supervision and regulation of the insurance sector, and the Insurance Directorate has monitored and enforced sanctions against firms. However, there has also been continued forbearance with a major insurer subject to a final plan for its restructuring and closure.

G. Related Technical Assistance

38. TA 4024-INO³⁹ was approved as a piggy-backed TA for the amount of \$1 million to provide support for restructuring the insurance sector and developing the national social security legislation. The TA prepared recommendations for strengthening the insurance industry and provided advice in relation to preparing the SJSN. Remaining resources under the TA, which is still being implemented, will be used to support development of the actuarial profession as well as for the preparation of a roadmap for social security reform. A detailed TA completion report will be prepared at a later stage.

H. Consultant Recruitment and Procurement

39. Consultants under TA 4024-INO have been recruited individually in accordance with ADB's *Guidelines on the Use of Consultants*, using the biodata proposal procedure and/or simplified technical proposal procedures. A change in implementation arrangements has been requested to allow for the recruitment of an actuarial organization on a single source selection basis to conduct workshops and provide related support services.

I. Performance of Consultants, Contractors, and Suppliers

40. With TA 4024-INO still under implementation, the performance of the consultants and contractors will be evaluated in the TA completion report.

J. Performance of the Borrower and the Executing Agency

41. The Government has actively pursued the broad agenda of the FGSSR. The Program, which has a long-term development agenda that has wide-ranging implications across all segments of the financial sector, required intensive consultations among stakeholders and the public. The Government has advanced a host of new and amended legislation and regulations and put in place the mechanisms to facilitate their socialization and passage. Since the approval of the FGSSR, the Government has undertaken a number of significant policy measures, including the conceptualization and development of the financial regulatory and supervisory

³⁹ ADB. 2002. *Proposed Technical Assistance to the Republic of Indonesia for Financial Governance and Social Security Reform*. Manila (TA 4024-INO).

structure and its supportive legal and regulatory framework, as well as associated laws; the establishment of an anti-money-laundering body and related amendments to the legal and regulatory framework pertinent to money laundering; the submission of the SJSN Law to harmonize the existing social security schemes. Overall, performance of the Borrower and the Executing Agency is rated as satisfactory.

K. Performance of the Asian Development Bank

42. The performance of ADB was satisfactory. The original schedule for compliance of the Program was ambitious, as most governance and legislative actions required more protracted consultations with stakeholders, as well as with several Parliamentary committees, than originally anticipated, resulting in a delay of the incentive tranche and the second tranche release. While ADB maintained active policy dialogue with the Government on implementation of the FGSSR-I throughout the program period, it intensified its deliberations with the Government during 2003. These exchanges resulted in renewed assurances from the Government that the momentum of the reforms would be maintained and that compliance with the outstanding conditions would be enhanced.

III. EVALUATION OF PERFORMANCE

A. Relevance

43. The Program was partly relevant. In 1999, Parliament passed the Banking Law to further develop the financial sector and to insulate the regulatory and supervisory framework from political interference. The legislation required the establishment of a consolidated supervisory authority for financial services, the OJK, by the end of 2002. Additional reforms were needed to strengthen the nonbank financial sector, such as restructuring pension plans and consolidating the insurance sector. The ADB cluster program loan modality was proposed, with a first cluster focusing on preparation of the regulatory framework and development of the regulator's capacity and in preparation of a second cluster involving the establishment of the OJK and further development of umbrella legislation pertaining to pensions and insurance. While the emphasis on financial governance and regulatory reforms was appropriate given the postcrisis situation, the establishment of the OJK as a fully integrated financial services regulator and supervisor of banking and nonbanking financial institutions was overtaken by political and economic circumstances, including Bank Indonesia's concern that initiating an early transition to the OJK could undermine the capacity for bank supervision at a critical juncture. This view proved decisive with Parliament, which required the authorities to pursue a more gradual, phased path toward establishing the OJK. Such an approach appears justified especially as it provides time to both Bank Indonesia and the capital market regulator, Bapepam LK, to build up capacity and to further develop cooperation modalities through the Financial Sector Stability Forum.

44. The initial time frame was therefore overambitious. In December 2003, Parliament amended the Banking Law, moving the establishment of the OJK from 2002 to 2010 at the latest, and introduced a phased approach whereby the new supervisory agency would handle banking supervision and overcome problems arising from the transition process. In the meantime, substantial progress has been made toward the establishment of a consolidated supervisory authority for financial services. In 2004, the MOF prepared an action plan to improve the regulation and supervision of the nonbank financial sector. The implementation of the action plan is supported with ADB TA. In 2006, the MOF merged Bapepam and the DGFI

into Bapepam-LK as the sole regulatory and supervisory authority for the nonbank financial sector.

B. Effectiveness in Achieving Outcome

45. The FGSSR-I has been partly effective in achieving its goals. OJK in its intended form has not been established. However, the merger of Bapepam and the DGFI into Bapepam-LK and the endorsement of a plan for continued improvements in the regulatory and supervisory structure of the newly created Bapepam-LK is a significant step toward the strengthening of supervisory capacity for financial services. Market participants see this as a positive move, as it is expected to facilitate supervision along functional lines and to encourage greater participation by institutional investors in capital markets. However, continued capacity building is required and the legal framework for enforcement needs to be further improved.

