Harmonizing Municipal Bond Regulations: Enhancing Legal Certainty and Sustainable Development in Indonesia through International Practices

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Abstract: - One of the most significant barriers to sustainable development is the need for more consistency in funding legislation, particularly in regional bond issuance. This study provides a comprehensive analysis of the legal practices in Indonesia regarding the utilization of regional bonds for financing and compares them with civil law systems in South Africa, the Philippines, and Poland. This paper suggests integrating current legislation into a legal model that fuses features from these three countries, according to a comparative analysis of regional bond rules. The results also indicated that the issuance of regional bonds for revenue-generating projects is intended to allow regional financial development to finance strategic projects. The need to develop and finance infrastructure projects at the regional level urgently makes the need to control the accounts of regional publications. It is in the interest of ensuring that a regional bond does not cause a collision with legal standards, a requirement for sustainable regional development that might be achieved only if done correctly. The study recommended that Indonesia utilize the revenue bond model in the regional bond issuance framework. This model is seen as a more effective way to support secure development in the country's regions and pan-federal fiscal certainty efficiency in the regions aided. This report should offer a deep view to policymakers for designing expedited and result-oriented regulation around regional bonds.

Key-Words: - Harmonization, Infrastructure Financing, Legal Certainty, Local Financial Management, Municipal Bonds, Regional Financing, and Sustainable Development.

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1 Introduction

1.1 The Issue and Importance of the Research

Two foundational laws regulate regional economic authorities in Indonesia: Law No. 1 of 2002 on financial relations between national and regional government and Law No. 23 of 2014 on regional government. However, various legislative interventions have led to norm clashes and multiple interpretations, thus mandating urgent steps to converge such a vast expanse of regulatory roadways.

Sustainable development requires legal harmonization in regional finance by issuing municipal bonds. This is a consequence of the decentralized system, where the regions are in charge of their economy and finances. This view is reinforced, [1], [2], [3], who discuss the importance of legal harmonization, arguing that a greater degree of congruence between regulatory frameworks is needed to ensure that local funding systems are effective and equitable. Legal harmonization theory looks at integrating legal systems across different jurisdictions, [3]. This necessitates reconciliation efforts of conflicting laws, regulations, and norms toward achieving a more consistent and rational legal framework, [4].

Consequently, legal harmonization facilitates and contributes to the seamlessness of commercial activity, namely trade, investment, and collaboration among nations, while enhancing legal predictability and certainty, [5]. Law harmonization can run the gambit from global treaties and agreements through regional and national endeavors. It also often requires arduous negotiations and compromises between involved parties and the formation of common legal concepts and standards. While the process may be complicated and time-consuming, the possible benefits of legal clarity, efficiency, and impartiality are significant, [6]. This is a basic infrastructural necessity, as compliance with the legal norms assures transparency, accountability, and recourse to the community, further which is only required for the sustainable development of every regional mechanism. The above argument suggests that legal harmonization results in force multiometric improvement in stakeholder relationships, reducing conflicts of interest, [7]. In addition, the process of legislation alignment also has a positive impact, that is, the reduction of trade restrictions and the development of trade relations, [8]. Municipal Bond law is an example of how legal harmonization can influence bond yields and the reorganization of financial instruments already existing within a given country. [9], argue that this will likely lead to more homogenous prices through a better-harmonized bond market. Putting legal instruments on the SMAE platform benefits all countries, regions, and communities equally.

The purpose of legal harmonization regarding regional financing in Indonesia is more than merely issuing municipal bonds. Legal harmonization is a concept that refers to the effort to reorganize legislation in a way that makes it "easy to read" by any particular reader in a particular period with the impression of full compliance from concerned stakeholders in terms of transparency, accountability, public participation, etc. It also aims to reduce red tape, increase regulatory certainty for investors, and improve cooperation between central and local agencies. Doing so is critical for setting the stage to enhance innovation, sustainability, and inclusive economic growth. It is needed to win rapid, sustained, and pro-poor, rapidly sustainable economic growth.

This research aims to formulate a regulation that would give legal certainty and provide helpful information and recommendations for harmonizing the legal framework for municipal bonds in Indonesia. This will be done by aligning the aims of municipal bond issuance with the objectives of regulatory clarity and inclusive growth. The study will be enriched by the experiences of South Africa, the Philippines, and Poland, with their functional systems of municipal bond markets. In these countries, regulatory uniformity and clarity have been critical for municipal bonds to not only serve as a dependable method of raising capital for financing infrastructure projects but also to instill investor trust and further citizen engagement. Through a comparative survey of legal practices in the study of legal harmonization in regional financing for sustainable development, this study will explore some of the complexities of legal harmonization in the subject of the investigation.

1.2 Research Contributions

Investigating the alignment of laws on municipal bonds can significantly contribute to sustainable growth. The study will conclude with an attempt to provide an overall picture of potential legal frameworks appropriate for Indonesia to resolve disharmony of laws and normative conflicts between Law No. 1 of 2022 and Law No. 23 of 2014 by examining the practices of legal harmonization of municipal bonds in the case study countries of South Africa, the Philippines, and Poland. Additionally, the research results shed light on how legal harmonization can increase the efficiency and transparency of finance for regional development and bring about sustainable development by operationalizing defined legal frameworks.

