

# RECONSTRUCTION OF REGIONAL ECONOMIC DEVELOPMENT THROUGH THE ISSUANCE OF REGIONAL BONDS IN THE CAPITAL MARKET IN THE PERSPECTIVE OF REGIONAL AUTONOMY

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## Abstract

This study aims to investigate the strategy of issuing regional bonds as a potential financial instrument to support regional economic development through the capital market, focusing on the perspective of regional autonomy in Indonesia. Through an in-depth analysis of local bond issuance regulations and practices, this study will explore how local governments can leverage these instruments to strengthen local funding sources to support infrastructure development and other economic initiatives. In addition, the study will also identify the main challenges local governments face in using regional bonds as an alternative to financing, including complex regulations, institutional readiness, and risk factors such as moral hazard and potential corruption. In particular, this study will reconstruct the legal framework that regulates the issuance of regional bonds by highlighting aspects that need to be strengthened or adjusted to facilitate the effective use of regional bonds in accordance with the principle of regional autonomy. Thus, this research is expected to provide in-depth insights into public policy in facilitating the use of regional bonds to strengthen regional financial autonomy and encourage sustainable local economic growth.

**Keywords:** Development, Regional Economy, Regional Bonds, Perspective, Regional Autonomy.

## INTRODUCTION

Economic development in the regions has a high urgency as part of efforts to improve community welfare and equitable development (Mahadiansar et al., 2020). By optimizing local potential, each region can create job opportunities, increase per capita income, and reduce economic disparities between regions. It also allows people to have better access to education, health, and infrastructure that can improve the quality of life of the community as a whole. In addition, inclusive and sustainable regional economic development helps create social and economic stability and encourages active community participation in the development process. This equitable distribution of development is important to create social justice and avoid inequality that can trigger conflicts and social instability. Thus, regional economic development not only has an impact on economic growth, but also on the welfare and social justice of the community at large (Djadjuli, 2018).

Regional autonomy is the right, authority, and obligation of autonomous regions to regulate and manage their own government affairs and the interests of the local community in accordance with laws and regulations (Ristanti & Handoyo, 2017). Regional autonomy gives greater authority to local governments to manage local resources and potentials to design and

implement policies that are in accordance with the specific characteristics and needs of their regions. This includes natural resource management, economic development, public services, and handling social and environmental problems. With this authority, local governments can be more effective in responding to local dynamics and developing infrastructure that supports economic growth and the welfare of local communities.

Various sources of funding are available for regional development, including the Regional Revenue and Expenditure Budget (APBD), which consists of regional original revenue (PAD), transfer funds from the central government such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Village Fund. Although these various sources of funding are available, local governments often face obstacles in obtaining adequate funding. Some of these constraints include the low fiscal capacity of regions to increase PAD, high reliance on central transfer funds that are sometimes late or insufficient, and limitations in accessing alternative funding due to complex administrative and regulatory requirements.

The difficulty of funding or lack of funds in the Regional Revenue and Expenditure Budget (APBD) is solved by the existence of Government Regulation Number 54 of 2005 concerning Regional Loans, where regions can borrow or issue relevant Regional Bonds (Saragih et al., 2021). Regional loans are increasing, the amount of which in percentage of regional loans still does not exceed 5% of the total regional development financing while the rest is still dominated by financing from the central government which is relatively ranging from 30%-80% (Raharjo Adisasmita, 2011).

Regional bonds are financial instruments issued by local governments to raise funds from investors to finance public projects, especially infrastructure (Yanto & Ramlan, 2024). The working mechanism is similar to bonds in general, where local governments offer bonds to investors through the capital market. Investors who buy regional bonds provide loans to local governments which will then return the funds with interest at a predetermined time. This process begins with approval from the DPRD (Regional House of Representatives) and evaluation from the Ministry of Finance to ensure that the bond issuance is in accordance with regional regulations and financial capabilities (Brigham and Houston).

The advantages of issuing regional bonds include flexibility in financing infrastructure projects without having to wait for budget allocation from the central government. This allows for the acceleration of development that can improve the quality of public services and encourage local economic growth. In addition, regional bonds can also increase capital market liquidity by offering attractive investment alternatives for investors. This not only broadens the investor base, but can also stimulate economic activity in the area, as well as provide local governments with access to larger, longer-term funds to support sustainable development (Sawidji Widodoatmodjo).