46. Other key program measures related to the legal liabilities of board commissioners and directors, the enforcement of prudential regulations for insurance companies, and the deferral of taxes on pension fund income have not been implemented neither. Nevertheless, the accomplishments under the Program were considerable. An AML legislative framework and regulations have been put in place, and an anti-money-laundering authority (PPATK) has been established and has become operational. Enforcement and supervision in the insurance sector have been enhanced, and governance and accountability have been strengthened throughout the financial sector through increased responsibility and liability on the part of auditors, directors, and commissioners. In addition, the SJSN Law was approved and enacted. Together these measures support an improved regulatory and supervisory system, have improved governance and accountability, and have resulted in a stronger investment environment that is more conducive to domestic and foreign investment. This has brought the pension and insurance industries somewhat closer toward compliance with international standards and laid the groundwork for the restructuring of state-mandated pension and social insurance schemes.

C. Efficiency in Achieving Outcome and Outputs

47. The FGSSR-I has been efficiently managed, both by the CMEA and ADB. Even though the program design was risky and complex because of the bundling of a large number of legislative components on financial sector reform into one package for delivery, as well as by having it cover social sector issues, most of the conditions and covenants were fully met at the time of program completion. The Program's loan conditions were limited to those the executive branch is empowered to implement, avoiding conditionalities such as the enactment of legislation. Even though tranche releases were delayed, both the CMEA and ADB reacted appropriately by intensifying deliberations in 2003 to prepare for the release of the incentive tranche and to secure the second tranche release. The results of the exchanges were positive, leading to improved compliance with the outstanding conditions. Implementation could have benefited from stronger support by ADB on the ground by means of the presence of financial sector expertise at the Indonesia Resident Mission level, as well as through the maintenance of continuity among officers supporting the Program.

D. Preliminary Assessment of Sustainability

48. Most outcomes achieved under the FGSSR-I are likely to be sustainable. The Government has reconfirmed its commitment to the FGSSR in its White Paper, which provided an economic framework for carrying forward the macroeconomic stabilization package and the

structural reforms upon completion of the Extended Fund Facility Program with the International Monetary Fund at the end of 2003.⁴⁰ The White Paper committed the Government to a timetable for completing key reforms needed to restructure and reform the financial sector over 2003–2004. In addition to specific actions to strengthen the banking sector, the White Paper includes reforms aimed at (i) establishing the OJK, (ii) tightening oversight and reducing money laundering, (iii) improving the performance and supervision of capital markets, (iv) consolidating the insurance and pension industries, and (v) submitting the draft Public Accountants Law to Parliament. Compliance with the economic package under the White Paper, including the FGSSR agenda, is acknowledged to be critical for maintaining the public's and investors' confidence in Indonesia.

E. Impact

49. The FGSSR-I was classified as environment category C, as it had no significant direct or indirect environmental impacts. The direct impact of the Program was neutral with regard to the poor, but its indirect impact is pro-poor. Actions taken under the FGSSR-I, particularly the creation of a legal framework for capital market operations, are expected to promote sustainable growth and enable a more robust and efficient financial sector where participants are better informed and protected. In addition, increased access to financial markets creates employment opportunities, while pension and insurance reforms provide workers and their families with greater protection in the case of illness and old age and in the event of the loss of a breadwinner.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

50. The FGSSR-I was rated as successful overall. The Government made genuine efforts to achieve reform and complied substantially with the policy conditions. The main accomplishments include the preparations for the establishment of a financial services authority, the establishment of a regime to combat money laundering resulting in the removal of Indonesia from the FATF list of noncooperative countries, the continued measures to strengthen the insurance sector, and the passage of the SJSN Law in October 2004. The Government has demonstrated continued commitment to undertake key financial reform measures, as demonstrated by its White Paper.

B. Lessons

51. Broadly based reforms such as those pursued by the FGSSR require long-term institutional development. The program cluster approach is a useful tool in this regard, as it combines a long-term approach that permits covering a wide range of policy and institutional reforms with flexibility to adjust to changing circumstances. It permits proceeding with the gradual introduction of critical components in the sector, including developing a comprehensive legal framework and action plan to facilitate smooth operationalization. The cluster modality is also a useful instrument for establishing benchmarks and unifying those policymakers who advocate reforms. A move from multitranche program cluster approach to a medium-term

⁴⁰ Presidential Instruction No. 5/2003 on the *Economic Policy Package for Pre- and Post-International Monetary Fund Program*, issued on 15 September 2003.

framework based on single tranche programs within a program loan cluster is recommended to provide more flexibility while focusing on achievable, upfront outcomes. Much of the success of such an approach depends on a genuine commitment by relevant stakeholders.

52. Some of the conditionalities still outstanding under the FGRSDP were carried over to the FGSSR-I, namely, the covenants on basic reforms for good governance, the imposition of liabilities on commissioners and directors for providing the public with false and misleading information and on auditors for negligence. The amendment of legislation, including the proposed reforms, continued to meet considerable resistance from concerned interest groups, which threatened to submit competing draft legislation to Parliament. Instead of simply carrying over “troubled” conditionalities, extra efforts should be put in the preparation and implementation to consider possible ways to meet these conditionalities. Strong government ownership is needed to overcome objections by interest groups.

C. Recommendations

1. Program Related

53. **Future Monitoring.** The Government and ADB should continue monitoring the progress of key reform measures, in particular, activities requiring extended time frames for effective and sustained implementation, such as strengthening Bapepam-LK and its coordination with Bank Indonesia, securing funding for and ascertaining the functioning of PPATK, making further progress with the harmonization of the regulations and standards for supervision practices in the nonbank financial sector, and developing the SJSN Law.

