JURNAL TATA KELOLA DAN AKUNTABILITAS KEUANGAN NEGARA

Check for updates

p-ISSN 2460-3937
e-ISSN 2549-452X

Volume 10 Number 2, 2024: 161-174

https://jurnal.bpk.go.id/TAKEN

New national fiscal policy for accelerating regional development of infrastructure in Indonesia

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ABSTRACT

This study describes the latest regulations on regional financing in Indonesia. These regulations have been developed in line with the principles stipulated in Government Regulation Number 1 of 2024 on the harmonization of national fiscal policy. The study uses a semi-systematic literature review to elucidate the development of these regulations. It examines a range of sources, including academic literature and government regulations. By combining different types of data, the study has enhanced the current understanding of the subject in detail. The regulations in Government Regulation Number 1 of 2024 introduced three new methods for financing regions, namely, loans, bonds, and sukuk. Thus far, only loans have been successfully implemented. However, other forms of finance also hold potential. This latest regulation will allow local governments more flexibility in using regional financing, especially for regional development. This study describes the development of regional financing in Indonesia and focuses on the aspects the government should consider. This regulation is expected to encourage the government to be more creative and use development resources well. Lastly, the study explains how this regulation will influence future development financing.

KEYWORDS:
Financing; regional development; government

HOW TO CITE:
Runjung, R. M. R. P. K. (2024). New national fiscal policy for accelerating regional development of infrastructure in Indonesia. *Jurnal Tata Kelola dan Akuntabilitas Keuangan Negara*, *10*(2), 161-174. https://doi.org/10.28986/jtaken.v10i2.1685

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ARTICLE HISTORY:

Received : 29 April 2024
Revised : 3 June 2024
Accepted : 14 June 2024
Published : 26 December 2024

INTRODUCTION

The rapid development of infrastructure in Indonesia has precipitated its current transition to a developing country. The most common scheme to be implemented in development in Indonesia is investment, which can maximize economic potential, accelerate growth, foster job creation, and reduce poverty (Salim & Negara, 2019). However, recognizing that various considerations and elements must be considered when implementing this development is important. One such consideration is the amount of funding required. Indonesia has endured a period of reduced investment in infrastructure due to the economic crisis during the late 1990s, which has impeded growth (Pisu, 2010). Between 2010 and 2014, approximately 100 development investments in Indonesia were collectively valued at 47.3 billion USD. During the same period, the Indonesian government required approximately 1,430 trillion IDR to fund infrastructure initiatives. However, its financial capacity to finance such developments was only IDR 980 trillion or approximately 68% of the required funding. As indicated by the World Bank in 2010, Indonesia requires approximately 50 billion USD (approximately 460 trillion IDR) for infrastructure expansion within five years. In contrast, local revenues in Indonesia remain below 10% annually, which renders optimally enhancing their areas implausible for local authorities. As Indonesia transitions to a developed country with a robust economy by 2045, infrastructure development will be crucial in supporting the strategic objectives of the country (Berawi et al., 2021).

The potential for the utilization of regional resources in development can be implemented through public-private partnerships or corporate social responsibility schemes. These two schemes, in the three-part financing infrastructure development in Bandung City, are (a) a conventional model that requires full financing on the implementation of development, (b) a transitional model that imposes 70% of financing on the government budget, and the rest can be accessed by the public, and (c) an ideal model in which third parties finance all development costs (Kurniati et al., 2018). Based on another financing model, implementing general and particular regulations is necessary for regulating provisions that can be used as the basis of legality in the issuance of bonds. Moreover, special regulations that feature technical methods for bonds, such as requirements, procedures, and legal protection for bond investors, that is, the community, should be created (Kasih & Purwanti, 2018).

The issues of inequality and budget constraints in the implementation of development represent a significant challenge. Exploring the potential of innovative and efficient financing schemes is essential to address these issues. The Government of the Special Capital Region of Jakarta has initiated the consideration of potential financial instruments to be employed in financing developmental initiatives, including those that prioritize aspects of the green economy. However, legal and technical limitations constrain the implementation of such schemes (Ulfah, 2023). A few remaining provisions that require preparation are related to arrangements for human resources, financial reporting, the authority of underlying assets, and procedures for marketing the Sukuk. Furthermore, the research indicates a need to strengthen the matter's legal aspects. Previous studies were unable to identify the potential of regional financing for local authorities to maximize their development.

