



Technical Assistance Report

Project Number: 48169-001
Capacity Development Technical Assistance (CDTA)
October 2014

Republic of Indonesia: Strengthening the Local Government Bond Market (Financed by the Financial Sector Development Partnership Special Fund)

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 October 2014)

Currency unit	–	rupiah (Rp)
Rp1.00	=	\$0.00008
\$1.00	=	Rp12,160

ABBREVIATIONS

ADB	–	Asian Development Bank
DGFB	–	Directorate General of Fiscal Balance
MOF	–	Ministry of Finance
PFM	–	public financial management
SNG	–	subnational government
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

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CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 48169-001	
Project Name	Strengthening the Local Government Bond Market	Department /Division	SERD/SEPF
Country	Indonesia	Executing Agency	Directorate General Fiscal Balance
Borrower	Indonesia		
2. Sector	Subsector(s)	Financing (\$ million)	
✓ Finance	Finance sector development		0.42
Public sector management	Public expenditure and fiscal management		0.00
Water and other urban infrastructure and services	Urban water supply		0.00
	Total		0.42
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Public financial governance	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Pilot-testing innovation and learning		
Partnerships (PAR)	Bilateral institutions (not client government)		
Private sector development (PSD)	Official cofinancing Conducive policy and institutional environment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Not Applicable	
6. TA Category:	A		
7. Safeguard Categorization	Not Applicable		
8. Financing			
Modality and Sources	Amount (\$ million)		
ADB	0.00		
None	0.00		
Cofinancing	0.42		
Financial Sector Development Partnership Special Fund	0.42		
Counterpart	0.00		
None	0.00		
Total	0.42		
9. Effective Development Cooperation			
Use of country procurement systems	Yes		
Use of country public financial management systems	Yes		

I. INTRODUCTION

1. The capacity development technical assistance (TA) will help to improve debt management capacity of the West Java provincial government.¹ The government requested the TA through dialogue among the Directorate General of Fiscal Balance (DGFB) of the Ministry of Finance (MOF), the West Java provincial government, and the Asian Development Bank (ADB). The concept paper for the TA was approved on 28 April 2014. The provincial government and DGFB of MOF have indicated concurrence with the impact, outcome, outputs, implementation arrangements, cost, financing arrangements, and terms of reference as outlined in this report. The design and monitoring framework is in Appendix 1.

II. ISSUES

2. **Decentralization and increased subnational government responsibility over infrastructure.** ADB has identified the lack of infrastructure as a severe constraint in the development of Indonesia's economy.² The government has also expressed the same view and has estimated investment needs for infrastructure between 2010 to 2014 at approximately \$214 billion. Since the central government decentralized authority to the second tier of government level (also known as "big bang" decentralization reforms) in 2001, approximately 33% of total public expenditure, up from 7% in 2000, has been delegated to subnational governments (SNGs), defined as provincial, district, and municipal governments.³ The reforms launched in 2001 involved a massive delegation of responsibility for the provision of public services, including the reassignment to SNGs of two-thirds of civil servants and more than 16,000 service delivery facilities. Indonesia's long-term decentralization policy objectives include improving the delivery of basic services and infrastructure to local communities across the country. Under Indonesia's decentralized governance structure, the provision of infrastructure has increasingly become the responsibility of SNG bodies. Yet local public service delivery has been poor, negatively impacting the local business environment. With low quality of infrastructure, local business activities have not reached their optimal level.

3. **Lack of funding for infrastructure development.** SNGs are now responsible for managing their own fiscal and development affairs. The quality of their management over public investments, including the infrastructure sectors, corresponds to the quality of basic service delivery to their constituents. Yet the result remains disappointing. When capital investment needs are taken into account, SNGs have insufficient financial resources to meet their investment needs, which far exceed their revenues and surpluses. Despite decentralization, most funding is still derived from government transfers in the form of grants, with little mobilization among SNGs. Currently, the largest unconditional grant available to SNGs is the general allocation fund, which, on average, accounts for 50% of total SNG revenues. SNG share of revenues from extractive industries (*dana bagi hasil*) represents 17% of their revenues, and an additional 7% is accounted for by the infrastructure development grant under the specific allocation fund. Total grants to SNGs increased from an estimated Rp150 trillion in 2005 to around Rp350 trillion in 2010. Local revenue, from limited taxes and charges, represents approximately 16% of total SNG revenue. In addition to these revenues, more SNGs are borrowing money from the government to finance their capital investments. The government loans to SNGs are given through either subsidiary loan agreements or through the regional

¹ The TA first appeared in the business opportunities section of the website of the Asian Development Bank (ADB) on 2 July 2014.