Study results are expected to provide a more nuanced understanding of the achievement of legal harmonization on municipal bond issuing in Indonesia with an in-depth classification and broad comparison analysis. To pinpoint those areas where the legal regime is currently unsuccessful, the research enables recommendations tailored specifically towards designed legal reforms, which are helpful in promoting sustainable development.

2 Background

2.1 Definition of Legal Harmonization

Legal harmonization aligns and unifies legal systems across various jurisdictions, [3]. It may entail reconciling conflicting laws, regulations, and standards to establish a more consistent and coherent legal framework, [4]. Legal harmonization facilitates trade, investment, and cross-border cooperation while enhancing legal certainty and predictability, [10]. This process may transpire at various levels, including regional and national initiatives, international agreements, and treaties. It frequently entails establishing shared legal principles and standards and extensive negotiations and compromises among the parties involved. The prospective benefits in terms of legal clarity, efficiency, and fairness are significant even though the process is complex and time-consuming, [11], [12].

The concept of legal harmonization is multifaceted, and various experts provide varying perspectives on its implications and implementation.

[13], discuss the application of harmonization in the context of market equilibrium and trade in services within the EU, while [14], contends that it can reduce barriers perceived by market participants in the context of trade. Both emphasize the importance of internal and external negotiations and the necessity of regulatory agreements. The implementation of legal harmonization is further complicated by examining the characteristics of hybrid and complex public organizations, [15]. [16], underline the importance of a 'glocalization' approach, suggesting that legal harmonization should be pursued over unification, focusing on contractual obligations and commercial law. From these explanations, it can be understood that while legal harmonization can potentially reduce existing societal barriers, the appropriate approach needs to be tailored to specific contexts.

2.2 Definition of Legal Certainty

[17], elaborated on two notions of legal certainty: certainty due to law and certainty in or from law. Effective laws guarantee a high degree of certainty in public relations. Legal certainty also plays a crucial role in ensuring justice, as the law must be beneficial. The procedures for achieving goals in a society that values legal justice are as necessary as the goals themselves. The objective of achieving justice can only be realized through means.

2.3 Definition of Legislation

According to [18], the theory of legislation or legislative science in Indonesia is influenced by the principle of lex superior derogate legi inferior and Hans Kelsen's Stufen Theorie, as well as Hans Nawiasky's Stufenordnung der Rechtsnormen. This influence resulted in a staged construction of the legislative system in Indonesia. This theory of legislation indicates that the strength and enforceability or legal binding of a legal product will always be related to other legal products based on its hierarchical level.

2.4 Policy Challenges in Regional Financing for Sustainable Development

In the context of regional financing for sustainable development, municipal bonds can serve as a significant financial instrument. These bonds can play a role in giving significant support to regional governments for projects in sustainable development. For example, issuing municipal bonds is also considered a strategic financial approach to solve regional and territorial financing issues, especially regarding the implementation of regional state policies, [19]. Combining these views implies that the issuance of municipal bonds in Indonesia might be necessary to finance sustainable development. This requires the design of strategic interventions, the creation of public-private partnerships, and a fit with local sustainable development rationales and institutional needs.

This evolution of regional financing mechanisms raises several complex policy issues, notably about issuing local bonds for sustainable development purposes. [20], highlighted the urgent need for a standard classification of sustainability, describing the potential of regional financial organizations to be critical drivers of long-term finance for development. As [21] point out, metropolitan regions struggle to need help to address strategic challenges while confronting limited resources to invest in sustainable development efforts. [22], Region Governance and Regional Strategies: [23], emphasized the role of government in regional transformation and in delivering a strategy, needing both strong leadership and resources. [24], [25] address the roles of structural funds in European regional development and the hurdles in implementing sustainable development policies at the local level. These findings together demonstrate the need for a comprehensive solution to solve the regulation and social challenges associated with implementing local bonds for sustainable development that combines efforts among academia, policymakers, investors, and local authorities.

The regional financing that is implemented above all, for its part, accomplishes legal harmonization as a whole, as a bond issuance is always handled in multiple ways. This involves harmonizing legal frameworks and regulations in multiple regions to make sure that fixed coupon muni bonds are attractive to investors and consistent with sustainable development goals, [26]. The influence of globalization and regionalization on this issue is quite significant, especially in the case of regional programs of development banks, [27]. The formation of supranational entities, such as the European Union, has broadened our horizons within the law-making environment, [28]. In the area of the adoption of environmental standards, legal harmonization means the setting of environmental standards. This subject can be identified as one of extreme sensitivities where some argue for centralization of, environmental standards to avoid a race to the bottom, [29]. This process is heavily influenced by the linkages between the real and regional financial sectors, as well as the behavior of regional financial markets, [30].

