



Strategies for Municipal Bond Issuance in Financing Regional Development in the West Java Provincial Government 2023-2024 Case Study

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ABSTRACT: The need for infrastructure development in West Java Province during 2018-2023 is IDR 861.9 trillion, while the local budget (APBD) capacity is only IDR 54.9 trillion, so there is a gap in financing needs of IDR 807 trillion. The West Java Provincial Government has the opportunity to use public funds to finance infrastructure development through the issuing of municipal bonds. However, several obstacles prevent the issuance of municipal bonds. This study aims to analyze the obstacles to issuing municipal bonds in West Java Province and establish issuance strategies. The bond success theory, according to Hardwood (2000), the municipal bond aspect theory, according to Djaenuri (2012), and the ends, ways, means strategy theory, according to Lykke (1989), are used to answer the research question. The methodologies used involve qualitative study. Data was obtained through document reviews and interviews with 12 informants. The results revealed that the obstacles are the commitment of the Governor, project selections, regulation of the minister of finance regarding procedures for issuing municipal bonds that have yet to be published, and the readiness of the DMU. The strategies that can be implemented are enhancing the Governor's commitment to issue municipal bonds, providing efficient, accountable, and collaborative project selection, establishing central regulations for municipal bonds, and establishing a professional DMU.

Keywords: Municipal Bond, Infrastructure Financing, Creative Financing



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INTRODUCTION

Every one percent of economic growth is associated with an increase in infrastructure availability of one per cent (World Bank, 1994). Infrastructure, including roads, clean water and electricity, has a positive impact on the economy in Indonesia (Prasetyo & Firdaus, 2009). Infrastructure investment is believed to drive the economy, especially the real sector, increase consumption and government spending, create jobs and spur production activities (Daroedono, 2004). It can be said that infrastructure is a key factor in encouraging economic growth.

West Java Province had the largest population in Indonesia in 2022, reaching 49.6 million people or 17.8%. It also plays a strategic role in the Indonesian economy, contributing 12.8% of the total in 2023. The Regional Medium Term Development Plan (RPJMD) for West Java Province for 2018-2023 includes a target for economic growth that continues to increase between 2019 and 2023. The economic growth target can be seen in Figure 1.

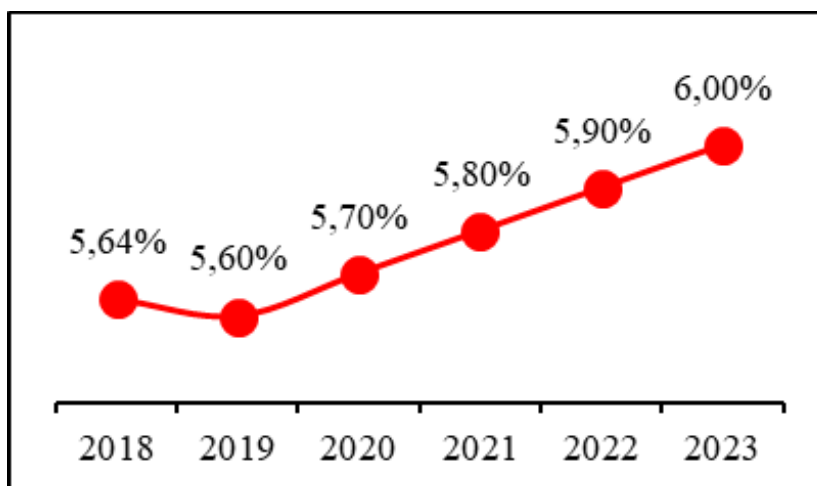


Figure 1. West Java Province Economic Growth Target 2018-2023 (Source: West Java Province Regional Medium-Term Development Plan (RPJMD) 2018-2023)

To achieve this economic growth target, West Java Province requires infrastructure investment, estimated to reach IDR 861.9 trillion during the 2018-2023. (Biro BIA, 2021). Meanwhile, the estimated infrastructure spending in the West Java Province Budget (APBD) during the same period only reached IDR 54.9 trillion, so there is a funding gap of IDR 807.9 trillion, as seen in Figure 2.

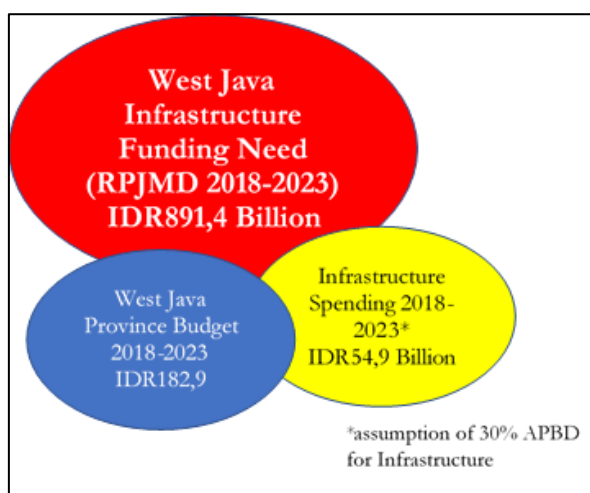


Figure 2. West Java Province Infrastructure Financing Gap 2018-2023 (Source: Regional Owned Enterprises, Investment and Development Administration Bureau)

On the other hand, West Java Province also have the lowest capital expenditure per capita. Regional capital expenditure per capita in West Java Province is only IDR 288.4 thousand, as seen in Figure 3.

The existence of an infrastructure financing gap and low capital expenditure per capita indicates that the West Java Provincial Government needs to explore alternative sources of financing for infrastructure development. One alternative source of financing is municipal bonds. Purwoko (2005) said that municipal bonds have several advantages: being able to attract fund owners to invest, being able to provide large amounts of funds, having a low risk of changes in exchange rates, and having a low risk of changes in government policy (Okta & Kaluge, 2011).

