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Optimizing Municipal Bonds and Sukuk as a Source of Local Government Financing for Sustainable Infrastructure

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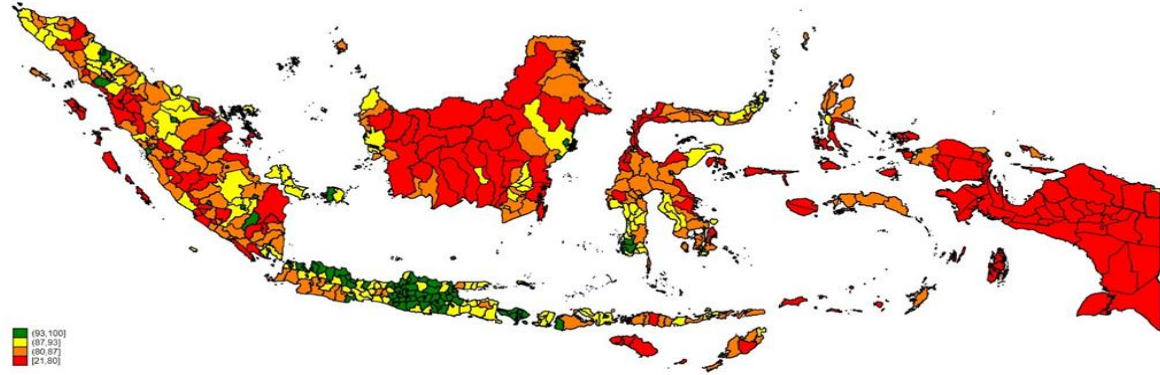
April, 2026



INFRASTRUCTURE INEQUALITY ACROSS LOCAL GOVERNMENTS



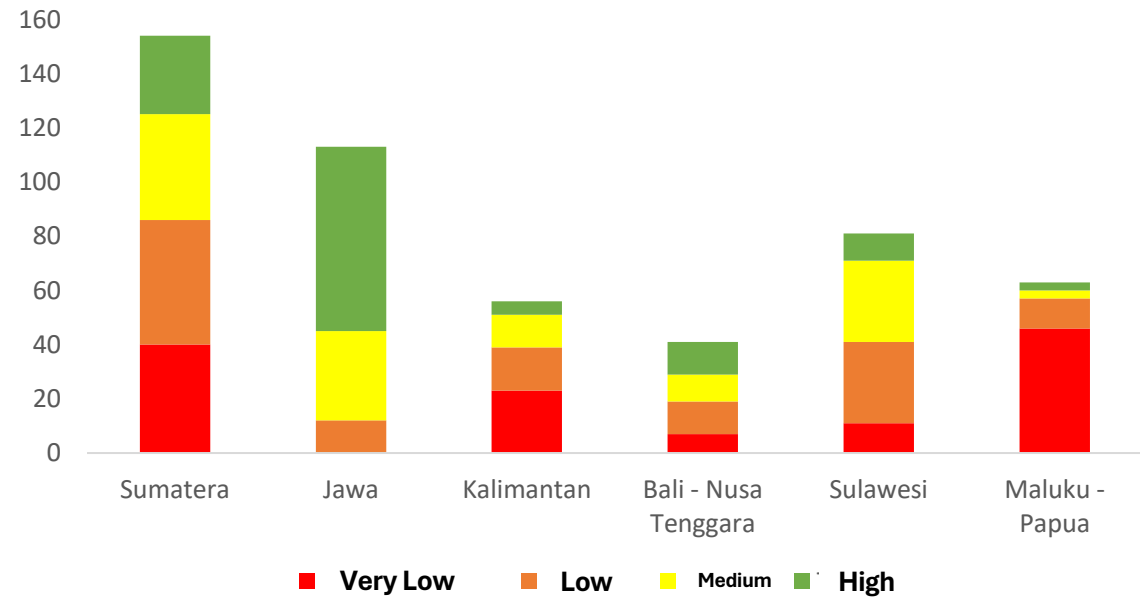
Infrastruktur Index of Municipality and Cities Level in Indonesia, Quartile Category



“Infrastructure disparities between cities and municipalities remain substantial.”

- Cities record a significantly higher average infrastructure index (94.2) compared to municipalities (82.6), indicating unequal development outcomes.
- Infrastructure deficits are structurally concentrated at the municipal level. The lowest-performing municipality (Nduga, score 21) lags far behind even the lowest-performing city (Padang Sidempuan, score 76.5), underscoring deeper structural challenges.

The Number of Municipality and Cities in Indonesia based on Infrastructure Index in Indonesia



“The infrastructure inequality also appear between region”

- Maluku-Papua is the region with the most very low quality of infrastructure, in the local-gov level. (46 city/municipality)
- **Policy responses need to shift from uniform to asymmetric approaches.**
- More targeted, needs-based, and region-sensitive fiscal interventions are essential to reduce infrastructure inequality and improve service delivery outcomes.

GENERAL PRINCIPLES FOR THE ISSUANCE OF MUNICIPAL BONDS AND SUKUK IN ACCORDANCE WITH LAW NO. 1 OF 2022 ON HKPD

Issued for the purpose of financing regional infrastructure development to provide regional facilities and infrastructure

GENERAL PRINCIPLES OF MUNICIPAL BONDS & SUKUK

a.

Issued for the purpose of financing regional infrastructure development to provide regional facilities and infrastructure.

in accordance with regional planning documents and budgeted in the Regional Budget

b.

Conducted for the purpose of:

- Financing regional infrastructure development;
- Managing the regional debt portfolio; and/or
- On-lending and/or capital injection to Regional State-Owned Enterprises (BUMD) using proceeds from the sale of Municipal Bonds and Sukuk

constitutes a new activity or the development of an existing activity

c.