In issuing regional bonds in the capital market, there are obstacles in terms of regulations, including the obligation to audit regional finances by public accountants, legal reconstruction of regional bonds and regulations applicable in the capital market, guarantee and issuance of regional bonds which have a long flow and quite a lot of requirements (Lestari & Pratomo,

2016). In the process of issuing regional bonds, there is a mechanism, namely it is required to submit a Registration Statement to the OJK, Regional Governments also need the approval of the Ministry of Finance, the consideration of the Ministry of Home Affairs and the approval of the Regional People's Representative Council (DPRD). The aspect of APBD governance by the Regional Government also needs to be a concern. This is because investor confidence is highly dependent on how the Regional Government manages the APBD and utilizes the funds from the issuance of regional bonds.

Law Number 8 of 1995 concerning the Capital Market states that the issuance of bonds requires the issuer's financial statements audited by a registered Public Accounting Firm (KAP) (Saragih et al., 2021). Meanwhile, according to Law Number 15 of 2004 concerning the Audit of State Financial Management, the audit of local government finances in the Regional Revenue and Expenditure Budget (APBD) is the responsibility of the Audit Board (BPK) (Susanti, 2022). Law Number 21 of 2011 concerning the Financial Services Authority (OJK) stipulates that the OJK carries out the task of regulating and supervising financial services in the capital market sector, replacing the role of the Capital Market and Financial Institutions Supervisory Agency (Bappepam and LK) (Muchda, 2014). The transitional provisions of Article 55 state that since December 31, 2012, the functions, duties, and authorities for regulating and supervising financial services activities in the capital market, insurance, pension funds, financing institutions, and other financial services institutions have been transferred from the Minister of Finance and Bappepam LK to the OJK. Thus, the provisions that apply in the capital market regarding Regional Bonds now refer to the regulations issued by the OJK.

The purpose to be achieved through this research proposal is to analyze and explain the regulation of the use of regional bond issuance as an effort to optimize economic development and regional development financing. This study also aims to analyze and explain the obstacles faced by local governments in issuing regional bonds from the perspective of regional autonomy. In addition, this study will analyze and find the concept of legal reconstruction of the issuance of regional bonds in the capital market as one of the regional economic development strategies.

## **METHODS**

The research method used in this study is the normative juridical method. This method is used to examine the laws and regulations related to the issuance of regional bonds and how their implementation can be optimized for regional economic development. Normative juridical research focuses on the analysis of primary legal materials such as laws, government regulations, and regulations of the Financial Services Authority (OJK), as well as secondary legal materials such as legal literature, scientific journals, and legal expert opinions.

The data collection process in this normative juridical research involves an in-depth study of various relevant legal documents and literature. Primary legal materials will be reviewed to understand the legal framework that regulates the issuance of regional bonds and regional autonomy. In addition, secondary legal materials will be analyzed to obtain interpretations and views from experts regarding the application and obstacles in the issuance of regional bonds.

This literature and legal document search technique aims to get a comprehensive overview of the juridical aspects of regional bond issuance.

The data analysis in this study was carried out qualitatively with a descriptive-analytical approach. The collected data will be analyzed to identify, clarify, and interpret various regulations and legal concepts related to the issuance of regional bonds. The results of this analysis will be used to outline the existing legal obstacles and formulate a legal reconstruction concept that is expected to overcome these obstacles and support the optimization of regional bond issuance. Thus, this study not only provides a theoretical understanding of existing regulations, but also provides practical recommendations for regional economic development through regional bond instruments.

## **RESULT AND DISCUSSION**

### **Potential of Regional Bond Issuance in the Concept of Regional Economic Development**

Regional bonds as a source of funds have long been used as a discourse and subject of discussion in formal forums both at the regional and central levels. If the issuance of regional bonds can be realized, then in the structure of the APBD, regional bonds are an alternative source of financing and of course can also be financial support for local governments. Officially, local governments have been able to prepare for the issuance and sale of regional bonds to the community since the stipulation of the provisions in the House of Representatives Plenary Meeting which ratified the amendment to Article 51 of Law No. 25 of 1999. Although the government regulation regulating the mechanism for the issuance and sale of regional bonds was only issued in 2006.

Opportunities for local governments to finance development through regional bonds have been open since the enactment of regional autonomy, but a series of implementing regulations have not been fully resolved. The latest legal basis that regulates regional bonds is Government Regulation Number 30 of 2011 concerning Regional Loans and Regulation of the Minister of Finance Number 111/PMK.07/2012 concerning Procedures for Issuance and Accountability of Regional Bonds as amended by Regulation of the Minister of Finance Number 180/PMK.07/2015 concerning Amendments to Minister of Finance Regulation Number 111/PMK.07/2012 concerning Procedures for Issuance and Accountability of Regional Bonds.