Local and national regulations must be in line with international best practices to promote the long-term resilience of local bonds and thereby increase investor confidence in sustainable development financing, [31]. With respect to funded projects, a focus on sustainability, accountability, and transparency is ever more salient, especially as they relate to ecological footprint, [32]. For instance, local currency bond markets require solid legal frameworks and regulations, [33]. Regional development banks back regional undertakings and address emerging problems. Local governance has undergone economic development-centric changes, highlighting a desperate need for strong institutional governance and building capacity. The languishing of long-term development financing highlights the potential of regional financial institutions for reforming the global financial architecture, [17].

2.5 Research Questions

Based on a literature review, this paper introduces a method for examining the regulation of municipal bonds issued in the context of sustainable development and legal harmonization in financing at the regional level. This research aims to provide some specific insights into how Indonesia's municipalities may improve the way this approach can be implemented regarding the issuance of PBB.

This study also seeks to provide information about the best practices for sustainable development and the necessity of legal harmonization, which ensures that the process of issuing bonds is geared toward sustainable development. Within the concept of sustainable development, law is more than a regulatory framework; it is also a driver of innovation and economic development in a country. Well, it has become important that the laws harmonize with each other well where there are different legal regulations.

Particularly in Indonesia, legal harmonization in local financing through the issuance of municipal bonds holds significant importance, given Indonesia's decentralized system where regions have the authority to govern and manage their economic interests, including in the financial sector. This research aims to explore the importance of legal harmonization in this context, with a focus on local financing through municipal bond issuance.

Subsequently, this research will elucidate and analyze the following research questions:

1) What impact does the issuance of municipal bonds have on municipal investments that generate regional revenues?
2) What is the urgency of setting the objective of municipal bond issuance?
3) How is the objective regulation of municipal bond issuance harmonized with legal certainty?

The answers to these research questions will be discussed in sections 4.1 through 4.3, respectively.

3 Method

This research method provides an analysis of the harmonization of municipal bond issuance objectives in realizing legal certainty and sustainable development, focusing on the analysis of municipal bond issuance in Indonesia and legal frameworks in countries such as South Africa, the Philippines, and Poland, which also deal with municipal bonds. These countries were selected based on their involvement and contribution to developing regulations for municipal bond issuance and the relevance of their regulations in the context of sustainable development.

In the Indonesian context, the regulations that are the focus are Law No. 1 of 2022 and Law No. 23 of 2014. The conflicting norms and disharmony that these two laws exhibit may impede the effectiveness of municipal bond issuance and sustainable development financing. This study will scrutinize the national and subnational regulations in South Africa, the Philippines, and Poland, exploring how these laws govern and address issues related to municipal bond issuance, as well as the types of municipal bond issuance these countries implement.

They mostly collected data by searching journal databases and articles from Scopus and Google Scholar. We searched the databases (PubMed, Web of Science, Scopus, Embase) by using the following keywords (AND/OR): "finance law regulate municipal bond," "local finance law," "sustainable development," and "religious orders" and the names of the countries. Furthermore, the assessment incorporates government sources, including laws, reports, and guidelines. We also employ reports and articles from consumer organizations and the news media to assess the significance of regulations and issues. We employ the "snowball" method to ensure comprehensive coverage of bibliographic references and other relevant sources.

The investigation amassed three primary categories of data. Firstly, the issuance of municipal bonds plays a crucial role in encouraging local investment and generating revenue for the region. Next, we need to define the purpose of issuing municipal bonds. Thirdly, it's crucial to align legal certainty with the goal of regulating the issuance of municipal bonds.

Furthermore, we conducted inventories of the ideal practices of the three countries examined in the issuance of municipal bonds. We selected these best practices based on their effectiveness, regulatory clarity, and alignment with sustainable development principles. Given that Indonesia adheres to a civil law legal system, the most effective practices are those that adapt effectively to the Indonesian legal context.

4 Results & Discussion

4.1 The Impact of Municipal Bond Issuance on Local Investment

From a philosophical perspective, the integration of ontology, epistemology, and axiology leads to a comprehensive understanding of municipal bond issuance. From an ontological perspective, we perceive municipal bonds as critical financing instruments for regional development and revenue. Epistemology underscores the importance of knowledge and methods for evaluating bond investments, whereas axiology emphasizes the importance of collaboration between local governments, the private sector, and communities in order to achieve sustainable development.

A legal framework that incorporates the 1945 Constitution and related laws from a positive legal perspective regulates the issuance of municipal bonds. We employ municipal bonds to provide long-term financing for the development of regional infrastructure and economics while adhering to relevant regulations and solid financial management principles.

Experts assert that local investment aims to improve individual welfare and independence by prioritizing economic growth and social justice. Investment strategies in a variety of sectors, such as infrastructure and human capital development, are essential for the promotion of sustainable and inclusive development, as well as the improvement of economic efficiency and intersectoral relations.

Municipal bonds are the lifeblood of major investments to further economic growth and increase local tax revenues. The local currency bond markets (LCBM) in Sub-Sahara Africa, incorporating South Africa, is a unique occurrence that can be associated with this benefit. [34], have identified these markets as key drivers of sustainable, long-term progress in development. The southern Philippines has also seen the promise of municipal bond markets as a way to stimulate economic growth. Meanwhile, bond markets in some Polish localities support infrastructure expansion and regional revenue growth, [35].