Regional financing in Indonesia has been further developed; currently, it is regulated by law. The concept of regional financing, as defined in Law Number 33 of 2004 on the financial balance between the central and local governments, refers to any form of revenue to be repaid and any form of expenditure to be received again, whether in the respective fiscal year or subsequent fiscal years. This includes regional debt financing, which is defined in Law Number 1 of 2022 on financial relations between the central and local governments, as any regional revenue that must be repaid in the fiscal year in question and subsequent fiscal years. Initially, the financial instruments available to Indonesia were limited to regional loans, which were intended to finance infrastructure and facilities development in regions that generated direct or indirect revenues or benefits. For the first time, Law Number 25 of 1999 on the fiscal balance between the central and local governments has regulated the rules of regional funding. This legislation has defined all transactions in which provinces received funds or services of monetary value from third parties with the obligation to repay them, except for short-term commercial loans.

Furthermore, Law Number 33 of 2004 updated regional financing regulations on the fiscal balance between the central and local governments. This law defined regional loans as all transactions that lead to the receipt of a region of a sum of money or services of monetary value from another party, thereby imposing an obligation of repayment on the region. Since the enactment of this law, the scheme for the implementation of regional loans was expanded by dividing the loan period into short-, medium-, and long-term. Moreover, this law determined the source of regional loans, ensuring transparency and accountability. Regional loans can originate from the central state, regional states, financial institutions, non-banking financial institutions, and the public. Regional loans originating from the public, for instance, are implemented in the form of bonds, classified in this regulation as regional loans. This clear delineation of loan sources instills confidence in the regional financing process.

By the provisions of Law Number 33 of 2004, Government Regulation Number 54 of 2005 on Regional Loans was issued as a regulatory framework for the implementation of regional loans in Indonesia. This regulation was subsequently revoked by Government Regulation Number 30 of 2011, after which it underwent further amendment through Government Regulation Number 56 of 2018. These three government regulations on regional loans established the framework for a regional financing system that solely comprised regional loans, which were categorized according to their duration (short-, medium- or long-term), and regional bonds that might also qualify as regional loans from the public. In 2022, the Indonesian government enacted Law Number 1 of 2022, concerned with financial relations between the central and local governments. It repealed Law Number 33 of 2004, which was in effect for nearly two decades. Several specific objectives can be identified within the latest regulation related to financial relations, which comprises four regulatory clusters. One of these clusters addresses regional financing in Indonesia. Furthermore, this law broadens the regional debt financing scheme into three categories, namely, regional loans, regional bonds, and the introduction of regional sukuk schemes into regional financing while stipulating the intended purposes of regional financing (Table 1).

As indicated in Table 1, regional debt financing can be used for various purposes. One of its key applications is cash management, which enables the local government to address any deficit in its finances or to enhance its cash flow. Additionally, this scheme can facilitate loans to finance regional infrastructure, the regional debt portfolio, or the forwarding or participation of regional enterprises. These enterprises may be called BUMD, Badan Usaha Milik Daerah, or regional-owned enterprises in Indonesia. The simplification of the regional loan system by eliminating the distinction between the terms of the regional loan and those of the loan will enable regional authorities to implement, manage, and use the regional loan more broadly and creatively. Furthermore, with its unique rules, regulations, and technicalities, the regional bond scheme will no longer be classified as a regional loan. In contrast, the regional sukuk is a new financing scheme that has been added to this regulation. Similar to the preceding regulation, namely Law Number 33 of

2004, which necessitates the implementation of governmental regulations on regional financing, Law Number 1 of 2022 requires the establishment of such a regulation, albeit on a more detailed and technically precise basis. This is in accordance with the provisions outlined in the aforementioned Government Regulation Number 1 of 2024, which is concerned with the harmonization of national fiscal policy.

Table 1. Purpose of Regional Debt Financing

Type of Financing	Purpose
Regional Loans	(a) Cash management; (b) Financing of regional infrastructure development; (c) Management of regional debt portfolio; and/or (d) Loan forwarding and/or equity participation to regional-owned enterprises
Regional Bonds	(a) Financing of regional infrastructure development; (b) Management of regional debt portfolio; and/or (c) Loan forwarding and or equity participation to regional-owned enterprises
Regional sukuk	(a) Financing of regional infrastructure development; (b) Management of regional debt portfolio; and/or (c) Loan forwarding and or equity participation to regional-owned enterprises.