Issued in the domestic capital market through a public offering mechanism and in Indonesian Rupiah

d.

- The issuance of Municipal Bonds and Sukuk is carried out with the approval of the Minister of Finance after consideration by the Minister of Home Affairs.
- In the event that the term of the Municipal Bonds and Sukuk exceeds the remaining term of office of the regional head, approval from the Minister of Finance is required, following consideration by the Minister of Home Affairs and the Minister of National Development Planning

may be fully or partially funded by the Regional Government and/or the State Government

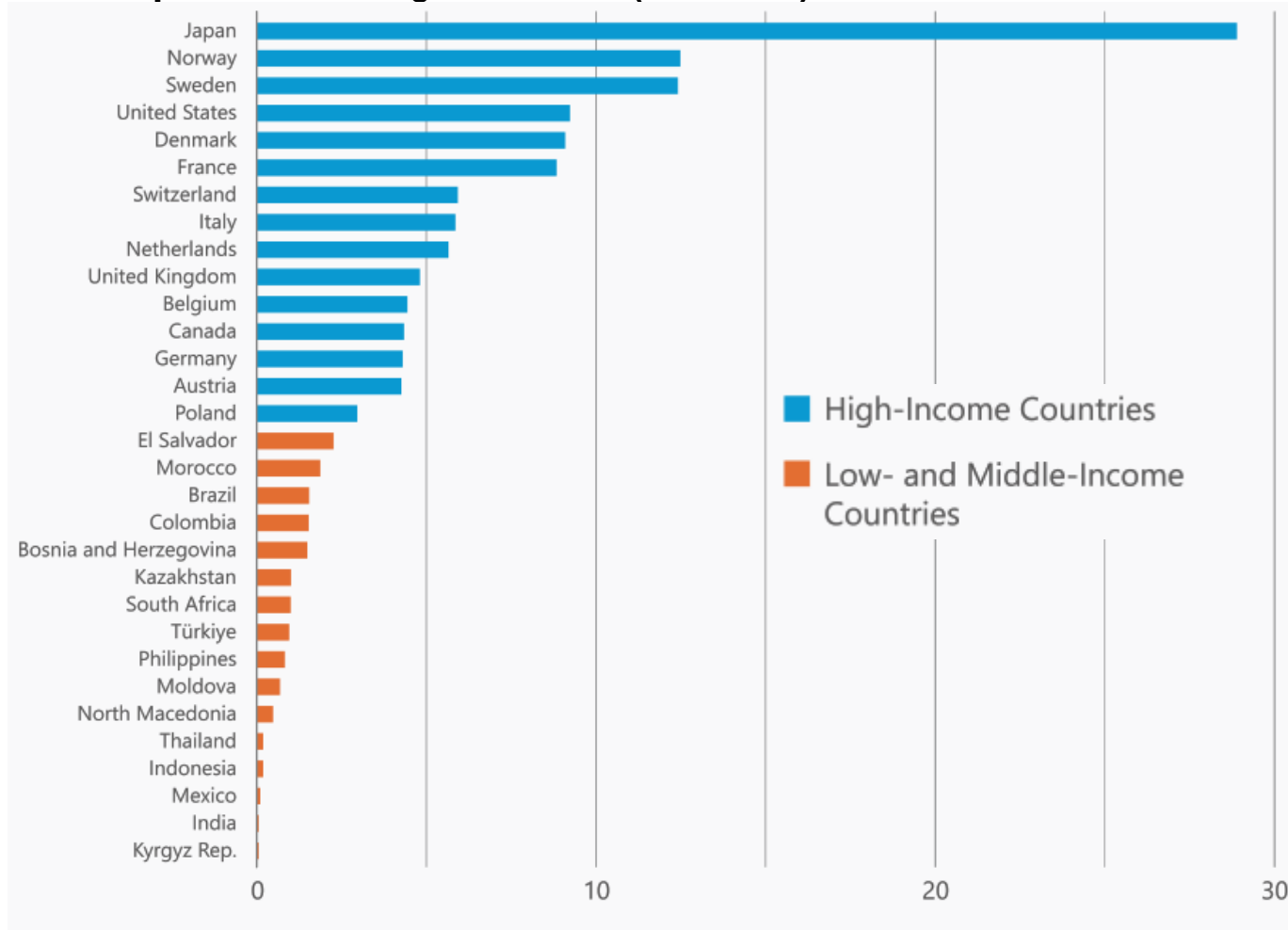
e.

The issuance of Regional Sukuk is carried out after obtaining a statement of compliance of the Regional Sukuk with Sharia principles from a capital market Sharia expert.

The Status of Local Government Debt Financing in Indonesia Compared to Other Countries

The utilization of alternative financing (local government loans) by local governments remains low.

Municipal* Outstanding Debt Stock (% of GDP)



Realized Local Government Debt Stock (2023)

- **Low Local Government Debt Stock:** The total debt stock of local governments (provinces and regencies/cities) in Indonesia as of 2023 amounts to only USD 2.69 billion.
- **Minimal Relative to GDP:** This amount represents approximately 0.2% of Indonesia's GDP.



Comparison with Low- and Middle-Income Countries

- Indonesia is classified as having experience with local government borrowing, but its activities are very limited.
- The level of local government debt is far below that of low- and middle-income countries

Source: *UNLOCKING SUBNATIONAL FINANCE: Overcoming Barriers to Finance for Municipalities in Low- and Middle-Income Countries*, World Bank 2025

Some challenges



The projects selection-> there needs regional financing framework



The cost of issuance→ The median cost of subnational bond issuance was 1,7% in several States in the US, Jaffe



The absence of debt management unit

THANK YOU

Ministry of Finance of the Republic of Indonesia