² H. Hill, M. E. Khan, and, J. Zhuong, eds. 2012. *Diagnosing the Indonesian Economy: Toward Inclusive and Green Growth*. London: Asian Development Bank/Anthem Press.

³ Law No. 32 of 2004 regarding Regional Administration, Art. 2(1).

development account. The loans made through these mechanisms, particularly the loan agreements, have often been driven by central ministries managing donor-financed projects that were conceived and designed to respond to central rather than local concerns. The regional development accounts and subsidiary loan agreements have been managed primarily as government programs, with the result that SNGs tend to view the government as having ownership over projects funded through these mechanisms.

4. **New sources of funding are needed.** To increase capital investment over time, SNGs will need to have access to various sources of funding beyond intergovernmental transfers and SNG source revenues. There is therefore a need for more private participation in mobilizing large-scale infrastructure funding. Indeed, limited fiscal space has led the government to look for more private participation in infrastructure projects. Subnational bonds are seen as one way to encourage more private participation. Therefore, it is necessary for the government to develop an appropriate SNG borrowing and debt management regulatory framework, in particular to facilitate the creation of municipal capital markets and to encourage the active participation of SNGs in these markets by building their public financial management (PFM) capacity and creditworthiness. The government has allowed SNGs to issue local bonds since 2004.⁴ The aim is for SNGs to finance those public investments that have multiplier effects rather than their local operating budget deficits. The law is based on international best practices that emphasize fiscal capacity. Criteria that are based on institutional requirements and financial viability strive to ensure that no weak and debt-ridden SNGs are able to issue subnational bonds. The two institutional requirements are that (i) the SNG must obtain an unqualified or qualified opinion from the Supreme Audit Board, and (ii) there must be a functioning “debt management unit” within their PFM structure.⁵ The two financial criteria are that (i) the SNG’s aggregate debt service coverage ratio is not more than 2.5, and (ii) the accumulated debt of the SNG is no more than 75% of the previous year’s revenue. These criteria are intended to avoid SNGs overextending themselves (i.e., overburdening themselves with debt and projects) in an environment where their financial management quality is generally weak.

5. **Problems precluding the issuance of subnational bonds.** Despite the advent of subnational bond regulations in Indonesia a decade ago, there has not been a single bond issuance to date. The primary reasons for this are (i) Indonesia’s widespread and relatively shallow capital market, (ii) the lack of PFM capacity at the SNG level, and (iii) the accompanying low creditworthiness of SNGs. For example, the average size of the local currency bond market in Indonesia from 2009 to 2013 was 14.8% of gross domestic product as compared to 96.0% in Malaysia and 68.9% in Thailand. The shallow capital market can have an impact on the price discovery for subnational bond, and thus making it more expensive. In addition, the lack of PFM and debt management skills at the local level has contributed to reluctance among private lenders to make unsecured loans to SNGs. This weakens the credit culture among SNGs: defaults on loans by SNGs appear to be due more to an unwillingness—rather than an inability—to repay. This is evident from the large number of local water supply companies in arrears even though SNGs continue to accumulate cash reserves. It appears that SNGs tend to view loans received by the government as “grants” rather than debts. Another point within the ambit of decentralized PFM is the ability of SNGs to prioritize their investment needs. Given that subnational bonds in Indonesia are required to be linked to a project, it is pertinent for SNGs to be able to select viable projects to be funded by their bonds.⁶

⁴ Law No. 33 of 2004 regarding Fiscal Balance between Central and Local Government, Art. 57.

⁵ Supreme Audit Board’s classification of audit opinions, from strongest to weakest are as follows: (1) Unqualified (clean without exceptions) opinion, (2) Qualified (Clean with exceptions) opinion, (3) Adverse opinion, and (4) Disclaimer opinion.

⁶ Government Regulation 30 of 2011 regarding Regional Loans, Art. 14.