In recent years, significant alterations have been made to the regulations governing regional financing in Indonesia. These changes have influenced the scope of implementation schemes, definitions, terms of use, and the requirements associated with regional financing. These modifications have resulted in a new chapter in regional financing, which is expected to be executed optimally and efficiently. With the introduction of Government Regulation Number 1 of 2024, regional financing in Indonesia has transitioned into a novel phase, encompassing a broad spectrum of schemes and incorporating a series of amended provisions. The implementation of the financing scheme remains at the regional level in its nascent stages. Thus, it will be interesting to observe how local governments in Indonesia operationalize this scheme and utilize it to advance regional development in the future. This article aims to address two significant questions. The first concerns the expansion of regional financing schemes. At the same time, the second is related to the implementation of such schemes, with a particular reference to the regulation of regional financing for the promotion of development in Indonesia.

RESEARCH METHOD

This study conducted a literature review focusing on how Government Regulation Number 1 of 2024 will commence a new chapter in regional financing in Indonesia. As a method, the literature review aims to provide a detailed overview of articles on a subject (Ramdhani et al., 2014). Several methods can be used to review the literature. Table 2 presents the requirements and details. This study aims to elucidate the nuances of the regional financing process and the distinction between the regulations for its implementation in Indonesia. Initially, the financing scheme consisted of solely regional loans; however, it has since been augmented by regional loans, bonds, and sukuk, as stipulated in the latest regulations. This study employs the semi-systematic literature review as the most appropriate methodology because it enables an overview of the subject matter (in this case, regional financing) along with its development over time. In contrast, the systematic literature review employs specific research questions and aims to compare findings in a quantitative format with several predetermined standards (Yuliani et al., 2020). Furthermore, the integrative literature review model is similarly unsuitable for this article due to its broad scope and lack of focus. Its objective is to critique and synthesize previous research findings (Benzaghta et al., 2021).

Table 2. Comparison of Methods in Literature Review

	Systematic	Semi-Systematic	Integrative
Purpose	Synthesize and Compare Evidence	Overview research area and track development over time	Critique and synthesize
Research Question	Specific	Broad	Narrow or Broad
Sample Characteristics	Quantitative articles	Research articles	Research articles, books, and other published texts
Analysis and Evaluation	Quantitative	Qualitative/quantitative	Qualitative

Source: Snyder (2019)

A literature review is a research method involving four stages: planning, implementation, data extraction and analysis, and review organization and writing (Snyder, 2019). This article underwent the planning process, during which it identified the research area and necessary references, followed by the implementation phase, which involved the collection of the identified references in the form of articles and the applied regulations in the field of regional financing research. The extracted and analyzed data from the collected references were then organized and written into this article, which served as the result of this research process.

RESULT AND DISCUSSION

The Indonesian government is aware that the financial capacity of local governments is currently limited in relation to the implementation of infrastructure projects in the region. To facilitate the implementation of regional financing schemes in the form of regional loans, bonds, and sukuk, the Indonesian government has enacted Law Number 1 of 2022. Specifically, this law encourages the Indonesian government to promote synergy between revenue sources and local financing, including local own-source revenue, fiscal balance transfers from the central government to regions, regional financing, interregional cooperation, and cooperation between the local government and business entities. This scheme is intended to strengthen the funding base for programs and activities, which provides additional significant benefits. Thus, the study anticipates that all regional development programs and activities will be coordinated to ensure the effective and efficient utilization of resources allocated for such initiatives. The following section presents an overview of the three regional financing schemes stipulated in the latest Government Regulation Number 1 of 2024.

Regional Loans

Law Number 1 of 2022 revised the regulations on regional loans, which were previously based on the periodization of loan terms. The 2022 amendment shifted the focus to their use for cash management, development of financing regional infrastructure, management of regional debt portfolios, and transfer of loans and/or equity participation in BUMDs. Regional loans may be considered a potential source of regional financing within the local government's budget, particularly for implementing government activities initiated by the relevant local government in accordance with applicable laws and regulations (Rosmawati & Muryati, 2023). A comparison of regional loan policies in Indonesia, as outlined in Table 3, reveals several key differences.