Banks have the ability to provide funds for infrastructure development, but long payback periods reduce banking interest. Alternatives such as development sharing and BOT involve the private sector, but not many have enough funding or interest. Financing through bond issuance is able to provide large funds by involving many parties and has a low risk of exchange rate changes because the interest is set at the time of issuance. Government policies do not easily affect bond financing because they are regulated in contracts. If the liquidity and interest rates of bonds are competitive, interest in bonds will increase and make them a good alternative source of financing. However, there are obstacles in the issuance of regional bonds related to administrative regulations, institutions and the quality of human resources. Law No. 33 of 2004 regulates the authority of local governments in managing loans, but regulations related to

agencies involved in bond issuance do not yet exist. Regulations that are the legal basis for the process of issuing regional bonds are still needed and Bapepam stipulates conditions or conditions that have not been applied by local governments in their management.

Many factors are first fixed for the bond issuance process:

1. Implementation of Local Government Financial Accounting Standards;
2. Debt Management Unit (DMU) of Regional Bonds;
3. DMU Management Human Resources;
4. Public knowledge about the ins and outs of regional bonds;
5. Determine the Rating Agency (RA) agency;
6. Guarantee Institution.

The main obstacle in the issuance of regional bonds is the incomplete government regulations and regional regulations (Perda). The local government's financial statements are not fully in accordance with the accounting standards recommended by Bapepam, which is an important requirement for bond issuance. The implementation of financial accounting standards needs to be prepared, and bond management activities need to be taken care of by special bodies such as the Debt Management Unit (DMU) so as not to burden regional administration. Regional bonds are debt securities offered to the public and are not guaranteed by the central government, so the risk is the responsibility of the local government (Yanto & Ramlan, 2024); (Adiwinarto et al., 2021). The purpose of bonds is to finance public sector investment, not to cover the shortfall in regional cash (Yanto & Ramlan, 2024); (Suriadi & Sriningsih, 2020). Although the trend of regional borrowing in developed countries shows success, regulatory challenges, political dynamics, risk perception, issuance costs, and lack of urgency in financing still hinder the issuance of regional bonds. Facilitative regulatory policies, as well as socialization and education about the benefits of bonds to local governments and communities are needed to overcome these obstacles. Infrastructure financing through bonds is important to encourage regional economic progress, but it must be done carefully considering the administrative constraints and management risks that exist.

In accordance with Law No. 21 of 2011, the Financial Services Authority (OJK) carries out the task of regulating and supervising financial services activities in the capital market sector, replacing the role of the Capital Market and Financial Institutions Supervisory Agency (Bappepam and LK). Since December 31, 2012, the functions, duties, and authority of this regulation and supervision have been transferred from the Minister of Finance and Bappepam-LK to the OJK, so that the provisions on Regional Bonds now refer to the regulations issued by the OJK. However, the low understanding of local governments about regional bonds is the main problem in their use as an alternative to financing. As a result, many regions have not explored the use of regional bonds, although several provinces such as DKI Jakarta, West Java, and Central Java have expressed their readiness through the mass media. The issue of legislative approval (DPRD) is also an obstacle, because the APBD must set aside the budget as a bailout fund to pay interest to bondholders before the project generates revenue.



Another major problem in the issuance of regional bonds is the readiness of the organization and human resources of bond managers (Waruwu et al., 2024); (Khurria, 2023). Local governments need to establish a Debt Management Unit (DMU) tasked with managing regional bonds, including setting risk control policies, planning loan portfolio structures, issuing and selling bonds, and managing payments and liabilities. DMU needs competent and experienced human resources in the field of investment and capital markets, so local governments need to recruit and train the needed human resources. The organizational structure of DMU can be in the form of a Regional Public Service Agency (BLUD). The process of issuing regional bonds involves the procedures regulated in the Minister of Finance Regulation No. 111/PMK.07/2012 and No. 180/PMK.07/2015, which includes preparation, approval of the DPRD, submission to the Minister of Finance, preparation of regional regulations, public offerings in the capital market, and bond management. Although the procedure is complicated and lengthy, only established and wealthy regions can use this instrument. The use of regional bonds not only provides fresh funds for infrastructure development but also encourages financial transparency and accountability of local governments. The success of regional bond issuance is highly dependent on the readiness of the government and other stakeholders, with trust being an important initial capital for positive business relationships and sustainable regional development (Resen, 2015).

In the management of regional bonds, local governments need to implement the strategy of *"infrastructure for all"* "To ensure equal access to basic infrastructure for the community. Principle *"cost recovery"* It must be a priority to cover the cost of infrastructure operations and maintenance, so that the budget can be allocated specifically for basic infrastructure that has high social benefits and low financial viability. The development of alternative sources of funding, such as loans from banking or non-banking financial institutions through bond issuance, is also needed to support faster infrastructure development. However, local governments in Indonesia are often less innovative in managing risk and more likely to avoid risks, which has an impact on low growth in Regional Original Revenue (PAD) and the ability to repay loans. The role of regional heads is very important in improving regional financial capabilities through policies and innovation, although political factors also influence investors' decisions regarding regional bonds (Solehudin, 2017). Therefore, the management of regional bonds requires government readiness in innovation, risk management, and strong political support to achieve sustainable and efficient infrastructure development goals.