54. **Further Action or Follow-Up.** Despite the significant accomplishments achieved under the FGSSR-I, considerable challenges remain in the nonbank financial sector, such as the limited capacity of Bapepam-LK and the poor compliance with international standards both in the regulatory framework and in supervisory practices. Earlier this year, the Government adopted a financial sector policies package with a somewhat ambitious target to be reached within the next year, which will require continued assistance. In the field of social security, even though the SJSN Law has been enacted, no further steps have been taken to implement the legislation. Thus sustained support is needed to further develop the nonbank financial sector and to reform the social security system.

55. **Regulation and Supervision of the Nonbank Financial Sector.** The newly created Bapepam-LK will require continued support to ensure adequate capacity. A major step for Bapepam-LK is to achieve operational and financial autonomy so that it can gain more flexibility in terms of its organizational structure, staffing, and salaries. Additional work is needed to bring regulations and supervisory practices in line with international standards. Furthermore, the incentive structure for enforcement needs to be improved further to obtain successful criminal prosecutions. Future interventions could build on the action plan signed by the minister of finance in December 2004 and on the financial sector policy package adopted by the CMEA in June 2006. Recommendations on policy reforms prepared with ADB TA⁴¹ covering pensions, insurance, securities risk management, mutual funds regulation, enforcement, training, and capital market legal and regulatory reforms require follow-up activities. Towards the future, the solvency of pension and insurance companies will need to be monitored through independent

⁴¹ See footnote 5.

financial audits. In addition, a time bound recapitalization for pension and insurance companies is needed to meet the capital adequacy requirements introduced for the sector.

56. **Social Security Reform.** Further strengthening of the publicly managed social security organizations is required through the introduction of reform programs, including legislative changes in their status to make their operations more accountable and transparent, to restore their viability and to allow them to perform their social role. The further development of a national social security system will necessitate the introduction of international best practices redressing the largely unsupervised sector, as well as a time bound plan for gradual reform and development of the social security programs.

57. **Timing of the Program Performance Evaluation Report.** The program performance evaluation report should be prepared once the attached TA 4024-INO: Financial Governance and Social Security Reform, has closed (completion is set for 30 June 2007).⁴²

2. General

58. ADB has been supporting the financial sector in Indonesia for some time, focusing primarily on the nonbank financial sector and capital markets. Other international financial institutions recognize ADB's lead role in the nonbank financial sector, as ADB's experience has permitted a deep understanding of the sector and of the overall policy environment. The wealth of experience gained and achievements under the most recent TAs provide the basis for continued ADB support to help develop resilient, diversified financial markets in Indonesia.

⁴² See footnote 31.

PROGRAM FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>To strengthen financial sector governance and the social security system in order to facilitate broad-based economic growth and reduce vulnerability to crises</p>	<ul style="list-style-type: none"> • Sustained growth of the economy • Increased monetary assets to gross domestic product (GDP) ratio • Increased market capitalization and trading volume • Increased participation of foreign investors in capital markets • Increased insurance and pension funds assets/GDP ratio • Successful prosecution of money laundering cases 	<ul style="list-style-type: none"> • Economic reports and financial sector statistics • Financial sector growth and development • Policy dialogue with Government • Assessments and evaluations by Financial Action Task Force on Anti-Money Laundering (FATF) and the Asia/Pacific Group on Money Laundering 	<ul style="list-style-type: none"> • Macroeconomic stability • Political stability • Continued presidential priority and support for the President's Team for Improvement of National Social Security • Political commitment to anti-money laundering efforts • Adequate Government budget for set up and operations of the financial intelligence unit, Pusat Pelaporan Analisis Transaksi Keuangan (PPATK)
<p>Purpose</p> <p>Strengthen financial services regulation and supervision and efficiency through consolidation of authorities</p> <p>Reduce financial sector vulnerabilities through adoption of international best practices and standards for prudential regulation and supervision</p> <p>Develop an effective anti-money laundering regime</p>	<ul style="list-style-type: none"> • Process legislation for the financial services authority (OJK) and covered sectors • Number of enforcement actions by the Ministry of Finance, Capital Market Supervisory Agency (Bapepam), Bank Indonesia (BI), and OJK • Number of suspicious transactions reported to BI (as interim financial intelligence unit) and PPATK, and number of transactions investigated and prosecuted • Progress toward removal of Indonesia from FATF list of Non-Cooperative Countries and Territories (NCCT) 	<ul style="list-style-type: none"> • Regular OJK Reports to President and published Annual Reports • Official copies of laws, decrees, regulations and directives and notices of issuance in <i>Indonesian Gazette</i> • Official statements from the State Secretary Office acknowledging receipt of draft laws and from the President's Office reporting President's endorsement and submission to Parliament • Periodic progress reports from ministries and agencies • Asian Development Bank (ADB) review missions • Semi-annual reports of PPATK to President, Parliament, and related agencies • ADB review missions 	<ul style="list-style-type: none"> • Effective collaboration among ministries and agencies • Parliamentary approval of OJK law • Strong leadership, independence, accountability, and capacity of OJK and appointment of suitable board members and officials • Continued Government commitment to establish an effective anti-money laundering regime