Table 3. Comparison of Regulations on Regional Loans

	Law Number 33 of 2004	Law Number 1 of 2022
Type of Loans	a) Short-term loan b) Medium-term loan c) Long-term loan	Regional loan (conventional or *Sharia*)
Source of Loans	a) Government b) Other local governments c) Bank financial institutions d) Non-bank financial institutions e) The public	a) Government b) Other local governments c) Bank financial institutions d) Non-bank financial institutions
Purpose of Loans	a) Short-term loans are used only to cover cash flow shortages b) Medium-term Loans are used to finance the provision of public services that do not generate revenue c) Long-term loans are used to finance investment projects that generate revenue	a) Cash management b) Financing regional infrastructure development c) Regional debt portfolio management d) Loan forwarding and/or equity participation to BUMD

Source: *Law Number 33 of 2004 and Law Number 1 of 2022*

The government has expanded the scope of the regional loan system to encompass loans of various types regardless of temporal designation. These loans may be implemented through conventional or Sharia-based channels, which broadens their availability and flexibility. With regard to the source of the loans, a change has occurred in the regulations. Previously, loans obtained from the public were implemented in the regional bond system. However, this scheme has been modified. As previously stated in relation to the expansion of funding schemes, the latest regulation categorizes regional bonds into separate regional funding schemes. Consequently, loans obtained from the public are no longer included in the latest regulation.

One can argue that the current era of loans, as defined by Afonso and Alves (2015), holds the potential to influence economic growth by implementing such instruments. This assertion is consistent with that of Oktaviani (2018), who posits that the expansion or contraction of government-sponsored loans can influence poverty rates, which subsequently impacts regional economic growth. Clearly, these loans must be managed and analyzed by carefully monitoring loan limits. This aspect is necessary to ensure that the intended purpose of the loan is achieved and that the government is not unduly burdened (Fournier & Fall, 2017). At present, no single indicator can be identified as providing a comprehensive reference point for assessing the effectiveness of the government's management of loans. However, a few indicators can be reviewed, including gross financial liabilities, net assets, pension liabilities, government guarantees, and debt composition, as cited in Bloch and Fall (2016). Analyzing and measuring the capacity of regional finance to repay regional loans in Indonesia, utilizing various metrics, including regional loan ceiling, loan repayment ability (debt service coverage ratio), future value annuity, and present value annuity, is possible. This approach has previously been implemented in the Lampung provincial government (Indrayenti et al., 2011). Moreover, Ilmiddaviq (2018) asserted that several variables notably influence regional loans, including population, per capita income, budget surplus/deficit, and local own-source revenue. Thus, the study concludes that the aforementioned variables do not affect regional loans.

Thus far, regional loans have proven to be the sole viable form of regional financing in the Indonesian context. This latest regulatory initiative will transform these loans, previously differentiated according to duration and purpose, into general regional loans with an expanded scope. The simplification of loan types will enable local governments to apply for loans according to specific regional needs. Moreover, they will be permitted to apply for regional loans to finance a range of projects or activities simultaneously, which enhances their flexibility in addressing regional priorities. Moreover, regional loans may be conventional or Sharia-based. This flexibility will enable local governments to determine a specific loan scheme and the intended purpose of the loan.

Regional Bonds

The second scheme in updating the regional financing policy in Indonesia is the regional bond. Law Number 33 of 2004 formally established the practice of bonds in Indonesia; in addition, according to Kumhof and Tanner (2005), the issuance of bonds by the private sector represents a potential means of enhancing the financing schemes of the government. A general or regional bond, in particular, is a fixed-rate security issued to prove that an investor, in this case, the bondholder, has lent money to the bond issuer (Pramono & Irawan, 2017). Through Government Regulation Number 1 of 2024, regional bonds are defined as securities in the form of debt recognition issued by local governments to introduce these bonds as one of three forms of regional financing in Indonesia. Government Regulation Number 56 of 2018 initially regulated the implementation of regional bonds in Indonesia, which was eventually adjusted through the issuance of Government Regulation Number 1 of 2024. Table 4 illustrates the comparison of certain pertinent provisions related to regional bonds under the applicable government regulations in Indonesia.