6. **West Java provincial government as the target.** The focus on West Java is based on four factors:

- (i) Previous ADB assistance has provided a shadow rating for West Java, which was –AA, or three notches below the rating of the central government’s treasury. The rating revealed that West Java’s strong cash reserve position and robust economic growth have contributed to the province’s good performance rating.
- (ii) West Java is the third largest regional economy in Indonesia, and the West Java Planning Agency estimated that the provincial government needs at least \$31 billion to finance its capital development expenditure over the next three decades. Attracting more private investment requires commitment from the provincial government to continue to address PFM. The provincial government has already implemented measures to improve its governance rating, including installing a regional financial management system (with the help of ADB) and improving its ranking on the Performance Evaluation of Regional Governments from 15 out of 33 in 2009 to 8 in 2012.⁷ This improvement was also recognized by the Supreme Audit Board when it awarded the provincial government’s financial statement with an unqualified opinion.
- (iii) The West Java provincial government is committed to issuing a bond, and a governor’s decree was issued in October 2011 that establishes a formal team. This team has met national and subnational stakeholders, and a timeline on the bond issuance has been produced. From MOF’s standpoint, the province’s achievement of an unqualified opinion from the Supreme Audit Board provides a clear path for the issuance of a subnational bond, which is expected to occur by September 2015.
- (iv) The West Java International Airport, the project that the bond will finance, is also listed in the Master Plan for Acceleration and Expansion of Indonesia’s Economic Development, 2011–2025.

7. **Synergy with other ADB, government, and development partner programs.** The government has been taking steps to address the problems discussed above through improved regulations on SNG bond issuance, training, streamlining, budgeting and planning procedures, improved grant systems, more comprehensive and timely reporting and auditing, the development of a credit culture, and the deepening of bond markets. ADB has been assisting the government in some of these efforts. ADB’s main engagement has been through a series of loans and TA for the Local Government Finance and Governance Reform Sector Development Program.⁸ The program was designed to enable more effective local government public services through an improved fiscal, budgetary, and financial management framework. The program identified key PFM issues in SNGs, including the protracted and complex local budget cycle, misalignment between planning and budgeting, lack of qualified staff, poor PFM skills, inconsistent accounting standards, and the absence of solid debt monitoring and debt management. In addition to the program, the proposed TA supplements other ADB capacity

⁷ Performance Evaluation of Regional Government (or *Evaluasi Kinerja Penyelenggaraan Pemerintahan Daerah*) is a performance index on that is created by the Ministry of Home Affairs. The purpose of the index is to rank the effectiveness of local governments in carrying their mandates. The higher the ranking, the more effective the local government.

⁸ ADB. 2003. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance Grant to the Republic of Indonesia for the Local Government Finance and Governance Reform Program*. Manila; ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan for Subprogram 1 to the Republic of Indonesia for the Second Local Government Finance and Governance Reform Program*. Manila.

building programs, such as the State Accountability Revitalization Project,⁹ which aims to improve the capacity of local PFM officials; complements ADB's capital market development work, and is in line with the ADB Independent Evaluation Department's recommendation to support Indonesian local governments in financial asset management and in their capacity to issue subnational bonds.¹⁰ Moreover, this TA will draw from the experience of the World Bank in assisting the provincial government of Jakarta to prepare a bond issuance of \$120 million to finance projects in water and sanitation, transport, and housing.

III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The impact will be a more conducive environment for subnational bonds in Indonesia based on West Java as a role model for other SNGs. The outcome will be a well functioning debt management unit in West Java.

B. Methodology and Key Activities

9. The proposed TA will involve working with the West Java provincial government to improve its capacity in planning for capital investments, project selection, and improved financial management capacity. These are critical for building up West Java's debt management capacity ahead of a bond issuance in 2016. The proposed TA will also focus on working with the Financial Services Authority and Bank Indonesia to fine-tune the existing regulation on SNG bonds to create a more conducive regulatory environment.

10. **Output 1: Debt and financial management capacity of West Java Provincial Government assessed and improved.** The support will help the West Java government to learn how capital markets perceive its creditworthiness by providing a shadow credit rating and assessing its financial management practices through a comparison of its performance to peer cities. Assistance will be provided to improve West Java's debt and financial management practices by providing capacity building and follow-up assessment to improve its capacity in the areas that need strengthening based on the initial assessment. Financial management capacity is critical for the viability of the intended bond issuance and the SNG bond market more broadly. The assistance is needed to ensure that a functioning debt management unit is achieved before the bond issuance.¹¹

11. **Output 2: Local regulations on the establishment of debt management unit and municipal bond in West Java are introduced.** Assistance in the form of drafting the regulations will be provided to the West Java provincial government in establishing a debt management unit as a step towards the issuance of a subnational bond. The regulation will be the main local regulatory framework in the establishment of a functioning debt management unit in West Java.