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Strengthen investor confidence through improved governance, transparency and investor protection</p> <p>Strengthen insurance sector through enforcement of regulations and closure or merger of weak or insolvent firms</p> <p>Strengthen corporate governance by increasing accountability of auditors, directors, and commissioners</p> <p>Improve national social security by: (i) improving supervision and governance of mandatory pension and provident funds by bringing under OJK jurisdiction; (ii) developing plans to reduce unfunded pension liabilities of mandatory plans; (iii) supporting the development of a unified national identification system for social security; and (iv) improving programs to provide adequate retirement income and increased coverage of the population.</p>	<ul style="list-style-type: none"> • Number of listed companies and number of new securities issues and amount of foreign investment • Compliance with risk-based capital and reserve requirements and disclosures • Consolidation of insurance firms through closure or merger • Process legislation increasing accountability of auditors, directors, and commissioners • Extension of coverage into informal sector • Percentage of population covered by social insurance • Development of a unified identification system for social security • Taspen (mandatory pension for civil servants) submits plan to Government to reduce unfunded pension liabilities 	<ul style="list-style-type: none"> • Bapepam annual reports; monthly and annual stock exchange statistics and reports; and private sector reports • ADB review missions • Sector data • Policy dialogue with Government • ADB review missions • Official copies of laws, decrees, regulations and directives and notices of issuance in Indonesian Gazette; official statements from the State Secretary Office acknowledging receipt of draft laws; and from the President's Office reporting endorsement and submission to Parliament • ADB review missions • Policy dialogue with Government 	<ul style="list-style-type: none"> • Foreign investors willing to invest in Indonesia's capital markets • Exchange rate stability • Sustained Government commitment to carry out reforms • Adequate capacity and sustained Government commitment to carry out social security reforms • The President's Team for Improvement of National Social Security maintains its timeframe for drafting and submission of a national social security law • Parliamentary approval of a national social security law
<p>Outputs</p> <p>Facilitate establishment of an independent consolidated regulatory and supervisory authority (OJK) for financial services firms</p>	<ul style="list-style-type: none"> • OJK draft law submitted to State Secretary, endorsed by President, and submitted to Parliament. Implementing regulations issued for OJK • Appointment of Government officials to OJK. OJK operational, reporting regularly to the President 	<ul style="list-style-type: none"> • Official copies of laws, decrees, regulations, and directives and notices of issuance in <i>Indonesian Gazette</i>; official statements from the State Secretary Office acknowledging receipt of draft laws and from the President's Office reporting endorsement and 	<ul style="list-style-type: none"> • Continued Government commitment for reforms and coordination among key institutions • Availability and recruitment of appropriate skilled staff for OJK and PPATK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Capacity building for prudential regulation and supervision</p> <p>Facilitate establishment of a financial intelligence unit (PPATK) to support an effective anti-money laundering (AML) regime</p> <p>Provide capacity building for PPATK and relevant institutions for anti-money laundering</p> <p>Improve legislative frameworks to provide sufficient liability and sanctions for auditors and company commissioners to improve governance and accountability</p> <p>Support development of a national social security law and improve frameworks for social security governance</p>	<p>and publishing reports in full</p> <ul style="list-style-type: none"> • Training programs for Directorate General of Financial Institutions, Bapepam, and BI in transition to OJK and training for OJK officials • Government appointment of PPATK officials and staff and provision for budget allocation. Implementing regulations for anti-money laundering law issued and supporting decrees and regulations by relevant institutions • Guidance notes developed for financial institutions in the reporting of suspicious transactions. Training materials prepared for law enforcement officers, prosecutors, and judiciary in the enforcement of AML law • Ministry of Finance to issue decree on public accountants and prepare draft law on public accountants including adequate provisions for liability of auditors. MOJHR to prepare amendments draft Company law including provisions for commissioners and directors liability. President to endorse draft laws and submit to Parliament • Preparation of draft national social security law, submission to State Secretary Office and endorsement by President for submission to Parliament • Mandatory social insurance programs, Jamsostek, Taspen, and Asabri are included under the jurisdiction of OJK 	<p>submission to Parliament</p> <ul style="list-style-type: none"> • Progress Reports from Government • ADB review missions • Assessments and evaluations by FATF and the Asia/Pacific Group on Money Laundering • Copies of guidance notes and training material • ADB review missions • Copies of decree and draft legislation • Copy of draft law • Reports from Presidential Team for National Social Security • Copy of OJK legislation 	<ul style="list-style-type: none"> • Continued Government commitment to the establishment of an effective anti-money laundering regime

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> • Progress toward establishment of a unified identification numbering system for social security • Expanded coverage of social insurance to informal sector • Satisfactory progress of Jamsostek audit and insurance sector and company review(s) • Stakeholders workshops and participation in social security development 	<ul style="list-style-type: none"> • Policy dialogue with Government • Policy dialogue with Government • Joint monitoring of audit and company reviews with the International Monetary Fund on informal basis • Auditors and accountants reports • Public reports from stakeholders 	<ul style="list-style-type: none"> • Availability of access to data • Opposition from vested interest groups
Inputs <ul style="list-style-type: none"> • \$250 million program loan to the Government of Indonesia to support Financial Governance and Social Security Reform Program • \$1 million technical assistance to assist with implementation of reforms • \$1.5 million TA 3849: Development of an Anti-Money Laundering Regime • \$1.5 million TA 3850: Establishment of a Financial Services Authority • \$1.5 million component under TA Loan 1620 for special audit of Jamsostek • \$1.0 million component under TA Loan 1620 for financial review and assessment of insolvent insurance firm 	<ul style="list-style-type: none"> • Compliance with policy matrix • Advice to Government on social security reform and other reforms related to policy matrix • Technical advice and capacity building support to Government for establishment of an effective anti-money laundering regime • Advice to Government on establishment of OJK • Special audit of Jamsostek • Financial review and assessment of insolvent insurance firm 	<ul style="list-style-type: none"> • Regular progress reports, statistics, and review missions • Monthly reports from Financial Governance and Social Security Reform Program Project Implementation Unit (PIU) 	<ul style="list-style-type: none"> • Continued Government support of reforms • Adequate and timely provision of skilled staff and facilities