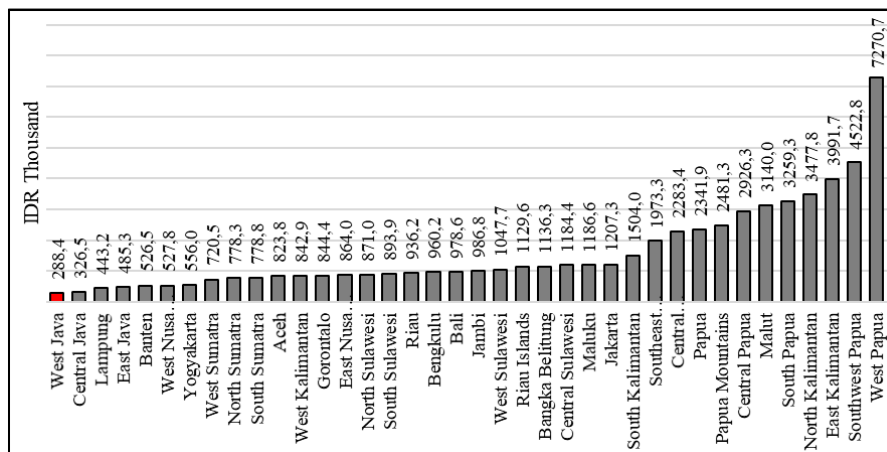


Figure 3. Capital Expenditures per Capita by Province, 2023 (Source: Ministry of Finance and Ministry of Home Affairs (processing))

Data from the Financial Services Authority (OJK) shows that Bank Deposits (DPK) in banks in December 2023 reached IDR 8,280.5 trillion or 70.7% of the Gross Domestic Product (PDB). DPK describes the public savings in banks through savings, current accounts and deposits. Banks can use DPK to provide credit to the public or invest in securities (shares, bonds or mutual funds). As seen in Figure 4, the number of DPK in West Java Province reached IDR 648.4 trillion or the third largest after DKI Jakarta Province and East Java Province.

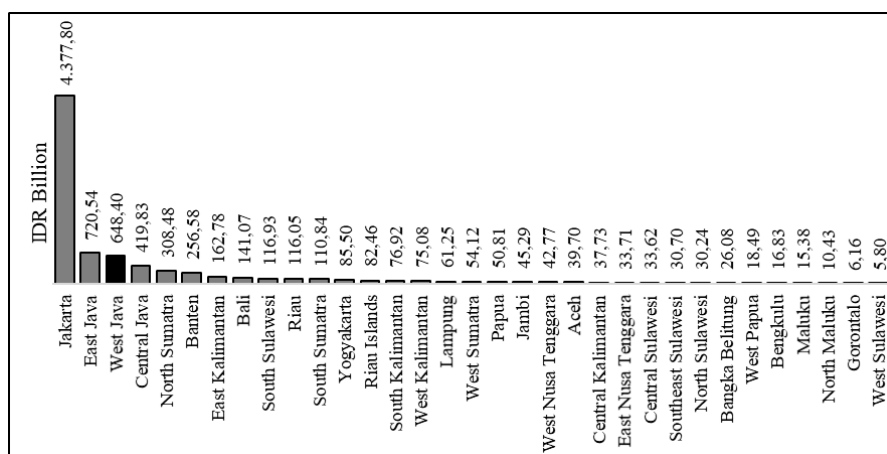


Figure 4. Bank Deposits (DPK) by Province, December 2023 (Source: OJK)

Data on the number of Single Investor Identification (SID) of Government Securities (SBN) sourced from the Financial Services Authority (OJK) shows that the number of individual SBN investors in Indonesia in December 2022 reached 809,560 individuals, as can be seen in Figure 5. The number of individual SBN investors in West Java Province reached 156,919 individuals (19.4%), the second largest.

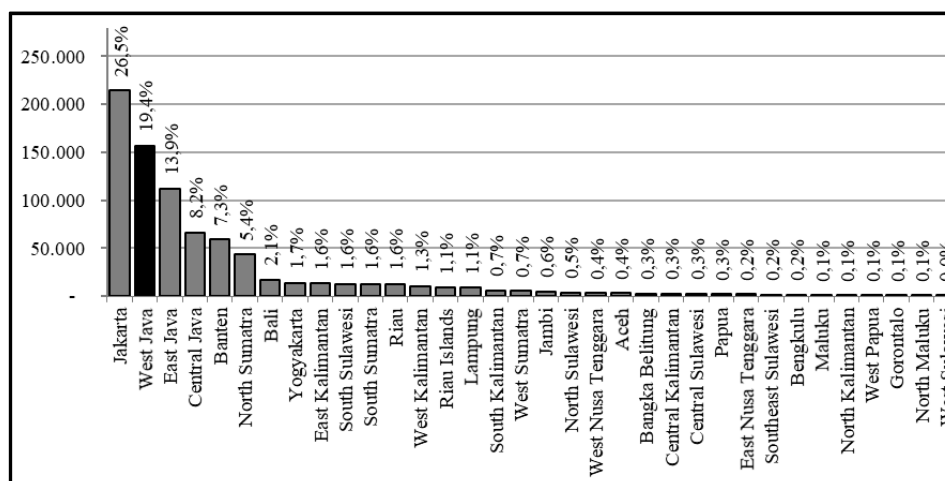


Figure 5. Individual Investors in Government Securities by Province, December 2022 (Source: OJK)

The large amount of bank deposits (DPK) and the number of individual investors in Government Securities in West Java Province shows that there are quite broad opportunities for the West Java Provincial Government to absorb public funds to be used in infrastructure financing through the issuance of municipal bonds. At the West Java Investment Summit 2023, the Coordinating Minister for Economic Affairs, Airlangga Hartanto, said that West Java Province has a very high regional financial capacity, so it has the potential to issue municipal bonds/sukuk. All the people of West Java can become investors in these instruments (Kementerian Koordinator Bidang Perekonomian, 2023).

