

Terms of Reference (TOR)

Technical Guideline for Thematic Municipal Bonds Issuance in Indonesia

A. Background Information

The implementation of Law No. 1/2022 (*Undang-Undang No. 1 Tahun 2022 tentang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah/UU HKPD*) aims to improve the fiscal synergy and harmony between the government at the national and subnational level. The law is also expected to nurture fiscal capacity growth at the subnational level and improve the expenditure capacity and quality, particularly with regards to the provision of public services and goods. The demand for adequate public infrastructure, services, and goods are often met with an imbalance financial resource, and subnational governments' reliance on fiscal balance funds and transfers from the central government are often met with limitations in capacity.

In order to carry the mandate on public goods provision, innovative approaches are needed to increase and diversify subnational governments' sources of financing—including through debt instruments such as municipal bonds and/or Sukuk¹. The use of debt instruments will also allow subnational governments to minimize the existing financing gap between their fiscal capacity and development targets and enable a flow of capital for regional development. Additionally, this also presents an opportunity to leverage regional financing to mobilize investment toward Indonesia's Sustainable Development Goals (SDGs) targets through issuances of *thematic bonds*² at the subnational level—or *thematic municipal bonds*.

This has come at an opportune time as investment trends are increasingly showing preference for sustainable-oriented investment portfolios that emphasize the need to generate long-term impact in addition to financial gain. Thematic debt instruments would thus allow for investments to finance specific themes such as climate change, health, education, and other specific sustainable development targets. The success of Indonesia's Green Sukuk and SDG Bond issuances, which collectively have raised and mobilized over USD 6 billion³ to finance and/or refinance thematic SDG-oriented projects (i.e., green- and social-related projects), have highlighted this potential. Both have enabled the financing of strategic national projects that are in line with national SDG targets. Replicating these successes at the subnational level will thus go in line with the Government of Indonesia's effort in mainstreaming the achievement of SDGs at all levels and placing it as a strategic national priority.

Undertaking issuance of thematic municipal bonds would entail an additional set of requirements and commitments—from pre- to post-issuance—to be fulfilled by issuers. In this context, the United Nations Development Programme (UNDP), under the UN Joint Programme 'Accelerating SDGs Investment in

¹ Hereinafter, the term "municipal bonds" will collectively refer to both municipal bonds and municipal Sukuk, unless specified otherwise

² This assignment defines "Thematic Bonds" as traditional fixed income instruments which allow investors to finance specific investment themes such as climate change, health, food, education, access to financial services and target specific Sustainable Development Goals (SDGs) through investing (UNDP SDG Finance)

³ Indonesia's sovereign and retail Green Sukuk has been issued annually since 2018 and 2019 respectively, raising USD 5.8 billion, while Indonesia SDG Bond was first issued in 2021 and raised USD 580 million

Indonesia (ASSIST)' will develop a 'Technical Guideline for Thematic Municipal Bond Issuance in Indonesia' in support of the Ministry of Finance. This guideline will contain detailed information on the relevant requirements and criteria during each stage of the bond's cycle—including its preparation, issuance, and post-issuance management. The guideline will refer to applicable regulatory frameworks, best practices, and standards, as well as recognized principles that details the inclusion of thematic labels into debt instruments.

B. Objective of the Assignment

The assignment aims to produce a detailed technical guideline for subnational governments to issue thematic municipal bonds, and the requirements associated with the pre-issuance until the post-issuance process. This also extends to include specific Sharia-compliant criteria and principles for issuance of thematic municipal sukuk. The assignment will also highlight why subnational governments should consider issuance of thematic municipal bonds, as well as recommendations for subnational governments in undertaking issuance of thematic municipal bonds. The completed technical guideline will serve as a practical handbook for subnational governments in developing and issuing thematic municipal bonds.

The technical guideline is expected to cover the following main segments:

1. Brief overview of the municipal bond and Sharia bond (sukuk) market in Indonesia, the regulatory frameworks, and the key principles of thematic bonds;
2. A detailed guideline on the pre- until post-issuance processes of thematic municipal bond issuance and its requirements based on applicable regulations, principles, and standards, as well as the stakeholders, partners, and/or service providers that are pivotal to the processes;
3. Recommendations for subnational governments in the issuance of thematic municipal bonds.