Table 4. Comparison of Regulations Related to Regional Bonds in Indonesia

	Government Regulation Number 56 of 2018	Government Regulation Number 1 of 2024
Definition	Regional bonds are regional loans offered to the public through a public offering in the capital market.	Regional bonds are securities issued by the local government in the form of debt recognition.
Implementation Scheme	The issuance of regional bonds can only be done in the domestic capital market and in rupiah currency.	Regional bonds are issued through the domestic capital market, are denominated in rupiah (IDR), and are conducted through a public offering mechanism.
Purpose of Use	The issuance of regional bonds is used to finance infrastructure and/or investment in the form of infrastructure and/or facility development activities in the context of providing public services, which are the affairs of the local government.	a) Financing of regional infrastructure development; b) Management of regional debt portfolio; and/or c) Loan forwarding and/or equity participation to BUMDs on the proceeds from the sale of regional bonds.

The latest regulation redefines regional bonds as debt recognition securities; thus, they are no longer classified as a type of regional loan. Regarding the implementation scheme, regional bonds in Indonesia must be issued in the domestic capital market and the IDR currency through a public offering mechanism. The most recent regulation permits a more comprehensive utilization of regional bonds than that of the preceding government regulation, which was solely designed to finance infrastructure or infrastructure development investments for the provision of public services within the jurisdiction of local governments. The development of government bond markets, especially in the Southeast Asian region, has been the subject of several studies. For instance, Huong (2020) posited that the development of government bond markets necessitates the consideration of several factors, including economic capacity, stage of development, macroeconomic conditions, and financial sector characteristics. The findings of Burger et al. (2015) corroborate this assertion, demonstrating that historically high levels of inflationary volatility have been an obstacle to the development of bond markets. Developing countries in Asia, even those with limited financial resources, have the potential to advance their bond markets. This potential can be harnessed through the implementation of policies that foster inflationary stability, thereby enhancing lenders' legal rights. Importantly, Nneka et al. (2022) confirmed these findings, highlighting the positive impact of government debt issuance, trade openness, and inflation on economic growth while cautioning against the detrimental effects of corporate debt issuance and domestic credit to the private sector.

Notably, no local government in Indonesia has succeeded in issuing bonds to finance the development of its region even though the issuance of bonds has been regulated since 2003 by Law Number 33 of that year. As outlined by Khurria (2023), several factors that hinder the issuance of bonds have been identified. These factors include a lack of preparation on the part of local authorities, regulatory constraints, political factors, lack of transparency, negative attitudes toward debt, reluctance on the part of local authorities, and a limited understanding of regional bonds. Okta and Kaluge (2011) also Aini and Maruf (2020) proposed that several obstacles must be overcome before issuing regional bonds. Among them is the implementation of financial accounting standards for local governments; the establishment of a regional bond debt management unit (DMU), which ensures an adequate workforce for DMU managers; education of the public on regional bonds, determination of credit agency ratings, and identification of institutions to guarantee regional bonds. A significant obstacle to the issuance of regional bonds in Indonesia is the scarcity of qualified human resources to oversee them, as observed by Yulianti (2018). Additionally, considerations of regional financial independence and capacity are pertinent. The financial and non-financial dimensions of bond issuance have been meticulously examined, encompassing the maximum limit for regional loans and the value of the debt service coverage ratio (DCSR) per applicable legislation and regulations (Sofi, 2020).

Regional Sukuk

A sukuk is a type of security based on Islamic principles, which serves as evidence of participation in regional sukuk assets. Local governments issue regional sukuk according to their regulations. Table 4 indicates that the purpose of the regional sukuk issuance is similar to that of regional bonds: (a) to finance the development of regional infrastructure to manage the regional debt portfolio and (b) to provide loans or equity participation to BUMDs by utilizing proceeds from the sale of regional sukuk. Since its inception in 2002, Indonesia has issued non-government sukuk, the first of which was issued by PT Indonesian Satellite Corporation (Indosat) 175 billion IDR from sukuk (Fatah, 2011).

Additionally, several other Indonesian companies have issued sukuk. Malaysia is regarded as a pioneer in implementing sukuk and holds the largest total sukuk in the world. This amount surpasses the holdings of countries in the Middle East and elsewhere (Mosaid & Boutti, 2014; Raei & Cakir, 2007). According to Datuk (2014), the Indonesian government should take the lead in issuing sukuk to promote the growth of this financial instrument in the country. The government should also increase public awareness of the advantages of sukuks as a safe and profitable investment and encourage large corporations in the public and private sectors to adopt sukuk as a source of long-term financing. It is particularly suitable for providing regional funding in the shortest possible time frame with the lowest possible risk of default and other forms of financial distress.