The Governor of West Java, Ridwan Kamil, revealed that the Central Government appointed West Java Province as a pilot project for issuing municipal bonds in 2024 with a value of IDR 2 trillion. The prospective infrastructure projects funded by municipal bonds are access to Kertajati Jawa Barat International Airport (BIJB) and Al Ihsan Provincial Hospital (RSUD). Ridwan Kamil also said that West Java Province needs creative financing in the form of municipal bonds because, based on calculations, West Java Province needs IDR 800 trillion to build all the required infrastructure (CNN Indonesia, 2023). Several months later, the Acting Governor of West Java, Bey Triadi Machmudin, reiterated that the plan to issue municipal bonds would be reviewed. Considerations include the provincial budget (APBD), which is deemed sufficient to cover development, the future burden of interest, potential impacts on the community, whether the infrastructure projects will be revenue-generating or not, and the significance of the project value (Antaraneews.com, 2023). This shows that differences in leadership policies also influence plans to issue municipal bonds.

Local Legislative Council (DPRD) approval is an important in issuing municipal bonds. Regarding the plan to issue municipal bonds, a member of Commission IV of the West Java Provincial Legislative Council (DPRD), Daddy Rohanady, stated that he rejected the plan to issue municipal bonds by the West Java Provincial Government. Furthermore, Daddy Rohanady is worried that municipal bonds will become a burden in the local budget (APBD), and there is still the National Economic Recovery Loan (PEN) to PT Sarana Multi Infrastruktur (SMI), which reaches IDR 3.8 trillion (Jabarnews.com, 2023b). A different thing was conveyed by the Deputy Chair of Commission V of the West Java Provincial Legislative Council (DPRD), Abdul Hadi Wijaya, who

expressed his support for the plan to issue municipal bonds to accelerate infrastructure development, including hospitals (Jabarnews.com, 2023a). This difference in views indicates that the Provincial Legislative Council's (DPRD) support for the municipal bond issuance plan still needs to be solid.

Another concern is regulation, particularly at the central level. It is suspected that the absence of a Ministry of Finance Regulation also hinders the initiation process for issuing municipal bonds. Government Regulation No. 1 of 2024 on National Fiscal Policy Harmonization mandates further regulation on municipal bond buybacks and issuance procedures in a Ministry of Finance Regulation, following coordination with the Ministry of Home Affairs and Bappenas. The target for finalizing this ministerial regulation is the first semester of 2024 (Tempo, 2024). However, as of July 2024, this regulation has yet to be established.

Yusuf Rendy Manilet, the economist from the Center of Reform on Economics (CORE) Indonesia, stated that there are risks associated with municipal bond issuance, such as the inability to repay principal or interest, credit rating downgrades that could increase the cost of funds, fluctuations in interest rates and the exchange rate of the rupiah, and disputes with investors (Tempo, 2024). Similarly, Bhima Yudhistira, Executive Director of the Center of Economic and Law Studies, noted comparable risks, including the potential cessation of projects financed by municipal bonds and default risk. This indicates the potential risks that may hinder the issuance of municipal bonds.

The limited public literacy regarding municipal bonds in the region is also suspected to be an obstacle to their issuance (Suwardini, 2023). Therefore, public outreach has become a focal point in municipal bond issuance. Deputy Governor of West Java, UU Ruzhanul Ulum, emphasized the need for more intensive outreach efforts so that the public can understand the benefits and mechanisms for issuing municipal bonds (Bisnis.com, 2023).

Some previous studies regarding the issuance of municipal bonds include a study conducted by Amnan (2016), Anisah (2017), and Khurria (2023). A study conducted by Amnan with the title "Analysis of Municipal Bond Issuance (Case Study of West Java Provincial Government's Municipal Bond Issuance Plan)" found that the West Java Provincial Government had fulfilled financial requirements but experienced obstacles to non-financial requirements such as approval from the provincial legislative council (DPRD) and organizational structure and working tools of the Debt Management Unit (DMU) (Amnan, 2016).

Meanwhile, Anisah's study, "Factors That Affecting the Preparation of The Regional Bond Issuance As an Alternative Financing of Infrastructure Development in West Java Province," shows that the West Java Provincial Government is ready in terms of financial assessment but is hampered by administrative assessments in the form of DPRD approval and considerations from the Minister of Home Affairs. These obstacles are influenced by the government's lack of commitment regarding regulations, lack of synergy between institutions, and tax rates on interest and discounts (Anisah, 2017).

Last, Khurria's study, entitled "Why Regional Governments Have Not Been Successful in Issuing Municipal Bonds," found factors that hinder the issuance of municipal bonds in Indonesia,

including regional government readiness, regulations, politics, transparency, negative perceptions of debt, regional governments' lack of creativity in alternative financing, and a lack of understanding (Khurria, 2023). However, no study has yet specifically discussed the issuance of municipal bonds in West Java Province for the latest municipal bond issuance initiation.

There is a gap in infrastructure development needs, a low ratio of capital expenditure per capita, opportunities for issuing municipal bonds, the central government's determination as a pilot project for issuing municipal bonds, differences in leadership policies, no solid support from the local legislative council (DPRD), the Ministry of Finance regulation not yet being established, potential risks of municipal bonds, limited public literacy, as well as the existence of a research gap from previous study, prompted this study to be carried out. The purpose of this study is to analyze the reasons why the West Java Provincial Government has yet to be able to issue municipal bonds as an alternative to financing regional development and formulate strategies to overcome factors inhibiting the issuance of municipal bonds.

Based on the problems described above, this study examines the West Java Provincial Government's strategy for issuing municipal bonds as an alternative to regional development financing. The study objectives used the Harwood (2000) and the Djaenuri concept (2012). Harwood stated that success in preparing for bond issuance was determined by government commitment, macroeconomic stability and credibility, market participation, and taxation (Harwood, 2000). Djaenuri stated the important aspects of municipal bonds: the legal basis and bond management procedures, issuance requirements, risk factors, and capital market support institutions, professions, and SRO's (Djaenuri, 2012).

The West Java Provincial Government's proposed strategy for issuing municipal bonds is formulated using the Ends, Ways, Means method introduced by Lykke. Strategy is an equation comprising the desired objectives, actions, and resources to achieve these goals (Lykke Jr, 1989). The end state is the objective anticipated when implementing the formulated strategy. Meanwhile, means are defined as the resources required to reach the strategic objectives, and ways are the methods by which the strategy is pursued (Türkgenç, 2023). This strategic concept can be applied in various fields, including military, politics, economics, and others.