Selected Performance Indicators

Table A2.1: Number of Enforcement Actions by the Capital Market Supervisory Agency, 2001–2005

Year	Number of Investigations	Number of Investigations Completed	Number of Sanctions Imposed	Number of Investigations Closed	Number of Ongoing Investigations
2001	44	29	28	1	15
2002	43	33	26	7	10
2003	25	5	5	0	20
2004	43	22	16	6	21
2005	36	16	11	3	20

Source: ADB. 2006. *Report on Nonbank Financial Sector Regulatory Enforcement*. Jakarta. (TA 3850-INO)**Table A2.2: Number of Suspicious Transaction Reports Filed by Financial Service Providers, 2001–June 2006**

Year	Number of Suspicious Transaction Reports Filed	Average Number of Suspicious Transaction Reports Filed Per Month
2001	14	2
2002	124	10
2003	280	23
2004	838	70
2005	2,055	172
1 January–15 June 2006	1,255	262

Source: Republic of Indonesia. 2006. *Jurisdiction Report. APG Annual Meeting 2006*. Jakarta.**Table A2.3: Growth of the Insurance Industry, 2000–2004**
(Rp trillion)

Year	Life Insurance Companies		Nonlife Insurance and Reinsurance Companies	
	Total Assets	Net Premiums	Total Assets	Net Premiums
2000	18.7	7.0	12.6	4.0
2001	22.4	9.1	14.8	6.3
2002	26.3	11.2	15.8	7.3
2003	32.9	13.7	17.2	7.5
2004	44.9	18.3	20.2	8.3

Source: Directorate General of Financial Institutions. 2006. *Indonesian Insurance in 2004*. Jakarta.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Table A3.1: First Tranche (\$100 million)

Covenant	Status of Compliance
I. Consolidated Regulatory and Supervisory Authority (Otoritas Jasa Keuangan or OJK)	
<p>A1. Prepare draft OJK Law for approval by Ministry of Justice and Human Rights (MOJHR)</p> <p>Draft OJK law to include:</p> <ul style="list-style-type: none"> (a) provisions to ensure independence and accountability of OJK (b) provisions to ensure entities related to existing and future mandatory social insurance or social security programs will be under the jurisdiction of OJK and be subject to OJK's regulatory and supervisory authority in respect to OJK's prudential and consumer protection mandate; and (c) provisions requiring OJK's written approval for filing petition of winding-up/ bankruptcy cases initiated against entities under OJK's jurisdiction. 	Fully met.
<p>A2. Continue developing transitional arrangements for OJK including:</p> <ul style="list-style-type: none"> (a) initial assessment of operating and set up costs for OJK for 2003-2004; (b) initial assessment of capacity building needs for prudential regulation and supervision under OJK; and (c) begin assessment of potential retrenchment/ redeployment of employees in institutions (Bank Indonesia, the Capital Markets Supervisory Authority, and the Directorate General of Financial Institutions) to be consolidated in OJK. 	Fully met.
II. Anti-Money Laundering Regime	
<p>A3.</p> <ul style="list-style-type: none"> (a) Anti-Money Laundering (AML) Law signed by President Prepare plan to address deficiencies identified by Financial Action Task Force on Money Laundering (FATF). (b) Arrangements confirmed by CMEA for adequate budget for the financial intelligence unit (PPATK) for 2003 for setup and operational costs. 	Fully met.
<p>A4.</p> <ul style="list-style-type: none"> (a) Bank Indonesia Regulation for the Transparency of Bank Financial Conditions issued. (b) Key PPATK officials to be appointed by President. BI to begin assuming financial intelligence unit (FIU) functions for the banking sector until PPATK is operational. 	Fully met.
<p>A5. BI rules for Know Your Customer Rules for banks issued. Bapepam to prepare Know Your Client Rules for securities market.</p>	Fully met.
III. Advancement of Sector Reforms in Transition to the OJK	
A. Bapepam	
<p>A6. Prepare draft amendments to the Capital Market Law including provisions for:</p> <ul style="list-style-type: none"> (a) Establishment of a legal framework for broadening ownership of stock exchange. (b) Establishment of the legal status of collateral funds administered by the Clearing Guarantee Institution. 	Fully met.