Bonds are an investment that is considered risk-free, but investor trust in the issuer is very important to ensure the ability to pay interest and principal at maturity. Government bonds are known as "risk-free bonds" and are guaranteed by the government's ability to raise taxes or print money to meet payment obligations. Although rare, as in the 1998 Russian financial crisis, there are records of defaults on government bonds. An example of a US government bond called Treasury securities offers a risk-free investment in US dollars associated with credit (Adrian Sutedi, 2024). However, other risks such as exchange rate fluctuations or inflation remain. In Indonesia, local governments need to consider ratings from rating agencies such as Pefindo to assess the feasibility and safety of regional bonds to be issued, despite the potential for unexpected defaults, especially in the unrated regional bond market. The reputation of the

guarantee institution also has an effect in building market confidence in regional bonds, thereby affecting the cost of borrowing and liquidity in the market.

The feasibility assessment of Regional Bonds in Indonesia is not only carried out by rating agencies such as Pefindo, but also through an administrative and financial assessment process by the Ministry of Finance. Administrative assessment includes the completeness of documents according to the provisions, while financial assessment assesses the ability of the Regional Government to issue bonds financially and repay loans. However, there is no clarity on the mechanism and procedure for this assessment, including verification of the ability of the Regional Government to borrow. This can hinder local governments that want to issue bonds due to financial uncertainty. The existence of a list containing local governments that are eligible to issue bonds can facilitate preparations such as feasibility studies and working terms of reference. However, the latest policy of the Ministry of Finance that does not require a feasibility study may increase the risk of failure of investments financed by regional bonds. The main risk factor is the high moral hazard and corruption in the regions, especially in capital expenditure and infrastructure as revealed in the BPK's findings which mention the potential for significant state and regional losses due to non-compliance with laws and regulations.

On the other hand, Finance Minister Bambang Brojonegoro's statement in a national newspaper stated that regional bonds have not yet become an urgent need, considering that the amount of regional funds stored in national banks reached Rp 290 trillion as of September 2015 (Tempo, 2015). This reflects the challenge amid high interest from the regions to issue bonds, which is faced with high barriers, constraints, and risks. Alternative inter-regional financing can be facilitated by the central government if the project has financial feasibility and high trust in the local government. However, regulations that still hinder the issuance of regional bonds and challenges in innovation and institutional and human resource readiness in the regions are other things that need to be overcome. The risk of regional bond management is also high, especially considering the many cases of default in other countries and the threat of moral hazard and corruption in local government that can damage investor confidence and result in failure of infrastructure development and investment, including interest payments and principal of regional bonds.

### **Obstacles and Challenges in the Issuance of Regional Bonds in the Perspective of Regional Autonomy**

In relation to efforts to issue regional bonds, human resources are an important factor that determines the success of its implementation. The process of issuing regional bonds requires the qualifications of competent and experienced human resources in the field of investment and capital markets. Although the issuance of regional bonds will be accompanied by related parties such as the Ministry of Finance, the Financial Services Authority, and the Capital Market, local governments must still prepare human resources who are able to work and collaborate with these parties. The low understanding of local governments, both executive and legislative, about regional bonds has caused many regions to not explore the use of regional bonds as an alternative to development financing. This obstacle also has an impact on the legislative approval process (DPRD) which is important to set aside the budget as a bailout fund to pay

interest to bondholders as long as the project has not yet generated revenue. Human resources related obstacles are the biggest faced by local governments. Research shows that although the West Sumatra Regional Government and the West Kalimantan Regional Government are feasible to issue regional bonds from a financial aspect, both still lack human resources who have knowledge about regional bonds and the capital market. In addition, the West Sumatra Regional Government also experiences a shortage of employees with an economic or accounting education background (Khurria, 2023). Another fact shows the obstacle to the lack of a Regional Bond Management Unit, which according to the Regulation of the Minister of Finance Number PMK 111/PMK.07/2012, the management of regional bonds must be carried out by a unit appointed by the Regional Head. This unit is in charge of managing the entire process of issuing and managing regional bonds and must have an adequate organizational structure, work tools, and human resource capacity. The establishment of this regional bond management work unit is an important first step in the preparation stage for the issuance of regional bonds.