Government services infrastructure (social): This includes projects funded by municipal bonds to improve social outcomes or the general welfare of the community, such as basic infrastructure, healthcare, and education. These bonds also have a substantial environmental impact. For instance, the utilization of blue bonds and eco-friendly bonds provides innovative methods of financing initiatives that advance environmental sustainability, [36]. The development of these categories of bonds demonstrates the adaptation of financial instruments to achieve sustainable development objectives.

Case studies from different regions show real applications of municipal income bonds. In South Africa, these bonds have supported regional integration and industrial development, [37]. Issues such as varying interest rates, potential excessive taxation, and regional fiscal capacity influence bond issuance decisions, [38]. In Africa, the development of bond markets is hindered by underdeveloped capital markets and regulatory challenges, [39].

In Poland, municipal bonds have significantly impacted sustainable development. The study by [40], highlights the challenges city governments face in managing waste and achieving fiscal sustainability. [41], [42], emphasize the need for more effective policy and intervention areas and the influence of fiscal, demographic, and infrastructure factors on municipal investment spending. This complex interplay of factors is crucial in achieving sustainable development in Polish cities. Thus, municipal bonds as revenue bonds have significant potential to support sustainable development, although some challenges and risks must be carefully managed.

4.2 The Urgency of Setting the Objective of Municipal Bond Issuance

Based on the 1945 Constitution, local governments have the authority to regulate community interests, including development that requires substantial funding. Due to the limitations of the regional budget, municipal bonds are an important financing alternative.

Regulations regarding municipal bonds were first established in Law No. 25/1999 on the Financial Balance between the Central and Regional Governments, which aims to support regional autonomy and improve community welfare. This regulation has been revised several times, including by Law No. 33/2004 and Law No. 1/2022, and supported by PP No. 1/2024 concerning Harmonization of National Fiscal Policy.

Law No. 1/2022 and Law No. 23/2014 show a largely harmonious linkage, with Law No. 1/2022 providing more detailed regulations on investment. This consistency and clarity of regulation are important to attract investors by providing predictable legal certainty.

The following overview examines the regulations governing municipal bond issuance in South Africa, the Philippines, and Poland as a basis for analysis.

4.2.1 South Africa

National laws regulate municipal bond issuance in South Africa and are also subject to regulations or agreements at the provincial level. Relevant laws include The Constitution of 1996 and The Municipal Finance Management Act (MFMA) No. 56 of 2003. The Constitution of 1996, Section 230A states:

"(1) A municipal council may, subject to national legislation:

(a) Raise loans for capital or current expenditure for the municipal council, but loans for current expenditure may be raised only if it is necessary to bridge any temporary financing gap during a financial year and
(b) Bind itself and its successors in title, in the exercise of its legislative and executive authority, to secure loans or investments for the municipal council."

The MFMA is crucial in regulating municipal bond issuance and implementing strict procedures emphasizing transparency and accountability. It requires public comment and discloses crucial information to prospective lenders or investors. Using bonds for financing can provide additional flexibility for municipal governments to optimize debt structures, adjust maturity dates, and reduce interest costs, [43], [44]. Although municipalities in South Africa have broad authority over local public facilities and the freedom to set service tariffs and taxes, only some municipalities have issued long-term bonds, partly due to insufficient own-source revenue and economic disparities among regions, [26].

Section 152 of The Constitution emphasizes the constitutional responsibility of municipal governments to provide sustainable services to the community, a responsibility that the issuance of municipal bonds can support. Thus, municipal bonds can fulfill this responsibility, [26], [45], [46]. Historically, municipal governments' use of municipal bond issuance in South Africa reflects an effective and sustainable funding source. Their compliance with the regulations and requirements set out in The Constitution of 1996, the MFMA, and the listing rules on the Johannesburg Stock Exchange (JSE) ensures principles of transparency, accountability, and fiscal sustainability in managing municipal finances and municipal bond issuance.

Municipal bonds issued by local governments in South Africa are revenue bonds that can be attractive investment instruments for investors seeking opportunities with positive social and economic impacts and potential income. However, this should be done with due consideration of risks through thorough research before investing. Major cities in South Africa with strong economies and revenue bases have a greater capacity to explore municipal bond issuance to support city infrastructure development, such as road construction, water and sanitation facilities, housing development, and energy sector expansion.

4.2.2 Philippines

The Local Government Code of 1991 regulates municipal bond issuance in the Philippines through several provisions:

Section 2. Policy Statement states:

(a) It is hereby declared the policy of the State that the territorial and political subdivisions of the State shall enjoy genuine and meaningful local autonomy to enable them to attain their fullest development as self-reliant communities and make them more effective partners in the attainment of national goals. For this purpose, the State shall provide a more responsive and accountable local government structure instituted through a system of decentralization whereby local government units shall be given more powers, authority, responsibilities, and resources. The decentralization process shall proceed from the national government to the local government units.

This policy statement clearly shows the central government's support for the progress of local governments in becoming self-governing, responsive, and accountable by granting them power, authority, responsibility, and resources through the Local Government Unit (LGU).