METHOD

This study uses qualitative methods. The reason for choosing this method is to consider the study objectives, namely finding inhibiting factors and designing strategies. The types of data used are primary and secondary. The data collection techniques used in the study were interviews and documentation. The interview technique used was a semi-structured interview with open-ended questions guided by an interview framework. This approach allows for controlled flexibility in questions and responses and enables predictable timing (Herdiansyah, 2013). Interviews were conducted with 12 informants from several stakeholders in the issuance of municipal bonds, including the Regional-Owned Enterprises, Investment, and Development Administration Bureau (Biro BIA), Regional Development Planning Agency (Bappeda), Regional Financial and Asset Management Agency (BPKAD), West Java Provincial Legislative Council (DPRD), Coordinating

Ministry for Economic Affairs, Ministry of Finance, Ministry of Home Affairs, and The Financial Services Authority (OJK). The selection of informants is based on the task's relevance and the informant's knowledge of essential aspects of municipal bonds and bond issuance success. Documentation is conducted by gathering data form notes or other documents related to the research objectives.

The data analysis technique is based on the Miles and Huberman model: data reduction, data presentation, and verification (Sugiyono, 2016). The data reduction involves selecting, focusing, simplifying, summarizing, and transforming interview and documentation data (Miles & Huberman, 1994). Once reduced, the data is presented in narrative text, graphs, matrices, or network formats (Sugiyono, 2022). Finally, conclusions are drawn and verified from the collected, reduced, and presented data using inductive techniques. This study uses persistence and triangulation to test the credibility of the data. The instruments used were the researchers themselves, who were assisted with notebooks, audio recordings, and cameras.

RESULT AND DISCUSSION

Legal Basis and Bond Management Procedures

Most of the national-level regulations that serve as the legal basis for issuing municipal bonds have been established, including Law No. 1 of 2022 on Financial Relations between the Central Government and Sub-National Governments, Government Regulation No. 1 of 2024 on the Harmonization of National Fiscal Policies, and OJK Regulation No. 10 of 2024 on the Issuance and Reporting of Municipal Bonds and Sukuk. These regulations have introduced flexibility concerning certain requirements for issuing municipal bonds. However, some national-level regulations, such as the Ministry of Finance Regulation, are still pending. This delay has created challenges for the West Java Provincial Government in issuing municipal bonds.

On the regional side, the West Java Provincial Government has met the required provisions within its planning documents. Meanwhile, local regulations governing the local budget (APBD), bond issuance, and reserve funds regulations are still under development.

According to interview findings, the West Java Provincial Government must establish a comprehensive municipal bond management strategy and policy. However, on April 2024, discussions were held regarding a Debt Management Policy, indicating that a strategy and policy framework for managing municipal bonds is under development. The West Java Provincial Government's debt portfolio includes only Pemulihan Ekonomi Nasional (PEN) Loans. Given that the process remains in the preparation phase, issues related to bond issuance, sale, buyback, redemption, reporting, and accountability still need to be overcome for the West Java Provincial Government in issuing municipal bonds.

Capital Market Support Institutions, Professions, and Self-Regulatory Organizations (SROs)

Capital Market Support Institutions, Professions, and SROs for issuing municipal bonds include institutions, capital market support professions, and Self-Regulatory Organizations (SROs). The West Java Provincial Government appoints a credit rating agency and an underwriter based on interview findings. Other entities, such as trustees, registrars (Biro Administrasi Efek), notaries, and legal consultants, have yet to be appointed, as the local government is still in its internal preparation stages. Additionally, the Self-Regulatory Organizations (SROs), such as the Indonesia Stock Exchange and KSEI, do not require formal appointments from the West Java Provincial Government.

The estimated cost for issuing municipal bonds, including the fees for required institutions, is approximately 0.9% of the bond issuance value. Further details on the estimated issuance costs are shown in Table 1 below. Compared with data on municipal bond issuance costs in the United States, the estimated issuance cost in Indonesia (0.9%) is relatively close to the U.S. average of 1.0% (Joffe, 2015). Joffe's study also found that higher issuance values tend to reduce the weighted average issuance cost, which was 0.2% for municipal bonds with an issuance value exceeding USD 10 million, compared to 2.4% for bonds with an issuance value below USD 10 million (Joffe, 2015).

Table 1. Municipal Bond Issuance Costs

Cost Breakdown	Cost (IDR)	Source
Municipal Bond Emission Value IDR 900 Billion* (assumption)		
Capital Market Supporting Institutions		
Underwriter Fee	4.500.000.000	Municipal Bond
Trustee Fee	225.000.000	Landscape Study in
Rating Agencies Fee	1.890.000.000	Indonesia
Capital Market Supporting Professions		
Legal Consultant Fee	900.000.000	Municipal Bond
Notary Fee	180.000.000	Landscape Study in Indonesia
The Financial Services Authority (OJK)		
Registration Fee	450.000.000	Government Regulation
Annual Fee	150.000.000	11 of 2014
Indonesia Stock Exchange/ISE (BEI)		
Listing Fee	62.500.000	ISE Decree
The Indonesia Central Securities Depository (KSEI)		
KSEI-Registration Fee	15.000.000	ISE Announcement
KSEI-Annual Fee	10.000.000	
Other Costs	90.000.000	Municipal Bond Landscape Study in Indonesia
Total	8.472.500.000	

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Source: Municipal Bond Landscape Study in Indonesia (2023), Government Regulation No 11 of 2014, Indonesian Stock Exchange Decree No Kep-00038/BEI/05-2020, and Indonesian Stock Exchange Announcement (processed)

For bond issuance costs, the West Java Provincial Government has allocated a budget for the credit rating agency, trustee, OJK, and SRO's. The table below presents the municipal bond issuance costs budgeted within the local budget (APBD). Any shortfall in issuance costs, such as those for appointing an underwriter, will be supported through grants or donor institutions.