Furthermore, another obstacle found is the absence of special regional regulations that regulate the issuance of regional bonds. The infrastructure for the issuance of regional bonds must be equipped with a legal umbrella that oversees its implementation. Even though there is a legal umbrella in the form of laws, government regulations, regulations of the Minister of Finance and regulations of the Financial Services Authority, local governments still need to prepare regional regulations that are the basis for the issuance of these bonds. The issuance procedures and requirements for regional bonds prepared by the central government are carried out strictly and based on the principle of prudence to avoid the risk of default, but this can be a disincentive for local governments. Regulations regarding the issuance of regional bonds are currently still fragmented with various ministries and institutions regulating and supervising the local government bond market separately, handling different aspects and regulated by different regulations.

The procedure for issuing regional bonds is still considered complicated by many local governments. In accordance with the Regulation of the Minister of Finance Number 147/PMK.07/2006 concerning Procedures for Issuance, Accountability, and Publication of Regional Bond Information. Before regional bonds can be issued in the capital market, local governments must go through several stages. This stage includes preparations in the regions, approval by the Minister of Finance, pre-registration and registration stages to the public offering stage. Each stage involves steps that are quite detailed and many and involve various institutions at the central and regional levels. The process that must be undergone by the local government is more complicated than that of a company, so the local government must position itself as an issuer.

Local governments often consider that the issuance of regional bonds is very complicated and requires long and careful preparation. The requirements that must be met by local governments are also the main inhibiting factor. Various regulations regulate these requirements such as Government Regulation Number 56 of 2018 concerning Regional Loans and several Financial Services Authority (POJK) Regulations, including POJK Number 61/POJK.04/2017, POJK



Number 62/POJK.04/2017, and POJK Number 63/POJK.04/2017. This regulation stipulates the required documents, the form and content of the prospectus, as well as reports and announcements that must be submitted by regional bond issuers. The many requirements and complexity of this procedure make local governments reluctant to prepare and issue regional bonds.

The researcher found that local governments (Pemda) consider the requirements for the issuance of regional bonds to be very difficult with one of the main challenges being the selection of projects that are feasible to be funded. The project to be financed must have investment feasibility to guarantee a rate of return to investors, but often the selected project does not generate adequate income (Triyansyah et al., 2020). In addition, regional bonds must be linked to a specific project that is considered an underlying asset (*underlying*), but not all projects can guarantee a revenue stream (*revenue stream*). Another obstacle is the criteria for determining projects to be financed with regional bonds where bonds require revenue so that the output produced is semi-public goods or services. In addition, there are political obstacles where the issuance of regional bonds requires a principle permit from the DPRD (Khurria, 2023). Some local governments have difficulty obtaining approval or permission from the DPRD even though they have made various efforts to convince council members. For example, the Central Java Regional Government has asked the Financial Services Authority for help to explain in detail about regional bonds so that the Central Java DPRD can understand the benefits, but this is still a challenge because DPRD members understand the political field better than the economy.

The issue of transparency is another obstacle in the issuance of regional bonds because only regions with high readiness and good transparency can do it. Bond issuance requires regions to open their economic and financial conditions so that they can be trusted by investors. This includes public access to regional financial statements and the disclosure of information required for bond ratings from rating agencies. Many local governments, including the DPRD, consider debt as a negative thing that signals financial instability and risk for future generations. As a result, local governments prefer to rely on regional transfer funds and PAD rather than issuing more complicated regional bonds. Some regions also keep SiLPAs in banks, making local governments reluctant to issue bonds because they still have reserve funds. Most local governments choose "*business as usual*" and avoid risks. The researcher also highlighted the lack of a comprehensive understanding of regional bonds as the cause of the inhibition of issuance. Many regions do not understand bond issuance as a whole so they are not ready to carry out financing schemes through bonds. A deep understanding of regional bonds needs to be possessed by Regional Heads, DPRD, and other stakeholders.

### **Legal Reconstruction of the Issuance of Regional Bonds in the Capital Market as One of the Regional Developments**

The issuance of regional bonds involves various parties including the Regional Government, the DPRD, the Ministry of Home Affairs and the Ministry of Finance. The absence of regional bonds that are currently issued is caused by many obstacles or factors that have not been met by the local government, such as the need for a special unit that handles bonds, the preparation

of activities to be financed, the calculation of the cumulative loan limit and special clauses for development objects that can increase regional revenues such as toll roads or hospitals. Regional regulations related to bonds are needed which are a challenge for the DPRD. With a good understanding of regional bonds and their benefits as well as good risk management, regional bonds can be one way to accelerate development. The growth trend of bonds in Indonesia shows an increase every year, proving the increasing demand for bonds from corporations and the government. The rate of return is stable as seen from inflation and the BI rate which affects government bonds and corporations. Currently, bond trading is quite active with government bonds trading at around 13.8 trillion per day in the secondary market and corporate bonds at 5-6 trillion per day. However, investor profiles show that 38.1% or Rp 619 trillion of government bonds are owned by foreigners, while the rest is owned by mutual funds, individuals, Bank Indonesia, and others (Ignatius Girondreheru, 2024).