Section 3. Principles of Decentralization states: The formulation and implementation of policies and measures for local autonomy shall be guided by the following operational principles: including aspects of power, functions, responsibilities, and resources of each LGU; organizational structure and mechanisms; regulations for civil service, local officials, and employees; assignment of tasks, responsibilities, and accountability to local government units. Despite all these efforts, the central government must still carry out its duty to ensure the improvement of LGUs' performance.

Within this framework, the central government is expected to continue its duty to ensure the improvement of Autonomous Local Government Units' (LGU) performance. Although there is decentralization that gives greater authority to autonomous regions, the central government is still responsible for ensuring that the goals of improved performance and service to the public are achieved.

Section 296. General Policies states:

(a) It is a fundamental policy that each local government unit may incur indebtedness and avail of loans to finance local infrastructure and socio-economic projects by approved local development plans and public investment programs.
(b) A local government unit may avail of credit lines from any government-owned bank or financial institution to stabilize its finances.

The above description clearly states that local governments may incur debt and avail themselves of credit facilities to finance local infrastructure and other socio-economic projects.

Section 297. Loans, Credit, and Other Forms of Debt of Local Government Units states:

(a) LGUs may contract loans, credits, and other forms of debt with any domestic private bank or other lending institutions to finance the construction, installation, improvement, expansion, operation, or maintenance of public facilities, infrastructure facilities, housing projects, accurate property acquisition, and the implementation of other capital investment projects, subject to terms and conditions agreed upon by the local government unit and the lender. The proceeds of such transactions shall accrue directly to the LGU concerned.
(b) LGUs may also secure credit from any government bank and lend short-, medium, and long-term loans and advances for real estate security or other assets acceptable for the establishment, development, or expansion of agricultural, industrial, commercial, housing financing projects, livelihood projects, and other economic undertakings.
(c) Government financial institutions and other lending institutions are authorized to extend loans, credits, and other forms of debt from their loan funds to LGUs for the purposes mentioned above.

From the above, it is mentioned that local governments can utilize their debt to finance public facilities, infrastructure facilities, housing projects, accurate property acquisition, and the implementation of other capital investment projects related to public services.

4.2.3 Poland

The issuance of Local Government Bonds in Poland is regulated by Article 2, Paragraph 1, Point 2 of the Act on Bonds of June 29 1995. Local governments can seek funding through the capital market to finance local infrastructure and development projects. With changes in Poland's administrative division, the amended Act of 2000 stated that all entities, including municipalities, counties, provinces, registered entity associations, and the capital city of Warsaw, are authorized to issue bonds. These issuer groups are defined as local government entities.

Article 4, Paragraph 1 of the Act on Bonds of June 29 1995, defines bonds as securities issued in series, where the issuer owes something to bondholders and is obligated to provide specific benefits to redeem the bonds.

As a specialized financial instrument, local government bonds are debt securities issued by local governments. This unique characteristic sets them apart from other types of bonds.

They are aimed at financing investment projects that fall within the legal authority and responsibilities of local government in Poland. Projects can be anything from infrastructure building to education to health care or anything else that could improve the standard of living of societies. The local government's issuance of bonds will enable local authorities to fund these large initiatives without resorting solely to the national budget and other sources of finance. This provides local governments with expanded fiscal capacity. Individuals and institutions lend money to the city in the form of bonds and, in return, periodically receive interest payments and, when the bond matures, are paid back the full loan amount. Therefore, local government bonds are a key instrument for financing regional development projects in Poland.

Securities issued by municipal governments are governed by the Act on Bonds of June 29, 1995, and the Law on Public Finance of June 30, 2005. This law is provided for by Law No 82, Paragraph 1, under which the local government is empowered to issue securities to finance its annual deficit in the budget or to raise funds in excess of the revenues available. Consequently, Local Government Bonds, being debt instruments issued by local governments, have peculiar features that mirror the nature of their liabilities, debt objectives, and default probabilities. More specific features, such as how the money is used and how the local governments are able to pay back the funds owed whenever their debts to bondholders take priority over the respective governments' other obligations, differ local government bonds from other kinds of bonds.

Subject to the provisions of the Law on Public Finance in Poland, the regional chamber of control is entitled to issue an opinion on the ability of local governments to finance the deficits they propose and the suitability of the estimated total debt included in the budget appendix under the provisions of Art. 172 of this law. That is especially relevant for the preparation and implementation of budgets in the ensuing years and the operation of the contracts relative thereto, according to the proposition submitted to the electorate as the Budget Act. This article of the Constitution embodies the provisions under which the regional chamber of control controls the execution of budgets and the State of indebtedness of local governments.

Insights from the regional control chamber assist local governments in making evidence-based decisions on long-term debt management and deficit financing. These insights are critical because they help to preserve transparency and increase investor confidence in debt instruments issued by local administrations in Poland. The Law on Public Finance aims to ensure fiscal and financial equilibrium through its provisions on managing local government debt. Their objective is to protect the interests of investors and prevent potential debt crises. This legal framework is critical for local governments' financial stability and transparency in their debt issuance practices.