Table 2. Budgeting of Municipal Bond Issuance Costs in the Local Budget

Num	Issuance Cost	2024 Provincial Budget	2025 Provincial Government Work Plan
Municipal Bond Emission Value IDR 900 Billion* (assumption)			
1	Trustee		240.000.000
2	Rating Agency	555.000.000	560.000.000
3	Annual Listing Fee-BEI	125.000.000	125.000.000
4	Registration Fee-KSEI		15.000.000
5	Annual Fee-KSEI		30.000.000
6	Payment Agent Fees-KSEI		22.925.000
7	Registration Statement Fee-OJK	187.500.000	
8	Annual Fee-OJK		150.000.000
Total		867.500.000	1.126.925.000

Source: 2024 Provincial Budget (APBD) dan 2025 Provincial Government Work Plan (RKPD)

Issuance Requirements

According to a press release from the West Java Representative Office of the Audit Board of Indonesia (BPK Perwakilan Provinsi Jawa Barat), the financial statements of the West Java Provincial Government for Fiscal Years 2021, 2022, and 2023 each received unqualified opinions (WTP), with the 2023 financial statements receiving an unqualified opinion with an Emphasis of Matter. Thus, the West Java Provincial Government meets the requirements for issuing municipal bonds, as the BPK opinion on the 2023 financial statements was WTP with an Emphasis of Matter.

Initially, the projects planned to be funded through municipal bonds included the development of Al Ihsan Provincial Hospital (RSUD Al Ihsan), Pameungpeuk Provincial Hospital (RSUD Pameungpeuk), and Sidawangi Lung Hospital (RS Paru Sidawangi) (Biro BIA, 2023). These three projects were listed as potential projects for municipal bond financing in the 2024 West Java Provincial Development Plan (RKPD), as seen in Table 3. However, following the Local Government Budget Team (TAPD) meeting in March 2024, the West Java Provincial Government decided not to proceed with these projects for bond funding, as alternative funding through the state budget (APBN) and local budget (APBD) was considered unavailable (Biro BIA, 2024b).

Table 3. Potential Regional Bond/Sukuk Projects for 2023

Num	Project
1	Al Ihsan Provincial Hospital (RSUD Al Ihsan)

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2	Pameungpeuk Provincial Hospital (RSUD Pameungpeuk)
3	Sidawangi Lung Hospital (RS Paru Sidawangi)
4	Aerocity Accessibility

Source: 2024 Provincial Government Work Plan (RKPD)

As a replacement, the West Java Provincial Government has reviewed five other potential projects, such as Kesehatan Kerja Hospital (RS Kesehatan Kerja), a Provincial Health Laboratory (Laboratorium Kesehatan Daerah), a Drinking Water Supply System (SPAM) in Bogor, the Bandung Raya Bus Rapid Transit (BRT), and the Cirebon Raya Regional Solid Waste Management Facility (IPPAS). These five projects are still undergoing final evaluations to determine their readiness criteria. As of May 2024, data from the BIA Bureau indicates that Kesehatan Kerja Provincial Hospital (RS Kesehatan Kerja) and Provincial Health Laboratory (Laboratorium Kesehatan Daerah) projects were selected as potential projects for bond funding (Biro BIA, 2024a). As Table 4 shows, both projects are also listed in the West Java Provincial Development Plan (RKPD) for 2025.

Table 4. Potential Regional Bond/Sukuk Projects for 2025

Num	Project	Budget
1	Kesehatan Kerja Hospital (RS Kesehatan Kerja)	725.480.323.080
2	Provincial Health Laboratory (Laboratorium Kesehatan Daerah)	131.212.212.000
3	Jatiluhur Drinking Water Supply System (SPAM)	not yet determine

Source: 2025 Provincial Government Work Plan (RKPD)

This shift in potential projects for municipal bond funding highlights challenges related to meeting readiness criteria. Based on the milestone data for the municipal bond issuance plan, the project determination process began in December 2022 and concluded with the feasibility study in May 2024, requiring sixteen months. The lack of finalization in selecting projects for municipal bond funding remains a significant hurdle for the West Java Provincial Government in its bond issuance efforts.

The projects to be funded by municipal bonds include the development of the Occupational Health Regional Hospital and the West Java Provincial Health Laboratory (West et al. Government, 2024). Both planned projects can be categorized as regional infrastructure development. They are expected to benefit the public by enhancing healthcare services, such as increasing the hospital bed availability ratio, expanding options for referral healthcare facilities, and providing more affordable health test fees. Additionally, these projects will generate regional revenue through service charges for healthcare service users.

Data indicates that the West Java Provincial Government meets requirements related to the maximum debt financing, the Debt Service Coverage Ratio (DSCR), and the maximum deficit from debt financing. Further calculations are provided in Tables 1, 2, and 3 below.

Table 5. West Java Province Maximum Debt Financing

Debt Financing		75% Unappropriated Local Revenue	Detail
3.957.932.783.255	<	20.873.496.885.099	Qualify

Source: author's calculations

Table 6. West Java Province Debt Service Coverage Ratio (DSCR)

Description	Average 2021-2023 (IDR)
Unappropriated Local Revenue	26.576.216.337.746
Personnel Expenditure	5.479.615.781.628
Unappropriated Local Revenue After Personnel Expenditure	21.096.600.556.118
Pemulihan Ekonomi Nasional (PEN) Loan-Principal	3.057.932.783.255
Municipal Bonds-Principal	900.000.000.000
Pemulihan Ekonomi Nasional (PEN) Loan-Interest	0
Municipal Bonds-Interest/Coupon	81.090.000.000
Pemulihan Ekonomi Nasional (PEN) Loan-Management Fees	5.946.270.587
Local Debt Financing	4.053.441.553.842
Debt Service Coverage Ratio (DSCR)	5,2
	Qualify

Source: author's calculations

Table 7. Maximum Deficit from Debt Financing

Detail	IDR
2024 Local Revenue	35.918.605.827.078
Fiscal Capacity Category	Middle
Maximum Deficit from Debt Financing (Percent fo Local Revenue)	4,55%
Maximum Deficit from Debt Financing	1.634.296.565.132
Deficit from Debt Financing	900.000.000.000
	Qualify

Source: author's calculation

Interviews and document reviews reveal that the Debt Management Unit (DMU) currently in place is a team composed of various regional offices, including the Regional Secretariat (Regional Owned Enterprises, Investment and Development Administration Bureau), Regional Development Planning Agency (Bappeda), Regional Financial and Asset Management Agency (BPKAD), and other departments. The study also found that the DMU's duties, as outlined in West Java Governor's Decree No. 579.05/Kep-35-BUMDINVESADBANG/2023 and No. 577.05/Kep-559-BUMDINVESADBANG/2023, are limited to issuance preparations. This indicates that, while the West Java Provincial Government has established a DMU, it lacks the structure required by the HKFN Regulation, and its assigned scope does not yet cover all debt management and other capital market-related duties.