Covenant	Status of Compliance
(c) Establishment of a legal framework for scripless trading. (d) Establishment of liability of directors for violation of the Capital Market Law. (e) Establishment of the responsibility of lawyers involved in the preparation of legal audit for reporting violations of the Capital Market Law. (f) Require public companies and issuers to have independent commissioners and audit committee. (g) Sanctions with clearly defined criminal content stipulations to facilitate enforcement.	
A7. Issue rule on Independence of Accountants Providing Audit Services in the Capital Market.	Fully met.
A8. Issue rule to require publication of (i) audited financial reports of listed companies within 90 days and (ii) unaudited interim reports within 30 days of financial year-end.	Fully met.
A9. Bapepam to ensure that listed company shares are converted for scripless trading and settlement in line with JSX rules.	Fully met.
A10. Member firms of Securities Clearing House, and firms that extend margins or keep custody of securities to maintain Rp5 billion net-adjusted working capital and report daily. Revoke licenses of broker dealer companies not in compliance with risk-based capital and reporting requirements.	Fully met.
A11. Require securities companies and brokers and dealers to provide information on beneficial ownership of securities.	Fully met.
A12. Begin review of potential measures/options for an early warning system of financial exposure.	Fully met.
A13. Expand application of, and continue conducting, investor education program. (Bapepam and Self Regulatory Organizations).	Fully met.
B. Directorate General of Financial Institutions - Insurance Directorate	
A14. Prepare draft amendments to the Insurance Law to State Secretary Office with OJK Law. The draft amendments to include provisions for: (a) Life insurance companies to manage employer-sponsored pension plans. (b) Written approval of Minister of Finance prior to the filing of a petition of winding-up/ bankruptcy.	Fully met.
A15. Launch independent special audit of Jamsostek, with international and domestic auditors.	Fully met.
A16. Issue decree requiring publication of insurance companies' financial position, solvency position, ownership and name of directors. Enforce sanctions against firms not in compliance with insurance regulations.	Fully met.
A17. Launch independent assessment and evaluation of selected insurance company as agreed to provide options to improve financial condition and/or restructure company.	Fully met.
A18. Issue written notification to all firms not complying with risk-based capital requirements. Continue phased implementation of risk-based capital requirements for insurance companies to be phased in by 2004.	Fully met.
A19. Increase paid-up capital requirement for new entrants into insurance sector and issue decree.	Fully met.
A20. Prepare decree strengthening qualification requirements for	Fully met.

Covenant	Status of Compliance
insurance experts in line with international standards.	
A21. Conduct training for supervisors and examiners on international standards and practices.	Fully met.
A22. Prepare guidelines and decree for standard procedures for onsite examinations of insurance companies in line with international best practices.	Fully met.
C. Directorate General of Financial Institutions - Pensions Directorate	
A23. Prepare draft amendments to Pensions Law to State Secretary Office with OJK Law. The draft amendments to include provisions for management of pension funds to be legally responsible for establishing anti-money laundering procedures.	Fully met.
A24. Issue decree requiring pension funds to submit financial reports and other required data to Directorate in hard copy and electronically commencing 2003 financial year.	Fully met.
A25. Issue decree to require submission of audited reports within 5 months of financial year-end commencing 2003, and unaudited 6 monthly reports within 2 months of the semester end beginning June 2003, with significant administrative sanctions for noncompliance.	Fully met.
A26. Issue decree requiring all private pension fund managers to satisfy standards of competence through certification in line with international best practices.	Fully met.
A27. Prepare decree requiring financial institutions pension funds to publish and make public annual financial statements and portfolio assets valuations.	Fully met.
A28. Conduct training for supervisors and examiners on international standards and practices.	Fully met.
A29. Prepare proposal for amendment of regulation to allow for deferral of taxation on pension fund income for voluntary pensions for DGTax consideration.	Fully met.
IV. National Social Security	
A30. CMEA to coordinate with Presidential Team for National Social Security Reforms and to commence preparation of a concept paper for national social security law including unified identification system for social security; modification of P T status of companies offering mandatory pension programs; adoption of trust principle; segregation of retirement funds and assets to eliminate cross-subsidization of programs; portability of benefits; protection of vested rights; improvement of existing programs and extension of coverage to informal sector.	Fully met.
V. Corporate Governance	
A.31. As an interim measure, pending the amendment of the Company Law to impose liability on commissioners and directors for board decisions and/or false or misleading public information, Bapepam to exercise its regulatory power by imposing sanctions as applicable to boards of commissioners and directors of listed companies.	Fully met.
A32. MOF to issue decree imposing liability on auditors for negligence. MOF to prepare draft Public Accountants Law including provisions imposing liability on auditors for negligence.	Fully met.

Table A3.2: Incentive Tranche (\$50 million)

Covenant	Status of Compliance
I. Consolidated Regulatory and Supervisory Authority (Otoritas Jasa Keuangan or OJK)	
AA1. Submit draft OJK Law approved by Ministry of Justice and Human Rights (MOJHR) to the State Secretary Office with the OJK package laws. Draft OJK Law to include provisions as specified in first tranche.	Partially met. The draft OJK Law was submitted to Parliament in May 2003. The Ministry of Finance (MOF) and the Asian Development Bank have agreed in principle on most of the points as to how the provisions or elucidation to the law could be modified to satisfy reform conditions.
II. Anti-Money Laundering Regime	
AA2. (a) BI to provide an interim report on monitoring of suspicious transactions.	Fully met.
AA2. (b) Additional staff to be seconded to ensure PPATK operational capacity.	Fully met.
AA3. (a) Prepare amendments to the AML Law to address deficiencies identified by FATF.	Fully met.
AA3. (b) Begin preparation of the implementing regulations for the AML Law.	Fully met.
AA3. PPATK shall have appropriate operating budget available for 2003.	Fully met.
III. Advancement of Sector Reforms in Transition to the OJK	
A. Bapepam	
AA4. Submit draft amendments to the Capital Market Law to State Secretary Office with OJK Law including provisions as specified in first tranche.	Fully met.
AA5. Prepare a rule to ensure that securities companies, brokers, and dealers' securities sub-accounts identify the beneficial ownership of securities held in the sub-accounts.	Fully met.
B. Directorate General of Financial Institutions - Insurance Directorate	
AA6. Submit draft amendments to the Insurance Law to the State Secretary Office with OJK Law. The draft amendments to include provisions for: (a) Life insurance companies to manage employer-sponsored pension plans. (b) Written approval of Minister of Finance prior to the filing of a petition of winding-up / bankruptcy.	Fully met.