C. Scope of Work, Methodology, and Expected Outputs

In order to achieve the above objectives, the technical guideline will:

1. Highlight key concepts on sustainability-oriented bonds and what makes a bond *thematic*;
2. Outline the key regulations pertaining to municipal bonds⁴, national strategic documents on Indonesia's SDG targets, and the applicable standards on thematic (municipal) bonds⁵;
3. Provide a detailed step by step guide on the processes, steps, and requirements surrounding municipal bonds that covers the entirety of the bond cycle, including its pre-preparation, issuance process, and post-issuance management—based on applicable laws and regulations;
4. Provide a detailed guide on the processes and requirements on process of the development of municipal sukuk, including the underlying contracts (akad), eligible assets, and other requirements—based on applicable Sharia-compliant regulations and considerations;
5. Provide step by step guide on the additional pre- until post- issuance processes and requirements that is expected from a *thematic* municipal bond issuance, including the development of a thematic bond framework(s) and its external review, as well as the development of impact

⁴ Including UU HKPD, 61/POJK.04/2017, 62/POJK.04/2017, and 63/POJK.04/2017, as well as other relevant Ministerial regulations

⁵ Particularly the 'Green Bond Principles', the 'Social Bond Principles', and the 'Sustainability Bond Guidelines' of the International Capital Market Association (ICMA)

- report(s) and the assurance process—based on applicable standards, principles, and best practices;
6. Provide an outline of key stakeholders, partners, and/or service providers that are pivotal to the entire cycle of thematic municipal bonds;
 7. Provide a guide and recommendations on how to identify project/asset portfolio that are eligible to be financed by thematic municipal bonds;

The Service Provider is expected to use appropriate methodologies, including:

- *Desk review* to identify and analyze the relevant regulations and frameworks on municipal bonds issuance, as well as principles on thematic bonds⁶. Such method may also be leveraged to review the key processes, requirements, and the role of key stakeholders within the cycle of municipal bonds—including its preparation, issuance, and management—as well as sourcing contextual information integral to the development of the technical guideline;
- *Focus Group Discussion (FGD) and in-depth interviews* with key stakeholders (e.g., ministries and government agencies, financial regulators, institutional investors/public & private financiers, credit rating agencies) to identify the appropriate requirements and process of pre- until post-issuance of thematic municipal bonds;
- Other appropriate methodologies as proposed by the Service Provider.

The activities and delivery outputs under this assignment can be seen in the following table:

No	Expected Outputs	Key Activities	Remarks
1	Inception report including the detailed work plan for the development of the technical guideline and its proposed outline, the planned methodology and approach, and a map of existing regulations, strategic documents, applicable standard and principles, as well as key stakeholders that underlies the technical guideline.	<ul style="list-style-type: none"> • Develop a detailed work plan • Commence preliminary studies • Conduct kick-off meetings and discussions with key stakeholders 	Meetings and discussions with key stakeholders shall be discussed in advanced with UNDP
2	Final draft of the technical guideline, with the inclusion of the detailed steps, processes, and requirements on thematic municipal bond issuance, as well as an outline of key stakeholders, partners, and/or service providers, and guidance for project selection.	<ul style="list-style-type: none"> • Meetings and discussions with key stakeholders • Conduct studies and data collection on the issuance steps and process based on existing regulations, strategic documents, as well as applicable standard and principles 	<ul style="list-style-type: none"> • Submitted deliverables must incorporate the agreed input and/or recommendations from stakeholders • Deliverables must be submitted in both English and Bahasa Indonesia

⁶ As referenced in footnotes 13 and 14

		<ul style="list-style-type: none"> • Develop the technical guideline • Develop the recommendations moving forward • Finalization and submission of the final technical guideline 	
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Deliverables must be submitted in both narrative and presentation form (PowerPoint), in both English and Bahasa Indonesia, and must be presented first to UNDP, the Ministry of Finance, and any related stakeholders for input and comments. These input and comments must be incorporated, as appropriate, into the deliverables prior to approval.