The DKI Jakarta Provincial Government in 2011 almost issued bonds because it had met various requirements. However, the process was delayed due to the change of leadership in the 2012 regional elections and this shows that the political obstacles as stated above are indeed found in practice in the field. Likewise, the West Java Provincial Government hopes to further simplify the conditions and processes for the issuance of regional bonds to accelerate regional infrastructure financing. The West Java Provincial Government, which originally wanted to be a pioneer in the issuance of regional bonds, was extinct because of the very complicated process. The process that must pass an examination by the DPR, BPK, the Ministry of Home Affairs, and then be examined again by the Ministry of Finance, BPKP and other advanced processes is difficult for regions to issue bonds. In fact, bonds are important to accelerate development. Meanwhile, on the other hand, the limited ability of regional financing causes the quality of infrastructure development in the region to be very low.

In the midst of various obstacles, the researcher provides perspectives and reconstructs efforts to encourage the issuance of regional bonds, which are as follows:

#### 1. Capacity building of local government human resources

The step that can be taken to overcome problems related to human resources is to increase the capacity of local government human resources. For example, by providing training to human resources in the region regarding the management of Regional Bonds and recruiting human resources who have competence and experience in the field of investment and capital markets.

#### 2. Regulatory Improvements

##### a. A comprehensive regulatory framework;

So far, the existing regulatory framework has been fragmented. Several ministries and agencies regulate and supervise the local government bond market, each dealing with different aspects. With a comprehensive and harmonized regulatory framework, the issuance of regional bonds can be easier to understand. In addition, the roles and responsibilities of various stakeholders will also be clearer so that they can improve coordination between the government and these institutions.

b. Simplification of procedures for issuing regional bonds;

One of the obstacles experienced by many regions that want to issue regional bonds is the lack of approval from the DPRD. To eliminate this obstacle, the government has revised Law No. 23 of 2014 through the ratification of the Omnibus Law on Job Creation. In the Law, it is stated that "Regional Heads may issue Regional Bonds and/or Regional Sukuk to finance infrastructure and/or investment in the form of public service provision activities that are the business of the Regional Government after obtaining consideration from the Minister and approval from the minister in charge of government affairs in the financial sector." Thus, in the future, local governments no longer need to ask for approval from the DPRD to issue regional bonds.

c. Simplification of requirements for issuance of regional bonds

In addition to regulating the approval of the issuance of regional bonds, the Omnibus Law on Job Creation also expands the use of regional bond funds. The Omnibus Law on Job Creation allows local governments to collect funds for purposes that do not generate revenue, such as provincial or city highways.

3. Disclosure

To increase transparency, it is necessary to disclose local government finances in a timely and credible manner. This disclosure should also include information about local government balance sheets, debt burdens, and fiscal risks. This disclosure is expected to increase supervision, make it easier to provide credit ratings, and attract investors.

4. Provision of support by the central government

If there is a local government that wants to issue regional bonds, the central government must provide technical support and consulting services in the bond issuance process, which starts from the process of preparing for bond issuance. The form of technical support provided can be in the form of assistance, or even providing experts for the local government.

Regional bonds are one of the alternative financing for infrastructure development that needs to be utilized by local governments (Arifin & Wisudanto, 2017). Although there are still pros and cons, regional bonds are seen as a good and rational financing option and common in the world. However, no local government has issued these bonds due to various inhibiting factors. These factors include constraints on local government readiness such as human resources, bond management units, and regional regulations that do not yet exist; regulatory constraints include fragmented regulations, complicated procedures, and difficult requirements; political constraints such as principle permits from the DPRD and limited time in office; as well as transparency constraints, negative perceptions about debt, reluctance to go into debt, and lack of understanding of regional bonds. To overcome these obstacles, it is necessary to increase the capacity of local government human resources, improve comprehensive regulations, simplify procedures and requirements, disclose information, and support from the central government. The central government continues to encourage the issuance of regional bonds by issuing the Job Creation Law which provides greater flexibility and the capital market which offers

incentives in the form of a 50% discount on listing fees. It is hoped that in the future, there will be local governments that will immediately issue regional bonds.