Covenant	Status of Compliance
AA7. Enforce sanctions against firms not in compliance with insurance regulations	Ongoing Sanctions have been enforced against some firms; however, forbearance continues in the case of one particular large insurer as the Government continues to address the issue.
AA8. Launch independent assessment of financial condition of insurance industry to identify undercapitalized, illiquid or insolvent firms and provide options for restructuring.	Fully met.
C. Directorate General of Financial Institutions - Pensions Directorate	
AA9. Submit draft amendments to the Pension Law to State Secretary Office with OJK Law. The draft amendments to include provisions as specified in first tranche.	Fully met
IV. National Social Security	
AA10. Taspen to complete valuation of unfunded pension liabilities (old age pension) and begin preparation of financing options for submission to MOF for reducing its liabilities.	Fully met.
V. Corporate Governance	
AA11. MOJHR to submit draft amendments to the Company Law to the State Secretary Office, including provisions imposing liability of commissioners and directors for false and misleading public information and board decisions.	Not completed, waiver requested. The Ministry of Justice and Human Rights has furnished the Asian Development Bank with a letter dated 12 December 2003 committing the Government to completing the agreed reform.

Table A3.3: Second Tranche (\$100 million)

Covenant	Status of Compliance
I. Consolidated Regulatory and Supervisory Authority – Otoritas Jasa Keuangan (OJK)	
B1. Draft OJK law endorsed by president and submitted to Parliament with the OJK package of laws. Draft OJK law to include provisions as specified in first tranche.	Ongoing. The draft OJK Law was submitted to Parliament in May 2003 with the OJK package of laws. In line with the second tranche conditions, the draft OJK Law includes provisions for developing, implementing, and enforcing regulatory policy and provides immunity for OJK officials from civil and other prosecution when carrying out their legal mandate. Other provisions relating to the independence and accountability of the OJK are also included in the draft OJK Law; however, some of these require further strengthening to conform to the agreed reform. The Government has substantially agreed to incorporate these provisions in the law or its elucidation.
B2. Begin transitional arrangements for OJK and transfer of supervisory authority to OJK including: (a) preparation of detailed time-bound implementation plans; (b) launch capacity building programs for prudential regulation and supervision for	Fully met.

Covenant	Status of Compliance
relevant institutions; (c) relevant institutions to complete assessment and plan for phased retrenchment/redeployment of employees to be approved by Government (d) prepare draft budget for transitional 2003 costs.	
II. Anti-Money Laundering Regime	
B3. Begin implementation of plan to address deficiencies in anti-money laundering (AML) regime. Provide funding for PPATK in 2003 and prepare budget allocation for 2004 for operational costs of PPATK, the financial intelligence unit.	Fully met.
B4. (a) BI to continue financial intelligence unit (FIU) functions for the banking sector until PPATK is operational.(b) Issue presidential decree on the organizational structure and operations of PPATK.	Fully met.
B5. (a) Promulgate implementing regulations for the AML law including - Regulation on the protection of reporting parties - Regulation of PPATK's reporting systems. (b) Develop guidance notes to institutions subject to the AML law for procedures and requirements for reporting suspicious transactions	Fully met.
III. Advancement of Sector Reforms in Transition to the OJK	
A. Bapepam	
B8. President to endorse draft amendments to the Capital Market Law and submit to Parliament with OJK law. The draft amendments to include provisions as specified in the first tranche.	Fully met.
B9. Enforce sanctions for noncompliance of Rule on Independence of Accountants Providing Audit Services in the Capital Market.	Fully met.
B10. Monitor compliance with reporting requirements requiring publication of (a) audited financial reports of listed companies within 90 days, and (b) unaudited interim reports within 30 days of financial year-end and enforce sanctions.	Fully met.
B11. Monitor compliance of securities companies with risk-based capital requirements and enforce sanctions for noncompliance, and enhance enforcement procedures where necessary.	Fully met.
B12. Issue a rule to ensure that securities companies, brokers, and dealers' securities subaccounts identify the beneficial ownership of securities held in the subaccounts.	Fully met.
B13. Adopt measures for an early warning system of financial exposures for securities brokers and	Partially met. Bapepam has considered a range of parameters