12. **Output 3: Capacity of West Java government in project selection increased.** The TA aims to improve the efficiency of investment process, such as project selection, in West Java. The efficiency in investment is central in improving West Java's capacity on capital

⁹ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Republic of Indonesia for the State Accountability Revitalization Project*. Manila.

¹⁰ ADB. 2010. *Special Evaluation Study on the Asian Development Bank Support for Decentralization in Indonesia*. Manila.

¹¹ The second institutional requirement is that the SNG must obtain an unqualified or qualified opinion from the Supreme Audit Board.

investment planning. Best investment process will be disseminated to other local governments through DGFB, as the central government figure. Best investment process, such as prudent project selection, also lowers the risk premium faced by subnational bond holders.

13. **Output 4: Policy notes on capital market regulation supporting subnational bond issuance produced.** While the government has allowed SNGs to issue local bonds since 2004, work remains to be done to ensure that the regulatory framework for SNG borrowing and debt management is appropriate and effective. Based on the findings and experiences of the preceding outputs under the proposed TA, policy notes will be provided to MOF, Financial Services Authority, and Bank Indonesia as inputs to fine-tune the existing regulation on subnational bonds. The activities that will be undertaken are (i) promoting subnational bonds as one of the public securities so that they become admissible for statutory liquidity ratio investment by commercial banks, (ii) improving the existing regulation on subnational bonds on public disclosure and public investment guidelines, and (iii) conducting a shadow subnational bond issuance to reveal the areas which need refinement.

C. Cost and Financing

14. The TA is estimated to cost \$441,000, of which \$420,000 will be financed on a grant basis by the Financial Sector Development Partnership Special Fund.¹² The government will provide counterpart support in the form of counterpart staff, review of outputs, office space, workshop and consultation support, and other in-kind contributions. The cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

15. The executing agency will be DGFB of MOF and the implementing agency will be the Coordinating Ministry of Economic Affairs and West Java provincial government.

16. The TA will require four international person-months and 19 national person-months of consulting services over an implementation period from 1 October 2014 to 31 April 2016. The consultants will be a mix of individuals and firms selected through fixed-budget selection using a bio-data technical proposal. The fixed-budget selection will be used as the term of reference and will be precisely defined with no changes expected during implementation. The time and personal inputs will be assessed accurately, and the budget is fixed and cannot be exceeded. The consultants will be engaged by ADB in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time). All procurement will be done in accordance with ADB's Procurement Guidelines (2013, as amended from time to time). Disbursement will be done in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).

IV. THE PRESIDENT'S DECISION

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$420,000 on a grant basis to the Government of Indonesia for Strengthening the Local Government Bond Market, and hereby reports this action to the Board.

¹² Established by ADB. Financing partner: the Government of Luxembourg.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact More conducive environment for subnational bonds in Indonesia based on West Java as a role model for other SNGs.</p>	<p>West Java has issued a subnational bond by 2019 (2014 Baseline = 0).</p> <p>West Java's successful experience is replicated to other SNGs by 2019.</p>	<p>ADB Asia Bond Online</p>	<p>Assumption The government is committed to deepening capital markets.</p> <p>Risk Global financial crisis.</p>
<p>Outcome A well functioning debt management unit in West Java.</p>	<p>West Java Provincial Government sets up and operates a debt management unit and is qualified to issue bond by 2016 (2014 Baseline = 0)</p>	<p>Government website and government records</p>	<p>Assumption Resources required in implementing reforms are available in timely manner.</p> <p>Risk Weak credit culture in Indonesia's SNGs.</p>
<p>Outputs 1. Debt and financial management capacity of West Java Provincial Government assessed and improved.</p>	<p>Extended financial management assessment for the SNG is produced by 2015 (Baseline = 0)</p> <p>Credit rating refreshment carried out for the SNG by 2015 (Baseline = 0)</p> <p>Standardized manual and modularized training programs on debt management is provided</p> <p>Knowledge on debt management practices improved with 20 government officials (2014 Baseline = 0)</p>	<p>Consultant report</p> <p>Consultant report</p> <p>Manual</p> <p>Workshop and/or consultant report</p>	<p>Assumption Continuing robust economic environment in Indonesia</p> <p>Risk A change of local leadership may lead to a new governor who does not want to pursue municipal bond issuance</p>
<p>2. Local regulations on the establishment of debt management unit and municipal bond in West Java are introduced.</p>	<p>A draft of local government decree on the establishment of a DMU is produced by 2015 (2014 Baseline = 0)</p> <p>A draft of local government decree on the municipal bond and sinking fund is produced by 2015 (2014 Baseline = 0)</p>	<p>Draft local government decree</p> <p>Draft local government decree</p>	