In brief historical context, the Continental European legal system (civil law) originated from Roman law, which served as the foundation for the Continental European legal system. Although Roman law forms the core of the Continental European legal system, its influence is also significant in developing the Anglo-Saxon legal system. Many rule creators in the Anglo-Saxon legal system had studied Roman law or the Continental European legal system beforehand. Eventually, the Continental European legal system became known as the Romano-Germanic or civil law system, [47], [48].

The Continental European legal system then developed in European countries such as France, Germany, Italy, Switzerland, Austria, several Latin American countries, Turkey, various Arab nations, North Africa, and Madagascar. Also, it spread to Asian regions through colonization, such as the Netherlands, which eventually introduced this legal system to Indonesia, [49]. Civil law is a legal system that primarily relies on codified laws or statutes as the primary source of law. This naturally influences legal thinking within the Continental European legal system, [45].

In South Africa, the issuance of municipal bonds is subject to national laws, particularly the Constitution of 1996 and the Municipal Finance Management Act (MFMA) No. 56 of 2003, [46]. Based on the Constitution of 1996, the issuance of municipal bonds requires approval from the National Treasury and compliance with established regulations, including terms of maturity, transparency, and accountability in using funds. The objective of municipal bond issuance is to finance local infrastructure and development projects that directly impact the quality of life for communities, [50]. However, the effectiveness of these laws could be improved by improvements in financial management and control systems at the municipal level, as well as challenges in collecting local revenue, [51].

The Public Finance Management Act (PFMA) aims to modernize financial management in public services, [52]. But compliance with this law remains a challenge. The role of regional public accounts committees in improving oversight and accountability in local financial management is also highlighted, [53]. The potential of municipal bonds to finance urban infrastructure is discussed, focusing on the needs of the active municipal debt market in South Africa, [54].

In the Philippines, the issuance of municipal bonds is regulated by the Local Government Code of 1991 Republic Act No. 7160 and several regulations issued by the Department of Finance and the Bangko Sentral ng Pilipinas. The Local Government Code of 1991 Republic Act No. 7160 significantly impacts municipal bond issuance in the Philippines. Based on this regulation, local governments must obtain approval from the Department of Finance and go through stringent requirements before issuing bonds. Municipal bond issuance aims to finance local development projects, such as infrastructure, education, health, and economic development, [55]. The shift of responsibilities from the national level to the local level, as [56] indicated, demands clear guidance on developing market-based debt financing systems.

However, the provisions in these regulations have significant fiscal implications for the country, and a fiscal impact simulation is conducted to identify strengths and weaknesses, [57]. The effect of these regulations on fiscal decentralization is also manifested as local government's dependence on fiscal transfers from the central government becomes more pronounced, [58]. Despite these challenges, these regulations are considered a historic milestone for the country, reflecting a shift toward greater local autonomy, [59].

The issuance of municipal bonds in Poland is regulated by the Law on Public Finance and other relevant legislation, including Article 2, Para. 1, Point 2 of the Act on Bonds of June 29, 1995. The issuance of municipal bonds in Poland is influenced by various factors, including legal conditions, the use of quasi-banking financial instruments, and the role of municipal enterprises, [60], [61]. Municipal bond issuance aims to finance local development and investment projects. Local governments must obtain approval from the Ministry of Finance and comply with existing regulations, including transparency, reporting, and efficient and effective fund utilization, [62].

However, it is undeniable that the municipal bond market lags behind, with preferences for loans and borrowings, [63]. Using fiscal rules in local government finances is considered necessary, with investment spending, local revenue, and election cycles being critical factors influencing deficits and local debt, [64]. The legal principles underlying municipal debt issuance are also explored. Developing environmentally friendly bonds in Poland faces obstacles such as high transaction costs and a lack of clear economic benefits for issuers. Taxation of interest income from protected bonds is also a significant consideration.

Discussing various legal regulations related to municipal bond issuance in different international legal jurisdictions is essential for comparing and finding best practices for their implementation in the Indonesian legal system. To ensure a direct and relevant comparison and provide guidance for provincial regions in Indonesia in issuing and implementing municipal bonds, the choice of countries is tailored to those with a legal system similar to Indonesia, which follows the civil law system. It is limited to South Africa, the Philippines, and Poland.

To understand the results of this comparative analysis, please refer to Table 1, which presents a comparison of the objectives and authorities of municipal bonds in South Africa, the Philippines, and Poland.

Table 1. Comparative Objectives of Municipal Bonds in South Africa, the Philippines, and Poland

Country	Legislation	Objective of Issuing Municipal Bond
South Africa	The Constitution of 1996 The Municipal Finance Management Act (MFMA) No. 56 of 2003	1. Providing sustainable public services (the Constitution Section 152) 2. Municipal bonds are issued as revenue bonds that can be an attractive investment instrument for investors with positive social and economic impact and potential revenue.
Philippines	Local Government Code of 1991	The issuance of bonds, promissory notes, bills, and other obligations to fund income-generating development projects is subject to the regulations of the central bank of the Philippines, which is the Bangko Sentral ng Pilipinas (BSP), as well as the Securities and Exchange Commission.
Poland	Act on Bonds of June 29, 1995 {DzU, 2001b} Article 2, Para. 1, Point 2 Law on Public Finance of June 30, 2005 {DzU, 2005} Act on Communal Self-government of March 8, 1990 {DzU, 2001a} The Acts on County Self-government and Voivodeship Self-government of June 5, 1998 {DzU, 2001c; DzU, 2001d}.	Local governments can seek funds through the capital market to finance local-level infrastructure and development projects {Act on Bonds of June 29, 1995 {DzU, 2001b} Article 2, Para. 1, Point 2}. Local governments are authorized to issue securities to finance the entity's annual budget deficit funds for expenditures not covered by current revenue (Law on Public Finance of June 30, 2005, Article 82, Paragraph 1).