By the provisions of Government Regulation Number 1 of 2024, the issuance of regional sukuk is subject to regulation through five types of agreements, which are distinguished by their respective characteristics and variations. Table 5 outlines these agreements. The implementation of regional sukuk may be in various forms or be structured according to several schemes, as outlined by Vishwanath and Azmi (2009). The authors cite sukuk murabaha, al ijara, al istisna, al musharaka, and al isthimar among these schemes. In addition, the Accountancy and Auditing Organization for Islamic Finance has identified at least nine schemes for the issuance of sukuk (Kurniasari, 2014). Government Regulation Number 1 of 2024 delineates the various schemes related to regional sukuk and permits the issuance of regional sukuk based on contractual arrangements that diverge from those specified in the regulation, given that they adhere to Sharia-based principles. Additionally, the regulation stipulates that the issuance of regional sukuk can be combined with two or more of the five sukuk schemes enumerated in Table 5. For instance, in the context of regional sukuk implementation, as elucidated by Al-Amine (2008), more than two contracts can be combined, such as Ijarah with Istina' or Ijarah with Istina' and Murabahah, among others.

Table 5. Definitions, Characteristics, and Focus of Type of Sukuk

	Definitions	Characteristics	Focus
Ijarah	Based on the appointment of a representative to manage the assets or funds issued by the sukuk	An investor periodically receives rental payments (*ijarah* fees) during the term of the sukuk, and ownership of the asset reverts to the sukuk holder upon the expiry of the lease.	Asset (lease)
Mudarabah	Based on a cooperation agreement between two parties, namely, the investor (*rabal-maal/sabibul mal*) and the manager (*mudarib*)	Sukuk provides profits dependent on a previously agreed ratio, and the risk of loss is fully borne by the sukuk holder.	Debt
Musyarakah	Based on the agreement of two or more parties by combining capital with building, developing, or financing business activities or projects	Profits and losses incurred are borne together in accordance with the amount of capital participation of each party.	Bussines/project
Istishna'	Based on the agreement of the parties to agree on the sale–purchase in the context of financing projects or goods	The price, delivery time, and specification of the project/goods are determined in advance based on the agreement.	Project/goods
Wakalah	Based on the appointment of a representative to manage the assets or funds issued by the sukuk	The sukuk issuer, as a representative, is responsible for the management of funds or assets for the benefit of investors.	Sukuk issuer

From the standpoint of the conceptual framework, sukuk represents a promising financing scheme with potential as a solution in the implementation of development in Indonesia. However, this does not negate the fact that obstacles and problems exist inherent to the issuance and implementation of sukuks. As Jarkasih and Rusydiana (2009) propose, several risks are associated with sukuk, including yield, credit, exchange rate, price level, liquidity, and Sharia-compliance risks. Yean (2009) identified several issues related to sukuk that warrant consideration, including the high cost of implementing and issuing sukuk and the lack of transactions in the secondary market. Additionally, Laila and Anshori (2020) determined three major problems with sukuk: government commitment, inadequate infrastructure, and inadequate regulation. These issues can be addressed by implementing three main solutions. First, the government must demonstrate greater commitment to sukuk. Second, transactions must be made simple. Third, regulations related to sukuk in Indonesia must be revised. In addition, Mahri et al. (2022) proposed that the strategies for the issuance of sukuk include (1) conducting socialization and promotion to investors (the public) about regional sukuk, (2) holding training and seminars related to the technical application and concept of regional sukuk, (3) formulating special regulations by the region regarding the issuance of sukuk tailored to regional autonomy, and (4) compiling and integrating regulations a form that shapes the basis of the implementation of regional sukuk in Indonesia. After several studies emphasizing the importance of base regulations for sukuk, Government Regulation Number 1 of 2024 serves as a tangible manifestation of commitment. It represents a foundational legal framework for sukuk issuance at the regional level in Indonesia. It provides the much-needed impetus for an increasingly effective implementation of this crucial financial instrument.

In accordance with the latest regulation, local governments in Indonesia are permitted to apply for and implement long-term financing schemes. However, they must first obtain approval from three ministries. The purpose of these schemes is to develop infrastructure and provide public services. The three ministries, namely the Ministries of Finance, Home Affairs, and National Development Planning/Bappenas, play a pivotal role in this process. Each ministry exhibits distinct evaluation criteria and considerations, which reflect their respective areas of expertise and perspectives on long-term regional debt financing plans that extend beyond the term of the regional chief. Table 6 presents the criteria of the three ministries.