Table 8. Debt Management Unit Task

Num	Task Details	Governor's Decree No. 35/2023	Governor's Decree No. 559/2023
1	Preparation		
	Project selection	yes	yes
	Preparing Term of Reference (KAK)	yes	yes

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Num	Task Details	Governor's Decree No. 35/2023	Governor's Decree No. 559/2023
	Calculating cumulative loan limit	yes	yes
	Calculating DSCR ratio	yes	yes
	Submitting a request for principal approval to the DPRD	yes	yes
	Preparing the organizational structure, work equipment, and human resources of DMU	yes	yes
2	Debt Management		
	Formulating of management strategies and policies, including risk control		yes
	Planning and formulating of provincial loan portfolio structure		not covered
	Issuing of municipal bonds	yes, but still, in general	yes
	Buyback before maturit		not covered
	Repayment at maturity		not covered
	Reporting and publication		yes
	Accountability		not covered
3	Other		
	Monitoring the capital market regulations	not covered	not covered
	Providing input for the fulfillment of capital market provisions	not covered	not covered
	Liaison between issuers (local governments), investors, OJK, and other stakeholders	yes	yes

Source: Governor's Decree No. 579.05/Kep-35-BUMDINVESADBANG/2023 and No. 577.05/Kep-559-BUMDINVESADBANG/2023

Interviews indicate that the bond issuance process is still internal to the West Java Provincial Government and has yet to be discussed with the West Java Provincial Legislative Council (DPRD). Interview findings also show Provincial Legislative Council (DPRD) support for the bond issuance plan, provided it does not burden the local budget (APBD) or present a risk of failure. Key steps such as requesting opinions from the Minister of Home Affairs, approval from the Minister of Finance, and submitting a registration statement to the OJK have yet to occur, as issuance preparations are underway.

Risk Factors

The shadow rating for the planned municipal bond issuance by the West Java Provincial Government is A+ (BIA Bureau, 2024a). If assessed using PT Pemeringkat Efek Indonesia's (PEFINDO) methodology, an A+ rating signifies the provincial government has a stronger capacity than other bond issuers to fulfil debt service obligations. This suggests that the West Java Provincial Government is well-positioned to repay the principal and interest on the upcoming municipal bond issuance.

As the coupon and interest rates are fixed and stated in the bond prospectus, price risks for the provincial government are relatively controlled. Disaster risk is also manageable, as the Disaster

Risk Index (IRBI) from the National Disaster Management Agency (BNPB) rates West Java's disaster risk as moderate (123.16), ranking it twelfth among provinces with the lowest disaster risk. Consequently, disaster risk related to the issuance is relatively low.

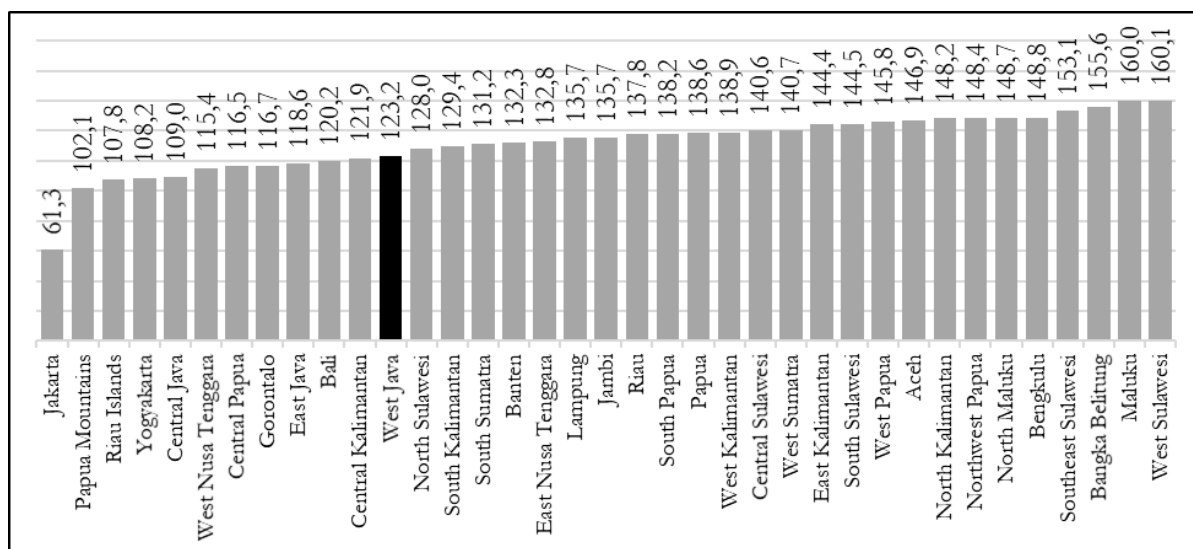


Figure 6. 2023 Indonesia Disaster Risk Index (Source: National Disaster Management Agency (BNPB))

Through careful monitoring, appropriate project selection (including feasibility studies, detailed engineering designs, terms of reference, environmental impact assessments, etc.), adherence to Good Corporate Governance (GCG), and institutional strengthening by the West Java Provincial Government, construction risks related to the bond issuance are expected to be manageable. Finally, as the bond will be issued in rupiah with a fixed yield, inflation does not significantly affect the provincial government's issuance.

Market Participation

The West Java Provincial Government is motivated to issue municipal bonds by the infrastructure funding gap and perceived community interest in investing in municipal bonds. The government also sees potential interest from individual and institutional investors. Municipal bonds offer advantages over other financing sources, such as bank loans, primarily due to longer terms and lower interest rates. This aligns with Leigland's study, which found that long maturities are a key factor in encouraging local governments to issue municipal bonds (Leigland, 1997).