Source: Processed by the Author (2024)

By comparing this objective (Table 1) with countries with similar legal systems, Indonesia can develop more effective and efficient legislation for issuing local bonds. Here are some best practices that Indonesia can adopt from South Africa, the Philippines, and Poland:

1) Transparency in the Local Bond Issuance Process: Ensure transparency in fund usage, reporting, and accountability.
2) Focus on Development Projects: Prioritize projects that directly improve community life quality, such as infrastructure, education, health, and economic development, which also have the potential to generate revenue for the region.

Globally, inconsistencies in the regulation of local bond issuance objectives have been identified through horizontal analysis between Article 300 Paragraph (2) of the Regional Government Law and Article 157 Paragraph (1) of the Public Sector Financial Management Law. Indonesia needs substantial funds to accelerate regional development. If local bonds can become an alternative financing option for regional development, supported by clear regulations and legal certainty, local governments, investors, the community, and other stakeholders would be more confident and ready to utilize them effectively.

Best practices and achievements from South Africa, the Philippines, and Poland provide valuable insights that can be adapted to Indonesia's needs and situation. The aim is to accelerate the financial independence of local governments. Therefore, legal harmonization in regional financing, through adopting and adapting international legal practices, is a crucial step. This will help create an efficient, transparent, and sustainable system for issuing local bonds in Indonesia, supporting sustainable regional development and improving overall community welfare.

4.3 Harmonization of Objective Regulation of Legal Certainty Municipal Bond Issuance

To analyze the conflict of municipal bond issuance arrangements between Article 157 Paragraph (1) of Law No. 1 of 2022 and Article 300 Paragraph (2) of Law No. 23 of 2014, the approach of Hans Kelsen's Norma Level Theory and Gustav Radbruch's Theory of Justice can be used.

According to Kelsen's Norma Level Theory, conflicts of legal norms are resolved on the principles of Lex Superior Derogat Lex Inferior, Lex Specialis Derogat Lex Generalis, and Lex Posterior Derogat Lex Priori. However, because the two articles are parallel and specific, only the principle of Lex Posterior Derogat Lex Priori applies, so Article 157 Paragraph (1) of Law No. 1 of 2022 replaces Article 300 Paragraph (2) of Law No. 23 of 2014.

To ensure legal certainty and improve regulation, Radbruch suggested harmonization of laws that consider justice and benefits to society. Radbruch's theory of legal certainty emphasizes justice and the positive impact of law on society.

Legal harmonization in local bond issuance is driven by the belief that a cohesive legal framework can enhance the efficiency and effectiveness of financing for sustainable development, [65]. This is particularly important in green bond markets if agreed standards lead to more transparency and, in doing so, bring in a wider range of investors, [18].

However, the success of these efforts depends on the presence of a healthy public financial system at the regional level, [66]. The legal harmonization involves various tools and organizations, [67]. It also requires aligning domestic and international financial regulations, [68]. In developing and emerging markets, developing a solid legal framework and regulations is crucial for local currency bond markets to function, [31].

Even though harmonizing laws is difficult, there are (as in most regions) huge benefits to simply doing more bond issuance at the local level that is safe and regulated. This can lower transaction costs, improve investor protection, and help to comply with the article on sustainable development goals, [16]. However, a significant proportion of these challenges relate to the complexity of aligning multiple legal systems, accommodating regional autonomy, and mitigating the environmental and social consequences of development projects, [69]. The harmonization process will necessarily need to be glocal [16], taking into account local circumstances. Working on the most important and possible issues is important, too. Crucial is the function of the transnational institutions and their related legal harmonization in the European setting. A pragmatic solution that seeks to discriminate between areas in which harmonization is possible (the division of labor) and areas in which administrative and substantive pathways may alone exist is suggested with reference to harmonization in patent law, [70]. Further, the part performed by means of concord of monitory principles in economic globalization is the vital concept in financial globalization, [64].

Aligning Indonesian regulation with international legal practices in the issuance of local bonds provides opportunities and confronts challenges. [71], state a call for a substantive approach that reflects Islamic law and sustainable development principles. [72], argues that the integration of environmentally sustainable financial regulations with environmental regulations must be considered to motivate investments that are more environmentally friendly. [34], stress the importance of legal certainty and equal protection in investments private and public co-responsibility for finance for sustainable development. Furthermore, [73] discusses the prospect of e-commerce transactions and green sukuk issuance in supporting the economic development of Indonesia. The importance of harmonizing the law in order to realize sustainable development in Indonesia can be seen in these studies.

