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FACTSHEET

Indonesia Financial Sector Strengthening Programme (IFSSP)

Country/region
Indonesia

Executing agency
World Bank

Project duration
2021-2025

Budget
Phase I – Phase III
CHF 16,200,000

Rationale

Indonesia requires a resilient and effective financial system to sustain economic growth and job creation. Despite improvements in systemic stability in the recent years, there remain key challenges. For instance, the banking sector continues to dominate the financial system, with an asset share of 76% of total financial assets (2015), rendering it critically important for the overall financial system stability. In addition, the financial system is highly fragmented with a large part of population lacking access to financial services. According to the 2017 World Bank's Global Findex Survey, only 49% adults in the country have an account at a financial institution or a mobile money account, compared to 69% globally. These developmental challenges gain new urgency as the nation contends with the COVID-19 pandemic and its correlated economic impacts. At the same time, the pandemic offers new opportunities to accelerate reforms in Indonesia's financial sector, and boost economic growth in the decades ahead.

Objectives and activities

The Indonesia Financial Sector Strengthening Program Phase III (IFSSP III) supports the Government of Indonesia (GoI) to achieve its medium-term growth and poverty reduction objectives through development of a deeper, more efficient and more resilient financial system. More specifically, the Program's development objectives are:

1. To strengthen financial sector stability through improved supervisory capacity, enhanced resolution approaches, strengthened crisis preparedness and sound legal and regulatory

frameworks; while building the ecosystems for greater integration of digital technology into these functions.

2. To promote development of an inclusive financial sector in Indonesia through the development of digital financial services that contribute to National Financial Inclusion Strategy objectives.

In the medium to longer term, the Program is expected to help create a sound and stable financial sector that promotes sustainable economic growth, poverty reduction, equality and job creation in Indonesia.

Governance structure

Oversight of the program is undertaken by a Technical Working Group (TWG) held twice a year, under the leadership of the Coordinating Ministry of Economic Affairs (CMEA). Core members of the TWG include the TWG Chairman, representatives from the World Bank and SECO, and the relevant line ministry/agency (e.g. Bank of Indonesia (BI) and the Financial Services Authority (OJK)).

Results to date

IFSSP Phase I provided substantial support for the drafting of the Financial Sector Crisis Prevention and Mitigation Law, which became effective in April 2016. It further supported the development of an Early Warning System (EWS), crisis management guidelines, bank resolution tools and the revision of the Insurance Law. Phase I also supported the drafting of the National Strategy for Financial Inclusion 2016-2020, adopted in September 2016. It conducted a study on women entrepreneurs, which provided a number of targeted recommendations for improving policy to promote women growth-oriented enterprises and to improve existing financial products for the targeted women enterprises. It also strengthened the capacity of National Agency for Placement and Protection of Indonesian Oversees Workers (BNP2TKI) to provide financial educations for migrant worker and their families.

In Phase II, the programme contributed to a more stable financial sector by assisting the Government to consolidate the banking sector which involved more than 100 rural credit banks and 2 small commercial banks. It assisted BI and OJK to put in place "Sandbox" regulatory mechanism to remove the constraints to FinTech growth without risking good public policy, and revised regulations on minimum core capital and health rating of micro-finance institutions. In financial inclusion, the programme facilitated the use of biometric data to facilitate opening of bank accounts.

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