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
3. Capacity of West Java government in project selection increased.	20 staff of DGFB and West Java with improved knowledge and skills in project selection and project appraisal by 2016 (2014 Baseline = 0)	Consultant report	
4. Policy notes on capital market regulation supporting subnational bond issuance produced.	<p>Policy paper on revision of existing regulation to support subnational bond issuance by 2015 (2014 Baseline = 0)</p> <p>Shadow issuance of subnational bond exercise carried out by 2015 (Baseline = 0)</p>	<p>Consultant report</p> <p>Consultant report</p>	
Activities with Milestones			Inputs
<p>1. Debt and financial management capacity of West Java assessed and improved.</p> <p>1.1. Conduct extended financial management assessment for West Java provincial government</p> <p>1.1.1. Recruit consultant (Oct 2014)</p> <p>1.1.2. Conduct extended financial management assessment (Dec 2014-Mar 2015)</p> <p>1.2. Conduct rating refreshment for West Java</p> <p>1.2.1. Recruit consultant (Oct 2014)</p> <p>1.2.2. Conduct credit rating refreshment (Dec 2014-Mar 2015)</p> <p>1.2.3. Carry out workshop (Apr 2015)</p> <p>1.3. Standardized manual and modularized training programs on debt management is provided</p> <p>1.3.1. Recruit consultant (Oct 2014)</p> <p>1.3.2. Manual and training programs are developed (Apr 2015)</p> <p>1.4. Training on debt management practices</p> <p>1.4.1. Recruit consultant (Oct 2014)</p> <p>1.4.2. Conduct assessment of debt management capacity (Dec 2014-Apr 2015)</p> <p>1.4.3. Carry out training workshop on debt management (Apr 2015)</p> <p>2. Local regulations on the establishment of debt management unit and municipal bond in West Java introduced.</p> <p>2.1. Assist the provincial government of West Java in setting up local government regulations on debt management and municipal bond</p> <p>2.1.1. Recruit consultant (Oct 2014)</p> <p>2.1.2. Draft local government regulation on debt management unit is presented (Feb 2015)</p> <p>2.1.3. Draft local government regulation on local government decree on the municipal bond and sinking fund is presented (Feb 2015)</p> <p>3. Capacity of West Java government in project selection increased.</p> <p>3.1. Assessment capacity of DGFB and SNGs in project selection and project appraisal for underlying asset for the bond improved.</p> <p>3.1.1. Recruit consultant (Jan 2015)</p> <p>3.1.2. Training needs assessment (Mar 2015)</p> <p>3.1.3. Trainings for DGFB staff and regional PFM officials on project</p>			<p>Financial Sector Development Partnership Special Fund: \$420,000</p> <p>Note: The government will provide counterpart support in the form of counterpart staff and other in-kind contributions.</p>

<p style="text-align: center;">selection and management and business valuation (Jan 2015– Dec 2015)</p> <p>4. Policy notes on capital market regulation supporting subnational bond issuance produced</p> <ul style="list-style-type: none">4.1. Conduct shadow issuance of subnational bond exercise<ul style="list-style-type: none">4.1.1. Recruit consultant (Jan 2015)4.1.2. Conduct shadow issuance exercise (Mar 2015)4.2. Produce policy paper on alignment of existing regulation to support subnational bond issuance<ul style="list-style-type: none">4.2.1. Recruit consultant (Jan 2015)4.2.2. Produce policy paper (Mar 2015)	
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ADB = Asian Development Bank, DGFB = Directorate General of Fiscal Balance, DMU = debt management unit, PFM = public financial management, SNG = subnational government, TA = technical assistance.
Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Financial Sector Development Partnership Special Fund^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants (4 pm)	58.00
ii. National consultants (19 pm)	258.10
b. International and local travel	11.00
c. Reports and communications	6.60
2. Workshops	82.18
3. Contingencies	4.12
Total	420.00

Note: The technical assistance (TA) is estimated to cost \$441,000, of which contributions from the Financial Sector Development Partnership Special Fund are presented in the table above. The government will provide counterpart support in the form of counterpart staff, review of outputs, office space, workshop and consultation support, and other in-kind contributions. The value of government contribution is estimated to account for 5% of the total TA cost.