The provincial government is confident in the municipal bond market's investor potential, supported by the continuously growing volume of bank deposits (DPK). This aligns with PT Kustodian Sentral Efek Indonesia (KSEI) data, showing a steady increase in capital market investors over recent years, as seen in the below figure. Furthermore, intermediary institutions such as capital markets support institutions, professions, and Self-Regulatory Organizations (SROs) highly support the West Java Province's bond issuance initiative. These institutions may serve as facilitators in expanding municipal bond portfolios.

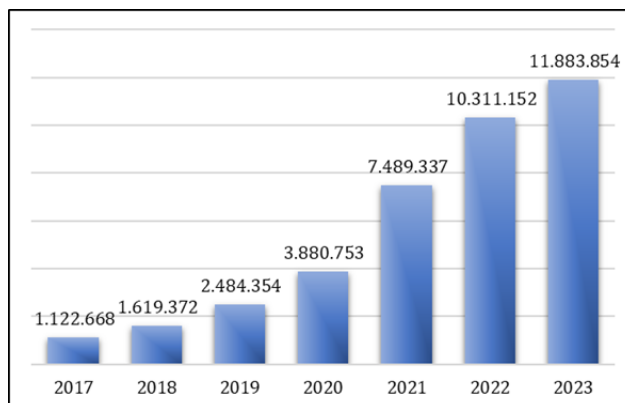


Figure 7. 2023 Total Number of Capital Market Investors in Indonesia. Source: Indonesia Stock Exchange Statistics (KSEI)

Government Commitment

Interviews indicate that the Acting Governor of West Java has demonstrated a strong commitment to municipal bond issuance, especially if the projects funded by the bonds significantly benefit West Java's development. However, recent media reports suggest that the governor is reluctant to proceed with the bond issuance during his term, deferring it to the next governor's term. This decision is intended to avoid potential financial burdens for future provincial administrations. This reasoning aligns with Khurria's (2023) findings that many local governments view debt as a burden for future generations (Khurria, 2023). Governor/Regent/Major leaders' concerns about the risks of issuing municipal bonds align with research findings regarding risk perception, particularly the risk of local governments failing to meet interest and principal payment obligations (Kementerian Keuangan et al., 2023).

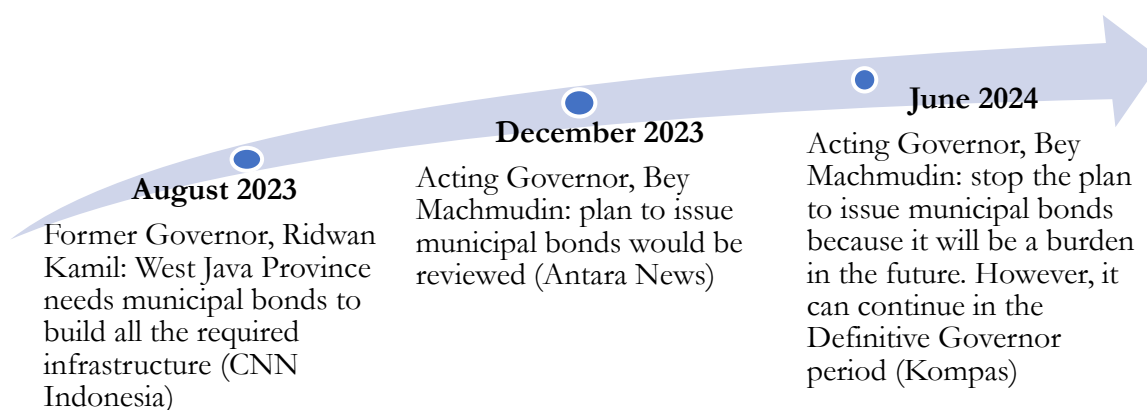


Figure 8. Governor Commitment on Issuance Municipal Bond. Source: CNN Indonesia, Antara News, and Kompas

The West Java DPRD has also expressed commitment to the bond issuance, which differs from previous studies by Waruwu et al. (2024), which reported that some local government bond issuance plans failed due to DPRD opposition (Waruwu et al., 2024). The West Java DPRD, however, generally supports the issuance. The Regional Owned Enterprises, Investment and Development Administration Bureau (Biro BIA), Regional Development Planning Agency

(Bappeda), and Regional Financial and Asset Management Agency (BPKAD) have also demonstrated a commitment to the municipal bond plan.

At the central government level, agencies such as the Coordinating Ministry for Economic Affairs, the Ministry of Finance, the Ministry of Home Affairs, and the OJK have shown commitment to the municipal bond issuance initiative. The Coordinating Ministry facilitates donor agency support for the West Java Provincial Government. The Ministry of Finance's commitment is evident in its enactment of the HKPD Law and HKFN Regulation, which encourages regional debt instruments and assists with DMU preparations. The OJK's support is evident through the issuance of POJK 10/2024, which eases issuance requirements for local governments.

Macroeconomic Stability and Credibility

Data from the International Monetary Fund (IMF) shows that Indonesia's economic growth in 2023 reached 5.0%, ranking second among Southeast Asian countries. Furthermore, the ratio of public savings to GDP in 2023 was 35.9%, ranking second below Singapore. The government's budget deficit for the same year was only 1.7%, the second lowest after Singapore. Meanwhile, Indonesia's inflation in 2023 was 3.7%, the fifth highest, below the Philippines. Finally, Indonesia's government bond yield was the highest among neighboring countries at 6.5%.