The policy of regional bond development in Indonesia is motivated by the weak fiscal capacity of local governments which limits the ability of local governments to finance development and achieve the SDG target by 2030. Initially, the development of regional bonds was based on Law Number 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments. Now based on the HKPD Law. In line with this change in law, Government Regulation No. 56 of 2018 concerning Regional Loans is likely to be replaced with a new Government Regulation which is still in the process of being discussed. This new regulation is expected to reduce obstacles to the issuance of regional bonds, such as the provisions of the Regional Regulation approving the DPRD for each bond issuance, the provision of the bond maturity time that must not exceed the end of the term of office of the regional head, and the provisions of the Regional Regulation on the reserve of funds for the fulfillment of regional bond obligations. In addition, this regulation is expected to increase synergy between stakeholders including executive and legislative officials in the regions, the Ministry of Home Affairs, the Ministry of Finance, the OJK, and investors in the bond market.

In general, the central government is ready to encourage and facilitate the issuance of regional bonds even though the readiness of local governments varies. Based on the analysis of institutional capacity, financing needs, and economic indicators, provinces such as West Java and DKI Jakarta are highly recommended to issue regional bonds. Meanwhile, provinces such as South Sumatra, Central Java, East Java, and South Kalimantan are recommended, but other provinces are less or not recommended for now. The issuance of regional bonds is believed to be beneficial for the Regional Government in financing development and achieving the SDG target by 2030, as well as accelerating the development of the bond and sukuk markets.

However, several challenges must be faced, including improving the regulatory framework, increasing political support in the regions, straightening out misperceptions about the risks of regional bond issuance, reducing issuance costs, and increasing awareness about the importance of accelerating regional public investment projects. In addition, other challenges include increasing public financial literacy and inclusion to support the absorption of regional bonds and increasing community participation in development financing (Waruwu et al., 2024). Especially for thematic bonds such as green and social bonds, an additional challenge is affirmation to local governments and investors regarding the differences between these bonds. The study also reveals the landscape of provincial fiscal capacity in Indonesia, where provinces that are "Not Yet Recommended" need special attention to improve fiscal capacity and regional governance which is important for equitable development.

As previously explained, some of the main obstacles to the issuance of regional bonds include: 1) regulations that have not been able to fully facilitate the obstacles faced by local governments; 2) regional political dynamics; 3) risk perception around issuance; 4) high issuance costs; and 5) lack of urgency related to financing needs. This study proposes several recommendations and strategies to address these challenges.

First, the central government needs to immediately complete regulations that can reduce obstacles to the issuance of regional bonds. At the time of the preparation of this study, the Ministry of Finance was still in the process of finalizing derivative regulations from the HKPD Law 2022 related to the harmonization of national fiscal policy. This derivative regulation is expected to facilitate several processes related to issuance preparation, including adjustments related to the prerequisites for approval of the issuance of Regional Bonds from the DPRD. The central government also needs to immediately make adjustments to more technical provisions, including in the Minister of Finance Regulation, OJK Regulation and other regulations. Based on discussions with the OJK, several regulations governing the issuance of regional bonds, such as 61/POJK.04/2017, 62/POJK.04/2017, 63/POJK.04/2017, are also expected to undergo adjustments following the latest regulatory framework. The renewal and adjustment of the regulatory framework must be accompanied by a thorough and equitable dissemination process to all stakeholders in the regional bond ecosystem.

Second, the process of increasing stakeholder understanding and capacity. Local governments need to increase the capacity of both institutions and human resources in preparation for the issuance of regional bonds. In addition to being carried out internally, this capacity building can also involve external parties, ministries/government agencies and non-government organizations. This will also increase the understanding of leaders and other regional apparatus about the benefits of alternative financing which can ultimately encourage support and commitment to issuance from regional leaders.

The issuance of regional bonds actually carries various risks that need to be borne by the local government as the issuer. However, it is also necessary to understand well the great potential of the use of regional bonds for development. The issuance of regional bonds is not solely about the bonds themselves, but about accelerating the implementation of regional public investment projects, regional socio-economic development and the realization of the SDGs targets by 2030. For local/provincial governments that are included in the category of "Not Yet Recommended", the need for this assistance will be even greater. Apart from fiscal capacity, institutional capacity and human resources also need more attention. This capacity building is not limited to the ability to issue regional bonds, but also to improve people's welfare, public services, and regional competitiveness. Especially for regions in this category, in-depth assistance from the level of regional institutional readiness is a determining factor not only in the framework of regional bonds or other financing instruments, but also as a strong foundation for the region in carrying out governance. The implementation of good governance can ultimately pave the way for these regions to strengthen other aspects of government, including regional debt management and the use of regional financing instruments.

Third, introducing incentives, both financial incentives, tax incentives, and other bureaucratic convenience incentives that can encourage the issuance of regional bonds, especially those related to the needs of supporting issuance. Financial incentives have been implemented through Stock Exchange Regulation 1-B which imposes an annual listing fee for regional bonds of 50% of the regulated rate. This can balance the *cost and benefit* considerations of the local government considering the many cost needs surrounding preparation and issuance.