Covenant	Status of Compliance
dealers and issue any necessary rules.	for an early warning system, including (i) percentage of compliance based on audit reports by Bapepam and stock exchanges, (ii) sanctions imposed on securities companies, (iii) net adjusted working capital, and (iv) transaction ratios. Bapepam has targeted net adjusted working capital as an initial measure. The requirements for paid-up capital and net adjusted working capital were increased under Minister of Finance Decree No. 179/KMK.010/2003 dated 5 May 2003 and Bapepam Chairman's Decision No. Kep-20/PM//2002 dated 8 May 2003. The increase in capital was to be achieved in two phases during 2003 and 2004. At the end of 2003, 138 of 192 securities companies had met the new capital requirements for 31 December 2003.
B14. Continue conducting investor education program.	Fully met.
B. Directorate General of Financial Institutions - Insurance Directorate	
B15. President to endorse draft amendments to the Insurance Law and submit to Parliament with OJK law. The draft amendments to include provisions for: (a) Life insurance companies to manage employer-sponsored pension plans. (b) Written approval of minister of finance prior to the filing of a petition of winding up/bankruptcy.	Fully met.
B16. Ensure satisfactory progress of special audit of Jamsostek.	Fully met.
B17. Enforce sanctions against firms not in compliance with insurance regulations.	Partially met. Monitoring of compliance and enforcement of sanctions are ongoing. The Insurance Directorate has monitored and enforced sanctions against firms; however, there continues to be forbearance with a major insurer subject to a final plan for resolution.
B18. (a) Ensure satisfactory progress in the assessment of insurance sector including the financial condition of insurance companies; (b) Develop a plan to strengthen insurance sector after reviewing the recommended options for restructuring, consolidation, or closure of firms ; and (c) Assess the possibility for need for government assistance/guarantee fund.	Fully met.
B19. Enforce sanctions against firms not in compliance with risk-based capital requirements. Continue phased implementation of risk-based capital requirements.	Partially met. Monitoring of compliance and enforcement of sanctions are ongoing. The Insurance Directorate has monitored and enforced sanctions against firms; however, there continues to be forbearance with a major insurer subject to a final plan for resolution.

Covenant	Status of Compliance
B20. Enforce sanctions against insurance companies not in compliance with paid-up capital requirements.	Partially met. Monitoring of compliance and enforcement of sanctions are ongoing. The Insurance Directorate has monitored and enforced sanctions against firms; however, there continues to be forbearance with a major insurer subject to a final plan for resolution.
B21. Issue decree strengthening qualification requirements for insurance experts in line with international standards.	Fully met.
B22. Conduct training for supervisors and examiners on international standards and practices.	Fully met.
B23. Issue decree for standard procedures for onsite examinations of insurance companies in line with international best practices	Fully met.
B24. Develop plan for providing training and long-term development for actuaries.	Fully met.
C. Directorate General of Financial Institutions - Pensions Directorate	
B25. President to endorse draft amendments to the Pensions Law and submit to Parliament with OJK law. The draft amendments to include provisions as specified in first tranche.	Fully met.
B26. Issue Circular requiring Pensions Directorate to publish annual pension sector report within 120 days of the due date for submission of annual financial reports.	Fully met.
B27. Enforce sanctions against firms not in compliance with reporting requirements.	Fully met.
B28. Pension fund managers to be licensed by 2004. Qualifications and ongoing education requirements to be specified in decree.	Partially met. The Ministry of Finance issued Decree No.513/KMK.06/2002 on requirements for managers and boards of supervisors of employer pension funds and for executive officers of financial institution pension funds on 4 December 2002. The Pension Directorate reported that from January 2003 to April 2004, the certification examination had been conducted 26 times (14 times in Jakarta and 12 times in the provinces) and that 1,307 pension fund administrators had passed. The pension examination is conducted by a joint committee of the Association of Indonesian Pension Funds and the Association of Financial Institution Pension Funds. The Pensions Fund Directorate is preparing a regulation on requirements for continuing education for all pension fund management to provide a means for updating the knowledge of pension fund managers.
B29. Issue decree requiring financial institutions pension funds to publish and make public annual financial statements and portfolio assets valuations. Enforce sanctions against financial institutions for pension funds not in compliance with reporting	Fully met.

Covenant	Status of Compliance
requirements.	
B30. Conduct training for supervisors and examiners on international standards and practices.	Fully met.
B31. Pending outcome of dialogue with Pensions Directorate and Directorate General of Tax (DG Tax), regulation to be prepared for deferral of taxation on pension fund income.	Partially met. The Pensions Directorate submitted a proposal for deferral of taxation on pension fund income to the Directorate General of Tax in 2003, but the latter has not yet made a decision.
IV. National Social Security	
B32. Coordinating Ministry for Economic Affairs (CMEA) to coordinate with presidential team to prepare a draft national social security law for improvement and harmonization of social insurance and social security.	Fully met.
B33. Taspen to submit to MOF for consideration options and recommendations for reducing its liabilities.	Fully met.
V. Corporate Governance	
B34. President to endorse draft amended Company Law and submit to Parliament, including provisions imposing liability of commissioners and directors for false and misleading public information and board of commissioners' decisions.	Partially met. In lieu of amendments to the Company Law, Baepam has issued a new capital markets rule to cover liability for directors and commissioners for entities under its jurisdiction. The new Baepam rule was prepared with Asian Development Bank technical assistance.
B35. Submit draft Public Accountants Law to State Secretary Office including provisions imposing liability on auditors for negligence.	Fully met.

Table A3.4: Loan Agreement

Section 4.05. The Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program	Reporting and provision of documents were satisfactory.
Schedule 5. Program Implementation and Other Matters	The institutional and staffing arrangements were satisfactorily complied with. The special covenants that related to reform measures in the policy matrix, while delayed, were generally satisfactorily complied with in line with reform measures that were taken.
Schedule 5. XI. Program performance management and reviews	Reports were obtained from Bank Indonesia, the Ministry of Finance, and other agencies and macroeconomic data for the economy and financial sector were monitored.