Based on the criteria and aspects enumerated in Table 6, all local governments that intend to apply for long-term financing must give due attention and fulfill the criteria and aspects prescribed in the Regulations for Financing in Indonesia. Local governments interested in applying for funding for strategic regional development are expected to pay attention to several aspects and factors of evaluation with which the three ministries are concerned. The objective is to facilitate the approval of the desired funding application submissions to the central government. Table 6 illustrates the focus and perspective of each interrelated ministry on regional development in Indonesia.

Table 6. Comparison of Assessment Criteria in Providing Regional Financing

Ministry of Finance	Ministry of Home Affairs	Ministry of National Development Planning/Bappenas
Conducts an assessment of: a. The maximum limit of regional debt financing; b. The ratio of the debt coverage service ratio (DCSR); c. The maximum limit of the local government budget deficit sourced from regional debt financing.	Conducts an assessment of: a. The suitability of activities with the affairs under the authority of a region; b. Conformity of programs and/or activities with regional planning and budgeting documents; and c. Synchronization of regional debt financing with regional funding apart from regional debt financing.	Considers the aspects of: a. Strategic; b. Technical; c. Institutional; d. Economic; e. Social and environmental impacts; f. Financing; and g. Risk mitigation.

The indicators of the Ministry of Finance ensure that the proposed regional financing is based on the financial capacity of a local government. Meanwhile, the Ministry of Home Affairs ensures that the proposed regional financing is in accordance with the planning documents and direction of regional development that has been determined. Finally, the indicators of the Ministry of National Development Planning/Bappenas ensure that aspects of development financed through regional financing are following the provisions. Once these three Ministry indicators are satisfied, a local government is deemed eligible for financing from regional sources. This financing must then align with the stipulated provisions, at which point the focus shifts to the execution of the development plan by the relevant local government.

The issuance of Government Regulation Number 1 Year 2024 has led to increased dynamism in the financing of development in Indonesia, with the emergence of several new and innovative financing schemes. The literature has identified potential for optimizing regional financing schemes highly compatible with governments at a certain level. Such financing can lead to the strengthening of infrastructure, the reduction of transaction barriers, the updating of regulations on cooperation, and the achievement of common goals (Birdsall & Rojas-Suarez, 2004). A comprehensive study of development financing is necessary, encompassing areas such as foreign financing flows, financing development through private savings and taxes, and generating resources through higher export rates and trade diversification. By facilitating and providing flexibility to local governments in implementing regional financing, characterized by expanding financing schemes and replacing term criteria as a benchmark for financing per program/activity, the author aims to underline the crucial role of regional financing in local government development. Regional financing holds the potential to serve a dual function as a tool for development and an alternative to the financing of state budget deficits. This latter capacity can be employed through the regional sukuk scheme (Nasrullah, 2015).

CONCLUSION

A significant milestone has been reached in the implementation of regional financing, aligning with infrastructure development and the delivery of public services. This crucial step is marked by the issuance of government regulations on the harmonization of national fiscal policy, supplementing Law Number 1 of 2022 on the financial relations between the central and local governments. The latest regulation expands the scope of regional financing, enabling the implementation of three schemes, namely, regional loans, bonds, and sukuk, which are previously limited to regional loans. Moreover, the regulation empowers regions to propose long-term regional debt financing, extending beyond the term of the regional chief in Indonesia. This development is aimed at facilitating the effective and efficient utilization of regional debt financing systems for the implementation of equitable regional development, provision of public services, and realizing their benefits.

Understanding the importance of considering a range of indicators and aspects when implementing regional financing is paramount, regardless of whether it is executed through regional loans, bonds, or sukuk. Therefore, this study strongly advocates for meticulous planning and preparation before applying for regional financing through any scheme. Local governments must diligently calculate the development needs to be financed by regional financing to ensure that the financing received is transformed into benefits and does not become a burden for the local government budget. Implementing a development that generates revenue for the region, which is then used to pay off the installment of previously received financing, necessitates optimal financial commitment and transparency to enable its occurrence. In this way, the objectives of the financed development are achieved to minimize the financial burden on relevant local governments.

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