Fourth, the participation of other stakeholders needs to be increased so that it can help the government's efforts in encouraging the issuance of regional bonds. For example, implementing partner institutions can help provide technical assistance to stakeholders. Likewise, donor institutions can be involved to support financing by bearing part of the costs to support issuance needs. In addition, various professional associations/organizations can provide assistance for the issuance of thematic bonds. No less important is the need to foster interest from capital market participants to consider regional bonds as a trustworthy investment portfolio.

The implementation of regional autonomy is a form of democratization that provides space for civil society participation in responding to regional problems. The main achievement of regional autonomy is to improve the welfare of the community in a fair and equitable manner. In an effort to achieve this, regional autonomy has a number of success factors and inhibition factors. Success Factors Factors that can affect the success of regional autonomy in Indonesia: Human Resource Factors: Human beings as local government actors must be able to carry out their duties in taking care of regional households in order to achieve their goals. Organizational Structural Ability: The organizational structure of the local government must be able to accommodate all activities and tasks for which it is responsible. Ability to Encourage Community Participation: Local governments must be able to encourage community participation in development. Regional Financial Capabilities: Regional finances must be able to support the financing of governmental, development, and community activities. Budget Factor: As the main tool in regional financial control, an appropriate budget plan is needed. Equipment Factor: Every tool used must be able to facilitate local government activities. Good Management: the organizational structure along with its officers, duties, and authorities must have a good relationship in order to achieve the goals.

## CONCLUSION

The potential for the issuance of regional bonds as an effort to develop the regional economy requires in-depth study, especially because Article 59 paragraph 1 of Law No. 33 of 2004 states that the central government does not guarantee regional bonds. Therefore, local governments that want to use bonds as a source of financing must pay attention to aspects of their financial capabilities and financial management. Infrastructure development, which provides a multiplier effect for the progress of economic development, is an important aspect for regional progress. Although many local governments have limited funds, they must be careful in considering regional bonds as an alternative financing because various obstacles in the implementation of their government can increase the risk of managing regional bonds.

The issuance of regional bonds as an alternative source of funding in regional economic development within the framework of regional autonomy faces many obstacles and challenges. Human resources are an important factor because this process requires competent and experienced human resources in the field of investment and capital markets, but this obstacle is the biggest for the local government. In addition, the absence of a Regional Bond Management Unit and regional regulations are a significant obstacle even though there is

already a national legal umbrella. Political constraints also affect, especially related to the limited term of office of regional heads and DPRD, which can thwart the policies that have been taken. The issue of transparency also hinders the issuance of regional bonds because the regions must open the economic and financial conditions of the local government to build trust and attract investors as well as open public access to regional financial statements.

Regional regulations related to regional bonds are urgently needed and are a challenge for stakeholders responsible for regional development. A better understanding of regional bonds is needed because they offer many benefits and are an alternative to financing for accelerating development. Reconstruction of efforts to encourage the issuance of regional bonds is needed through increasing the capacity of local government human resources, improving comprehensive regulations, simplifying the issuance procedures and requirements for regional bonds, transparency, and support from the central government.

## SUGGESTION

The importance of increasing people's financial literacy and inclusion in the regions is urgent related to regional bonds. This is needed to open up the insights of development stakeholders and local communities, support the absorption of regional bonds, and increase community participation in development financing. Especially for thematic bonds such as green bonds or social bonds, an additional challenge is to ensure that local governments and investors understand the differences and benefits of these bonds compared to other bonds.

Local governments can pursue several strategies for the issuance of regional bonds, such as utilizing the enthusiasm and potential of the community for regional development, involving the community in project supervision to minimize moral hazards, immediately making legal rules regarding the issuance of regional bonds, and preparing infrastructure and outlets for the sale and purchase of regional bonds. In addition, regional bonds should be made in the form of retail with a small nominal value so that they are affordable to the public, issued by the Regional Authority Agency or BUMD, and the repayment of the bonds is fully the responsibility of the issuer so as not to burden the APBD.

Socialization to the regions about the potential use of regional loans and guidelines for the issuance of regional bonds is very important. Therefore, the OJK, the Ministry of Finance, and the Ministry of Home Affairs, with the support of the Coordinating Ministry for Economic Affairs, must continue to coordinate to prepare regulations that facilitate the issuance of regional bonds. The main obstacles include inadequate regulations, regional political dynamics, risk perception, high issuance costs, and lack of urgency for financing. The central government needs to immediately complete regulations that reduce these obstacles, including derivative regulations from the HKPD Law 2022, the Regulation of the Minister of Finance, and OJK Regulations. This regulatory adjustment must be followed by thorough dissemination to all stakeholders in the regional bond ecosystem.

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