^a Established by the Asian Development Bank. Financing partner: the Government of Luxembourg.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. International Consultant

1. **Municipal bond advisor** (individual, 4 person-months, intermittent). The assignment will review and map out all the processes, procedures, and regulatory framework in municipal bonds issuance in Indonesia and compare it to international best practices. It will identify any gaps that would hinder the issuance and make recommendations to the relevant authorities. The consultant must have international experience in relevant sectors and direct experience working with municipal bond issuance. The consultant must have a master's degree in a related discipline such as finance, financial management, capital markets, business, public administration, or economics. The consultant will carry out the following assignments:

- (i) Review and assess all processes, procedures, and regulations pertaining to municipal bonds issuance; identify any gaps, and propose recommendations.
- (ii) Consult with OJK, DGFB of MOF, and subnational governments (SNGs) as well as relevant professionals registered in the capital market (e.g., legal consultants, appraisers, public accountants) in terms of processes, procedures, and regulations pertaining to municipal bonds issuance.

B. National Consultants

2. **Extended financial management assessment specialist** (firm, 4 person-months, intermittent). The specialist will carry out the following assignments:

- (i) Undertake an extended financial management assessment of the selected province, and present a draft and final financial management assessment of the selected province to the governor and/or other high officials in the province.
- (ii) Undertake a credit rating refreshment of selected cities and present a draft and final credit rating report to the mayors and/or other high officials in those cities. The credit rating must use the latest data available.
- (iii) Participate in the workshops to be organized towards the end of the assignment to discuss the results and findings.

The consultant must be affiliated with a domestic or international rating agency and have experience in financial risk management and in SNG financial management and/or debt rating assignment. The methodology for this assessment will use international best practices commonly applied by a reputable credit rating agency.

3. **Municipal bond advisor and shadow bond issuance** (individual, 5 person-months, intermittent). The assignment aims to identify all the regulatory gaps issues by initiating a shadow issuance for a municipal bond. The consultant will work with MOF and OJK teams in identifying the regulatory gaps. Specifically, the consultant will carry out the following tasks:

- (i) Simulate a municipal bond issuance by going through all the required regulations of OJK and MOF.
- (ii) Identify the regulatory gaps that may impede the bond issuance.
- (iii) Recommend courses of action that need to be taken by OJK and MOF to address the issues.
- (iv) Present the findings and recommendation to the Asian Development Bank, OJK, and MOF.

The consultant carrying out this work must have relevant experience in bond issuance underwriting.

4. **Debt management specialist and economist** (individual, 5 person-months, intermittent). The debt management specialist and economist must have a master's degree in a related discipline such as management, public policy, economics, public administration, or business, with more than 10 years' experience working with governments in debt management and economic policy. He or she should be experienced in fiscal policy, debt management, fiscal decentralization, public financial management (PFM), policy reform, or capacity development. His or her main tasks and outputs include the following:

- (i) Review the readiness and suitability of selected SNGs to issue bonds, and conduct debt management performance assessment based on the applicable tool.
- (ii) Provide capacity building to the selected SNG on the establishment of its debt management unit.
- (iii) Working together with the SNG financing specialist, the consultant will analyze and recommend support for PFM capacity development for the SNG.

5. **Subnational government infrastructure financing and project selection specialist** (individual, 5 person-months, intermittent). The SNG financing specialist will have a master's degree in a related discipline such as management, public policy, economics, public administration, or business with more than 10 years' experience working with SNGs. He or she should be experienced in project development and project appraisals. He or she should also have experience advising SNGs in selecting viable projects that can be funded through municipal bonds. The consultant will conduct meetings, discussions, and interviews with selected SNGs supported by the project and will make sure that possibilities for bond issuance and risks are well understood. His or her main tasks and outputs include the following:

- (i) Provide technical advice to the selected SNGs to select projects that can be revenue generated to be tied to the SNG bond issuance.
- (ii) Provide technical inputs to the project selection, institutional frameworks, contingent liabilities, and fiscal capacity.
- (iii) Provide capacity building or trainings for DGFB and selected SNG project development and project appraisals.
- (iv) Review, identify, design, and provide training on how to determine project rationales, market structures, and economic costs and benefits for projects that will be funded through municipal bonds.
- (v) Support project economic analysis by developing relevant processes, procedures, templates, case studies, and model projects that can be used to support municipal bonds' development.
- (vi) Provide training on economic issues impacting proposed project structures that will be funded by municipal bonds.