Residing to Indonesia, this includes two basic regulations in the context of issuing a local bond, where Law No. 1 of 2022 concerning State Finance passed the local bond under Article 157 Paragraph (1), and in other parts, concerns the other, applies the Law No. 23 of 2014 concerning the Local Government with issue a Local Bond in Article 300 Paragraph (2) among these was the two rules. That's why the local bond issuance has to comply with both of these laws. If both laws are of the same legal value, as they were laws related to related and substantive issues, the laws can regulate them frequently in inconsistent ways.

Indonesia has two explicit laws regulating the issuance of local bonds: Article 157 Paragraph (1) of Law No. 1 of 2022 and Article 300 Paragraph (2) of Law No. 23 of 2014. This means that issuing local bonds must refer to these two laws. Having equal legal strength, these laws may lead to multiple interpretations in their implementation as they both govern interrelated substances.

Article 157 Paragraph (1) of Law No. 1 of 2022 states, "The issuance of Local Bonds and Sukuk (Islamic bonds) is carried out for: a. financing regional infrastructure development; b. managing the regional debt portfolio; and/or c. forwarding loans and/or capital contributions to Regional Government-Owned Enterprises from the proceeds of Local Bonds and Sukuk sales". Meanwhile, Article 300 Paragraph (2) of Law No. 23 of 2014 states, "the regional head with the approval of the Regional Legislative Council may issue local bonds to finance infrastructure and/or investments that generate regional revenue after obtaining consideration from the minister and approval from the minister who administers government affairs in finance." Different legal regulations for the same valid local bond issuance complicate the process. Consequently, the differences in these laws pose challenges in implementation and legal issues, as explained in Article 157 of Law No. 1 of 2022 and Article 300 of Law No. 23 of 2014. These differences could lead to serious legal issues regarding the validity of local bond issuance documents, as the objectives of issuing these bonds have different meanings.

As mentioned earlier, Indonesia faces challenges in implementing two laws that regulate local bond issuance, namely Article 157 Paragraph (1) of Law No. 1 of 2022 and Article 300 Paragraph (2) of Law No. 23 of 2014. The normative conflict between these two laws creates severe legal problems, particularly regarding the validity of documents in the local bond issuance process.

Through a comparison between the legal framework regarding the issuance of municipal bonds in Indonesia and the legal framework in South Africa, the Philippines, and Poland, the research found that regulations regarding municipal bonds in Indonesia could currently adopt a type of issuance called revenue bonds. Revenue bonds have proven effective in financing infrastructure and other development projects that directly improve people's quality of life, [74]. The existence of legal harmonization, which involves integrating the revenue bond concept into the Indonesian legal framework consistently and clearly, can certainly support the implementation of revenue bonds. This will also reduce doubts and the potential for multiple legal interpretations and create legal certainty. This legal certainty then plays a role in ensuring that local governments and investors have clarity regarding rules and procedures so that all parties know clear and transparent rules in the bond issuance process. With clear and transparent rules, every step in the bond issuance process can be well-regulated, thus minimizing the risk of uncertainty and enhancing the confidence of the parties involved. This ensures that all parties understand and can comply with applicable provisions, supporting efficiency and accountability in municipal bond issuance.

Legal harmonization efforts that have been carried out by Indonesia, such as adopting best practices from countries like South Africa, the Philippines, and Poland, are a crucial next step in the evolution of public financial policy. At the same time, it will also contribute to greater clarity from a legal perspective, streamline the use of funds, and enhance growth and well-being to support sustainable development.

5 Conclusions

When comparing the legal framework of municipal bond issuance in Indonesia with South Africa, the Philippines, and Poland, the revenue bond model has a strong potential to work in favor of Indonesia. This model has proved ideal for funding infrastructure and development projects aimed at improving the lives of citizens. Revenue bonds are vital to sustainable development since they afford local governments the opportunity to finance the infrastructure projects and development initiatives that have critical socio-economic impact.

Indonesia intends to adopt the revenue bond model, which has been implemented successfully in South Africa, the Philippines, and Poland, as part of the efforts to harmonize the laws. This way, the legal framework will be more organized and uniform and also up to par with global standards. These findings have informed local municipal bond issuance guidelines and processes for all actors. The advantages include better community welfare, achieving SDGs at the local level, economic growth, better use of resources, and increasing investor confidence. Therefore, this harmonization process is of key importance for the furtherance of sustainable development and the enhancement of regional financial self-sufficiency.

This research provides unique insights into the municipal bond-related legal harmonization process compared with previous studies and also enables a richer and more context-specific understanding through in-depth comparative analysis and enhanced classification. Not much more, except that these new findings confirm what we know, that it is very important to better align the laws so that regional development and regional policy support becomes more open and more effective. This supports long-term growth by following the rules set by the law.

Declaration of Generative AI and AI-assisted technologies in the writing process

During the preparation of this work the authors used Chatbot in order to structuring the research contribution. After using this tool, the authors reviewed and edited the content as needed and take full responsibility for the content of the publication.

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The authors equally contributed to the present research, at all stages from the formulation of the problem to the final findings and solution.

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Conflict of Interest

The authors have no conflicts of interest to declare.