Table 9. 2023 Macroeconomic Statistics for Southeast Asia (percent)

Country	Real GDP Growth¹	Saving Rate (% of GDP)²	Budget Deficit (% of GDP)³	Inflation (CPI)²	Government Bond Yields³
Indonesia	5,0	35,9	1,7	3,7	6,5
Malaysia	3,6	23,8	5,0	2,5	3,7
Singapore	1,1	40,9	1,6	4,8	2,7
Thailand	1,9	25,3	2,8	1,2	2,7
Vietnam	5,0	32,8	4,0	3,3	2,3
Philippines	5,5	27,3	6,2	6,0	6,0

(Source: ¹IMF, ²World Bank, ³Trading Economics.com)

Overall, the macroeconomic environment is favorable for the issuance of municipal bonds. Only the yields on government bonds need attention, as they are significantly higher than those of neighboring countries. Interview findings suggest that political conditions in West Java influence the provincial government's bond issuance plans. However, regulations now allow local governments to issue bonds with maturities extending beyond the incumbent administration's term.

Taxation

Anisah's study found that high-income tax rates on bond interest and discounts reduce investor interest in municipal bonds (Anisah, 2017). Government Regulation No. 91 of 2021 on Income

Tax on Interest from Bonds Received by Domestic and Permanent Establishments (PP 91/2021) imposes a final tax rate of ten per cent on bond interest income in Indonesia. These rates are competitive compared to those of the surrounding countries, as seen in the table 10.

Country	Income Tax on Interest Rate
Indonesia	10%
Malaysia	most exempt
Singapore	10%
Thailand	15%
Vietnam	0%
Philippines	5%

Table 10. Income Tax on Interest from Government Bond in Southeast Asia
(Source: Asian Bond Online)

Two countries—India and the United States—have implemented income tax exemptions on municipal bond interest to encourage using municipal bonds as an alternative financing source for local development. In India, 46% of issued municipal bonds are tax-exempt, 30% are taxable, and the remaining 24% are pooled bonds (Ministry of Finance Government of India, 2017). In the United States, local governments can issue tax-exempt municipal bonds for public purposes (Sharma et al., 2023). Data from the Securities Industry and Financial Markets Association (SIFMA) show that from 2016 to 2023, 80.7% of municipal bonds issued were tax-exempt, 15.3% were taxable, and 4.0% were subject to an alternative minimum tax (AMT). Thus, although the tax rate on bond interest is quite competitive, based on lessons learned, further study is needed regarding tax exemption on bond interest in Indonesia.

CONCLUSION

From the discussion above, it can be seen that the obstacles that cause the West Java Provincial Government not to be able to issue municipal bonds are:

1. The lack of a Minister of Finance Regulation as a mandate for the HKFN Government Regulation is one of the obstacles for the West Java Provincial Government in issuing municipal bonds. This is because the Minister of Finance Regulation will further regulate the provisions regarding the procedures for issuing municipal bonds and municipal sukuk in the HKFN Government Regulation.
2. Determining projects/activities takes quite a long time, around sixteen months from December 2022 to May 2024. This long time is due to replacing potential projects financed from municipal bonds, especially for projects that cannot meet the readiness criteria.
3. Even though the West Java Provincial Government has a DMU, several notes are made, including that the form of the DMU does not yet comply with the HKFN PP and that the

scope of the DMU's assignment does not accommodate management duties and other tasks related to the capital market.

4. Concerns about future financial burdens drive the Governor's lack of commitment to continuing the process of issuing municipal bonds during their term of office.

Some suggestions that can be given to overcome the obstacles mentioned include holding an audience with the Minister of Finance to encourage the establishment of the Minister of Finance Regulation, holding project preparation training for related regional apparatus, requesting assistance from the Ministry of Finance in improving the DMU and preparing a study related to the benefits of regional bonds and risk mitigation that can be carried out.

The strategies that the West Java Provincial Government can implement in overcoming obstacles to issuing municipal bonds are:

1. Enhance the commitment of the Governor to issue municipal bonds
 - a. The end of this strategy is to strengthen Governor's commitment to support municipal bond issuance.
 - b. The ways involve stakeholder engagement and capacity-building for regional leaders, fostering alignment within internal departments, and providing education and outreach to regional leaders, the DPRD, and the public.
 - c. The means for this strategy include organizing discussions with regional leaders on the benefits of municipal bonds, hosting sessions to foster internal consensus, educating about municipal bond benefits, and collaborating on agenda-setting through media coverage and research publications (Aini et al., 2020; Kementerian Keuangan et al., 2023; Suwardini, 2023).
2. Efficient, Accountable, and Collaborative Project Selection
 - a. The end of this strategy is to ensure project selection is conducted efficiently, accountable, and collaboratively.
 - b. The ways involves developing a methodology and risk mitigation for project selection and fostering collaboration.
 - c. The means for this strategy include establishing a project assessment methodology focused on financing options and eligibility criteria, developing risk mitigation measures in project selection, enhancing collaboration among project-owning regional government units (OPD) in project planning, and strengthening collaboration to build capacity in project planning (Sofi & Pusat, 2020; World Bank, 2018).
3. Establishing Central Regulations for Municipal Bonds
 - a. The end of this strategy is to expedite the establishment of central regulations related to municipal bonds.
 - b. The ways involve regulatory advocacy and coalition-building in the regulatory process.

- c. The means for this strategy include conducting meetings/consultations with the Ministry of Finance regarding the issuance of ministerial regulations, drafting a formal letter from regional leaders to the Ministry of Finance to support the establishment of these regulations, and collaborating with academics through research on the urgency of issuing the ministerial regulation.
4. Establishing a Professional Debt Management Unit (DMU)
 - a. The end of this strategy is to establish a professional DMU.
 - b. The ways involve organizational structure preparation, work tools preparation, and human resources preparation.
 - c. The means this strategy includes Creating a legal foundation for the DMU's establishment, Developing SOPs, detailed job descriptions, and performance management tools for work tool preparation, Recruiting skilled personnel, offering targeted training, and collaborating with external parties to enhance training options for Human Resources DMU preparation (Chalamsa, 2017; Ministry of Finance Government of India, 2017; Suwardini, 2023; World Bank, 2018).

This study provides input to the West Java Provincial Government on further examining the obstacles and strategies proposed for formulating/refining municipal bond issuance policies. This study has several limitations, especially regarding limited time, informants, and the author's knowledge. This study hoped that future municipal bond studies could use mixed-method methods, add informants, and more complex techniques, such as the Analytical Hierarchy Process (AHP) or the Analytical Network Process (ANP), to determine strategies.

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