D. Risk Management

The Directorate of Transfer Capacity and Implementation, Directorate General of Fiscal Balance, Ministry of Finance, is the project's main counterpart and therefore close coordination between UNDP, the Ministry of Finance, and the Service Provider will be required throughout the duration of this assignment. The successful completion of this assignment is dependent on the regulatory frameworks surrounding municipal bonds in Indonesia, and the development of regulations derived from the newly implemented UU HKPD by the Ministry of Finance. This might affect the duration required to complete the assignment. The selected Service Provider, however, will be granted access to the regulation draft being developed by the Ministry of Finance to help the completion of the assignment.

Further, the Service Provider may face several challenges—these include delays in data collection and/or verification which may be caused by rejection or reluctance from stakeholders, insufficient, invalid, or outdated data, data confidentiality, extensive bureaucratic and/or administrative processes, and changes within relevant regulations. Additionally, delayed coordination process between government agencies and other relevant stakeholders should also be considered by the Service Provider.

The Service Provider is expected to take the above factors into consideration prior to undertaking this assignment, and is strongly recommended to identify the associated and/or other potential risks and develop appropriate countermeasure strategies in the submitted technical proposal.

E. Institutional Arrangement

The selected Service Provider will work closely with UNDP and the Ministry of Finance, under the supervision of UNDP. This arrangement will extend to the discussions, meetings, and FGDs with key stakeholders, which shall be facilitated by UNDP.

F. Duration of work, Deliverables and Due Date

The assignment will cover for approximately 60 (sixty) working days from November 2022 to April 2023. Detail estimate timetable as follow:

Deliverable	Expected submission Date
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<p>Deliverable 1: Inception report including the detailed work plan for the development of the technical guideline and its proposed outline, the planned methodology and approach, and a map of existing regulations, strategic documents, applicable standard and principles, as well as key stakeholders that underlies the technical guideline.</p>	November 2022
<p>Deliverable 2: Final draft of the technical guideline, with the inclusion of the detailed steps, processes, and requirements on thematic municipal bond issuance, as well as an outline of key stakeholders, partners, and/or service providers, and guidance for project selection.</p>	April 2023

The above timetable has considered lead time needed by UNDP and the Ministry of Finance to review outputs, provide feedback and certify on the outputs/works completed. Delay on the completion of the work might affect total budget approved unless it is due to reasons beyond the selected organization's control thus close coordination with the supervisor from UNDP and written notification should always be used to anticipate any delay. To help mitigate any delays, the Service Provider is highly encouraged to submit deliverables 2 to 3 weeks before each due date.

G. Location of Work

The selected Service Provider is not expected to visit any sites during the assignment. Relevant works (such as meetings, discussions, FGDs, consultations, and data collecting) are encouraged to be conducted virtually. However, if any travel is required during the assignment, health protocol standards that comply with UNDP rules and regulations related to the COVID-19 situation should be applied.

Note: the travel expenses, cost of accommodation and venue for those activities mentioned above will be covered by UNDP based on the applied policies and standard.

H. Qualification

Organization/Company Qualifications:

- Has experience in conducting studies, producing technical guidelines, and/or developing recommendations around the topic of development economics, public finance, sustainable development/ innovative finance, and/or Islamic/Sharia finance especially within Indonesia's governmental framework – proven by at least 3 prior projects within the last 5 years;
- Preferable has experience in Indonesia's financial ecosystem and regulatory frameworks, including on sustainable finance, Islamic/Sharia finance, and public finance policies in Indonesia;
- Experience in working with government/regulator, private sector/non-governmental organizations, financial institutions, and international organizations/development partners of both national and subnational levels, as well as designing/implementing multi-stakeholder engagement process leading to broad-based consensus and support;
- Registered company/institution/organization with valid business license.
- Additional consideration will be given to an organization demonstrates strong commitment to value diversity, promote equality and sensitivity towards women and social inclusion of other marginal groups, for example internal company policy documents on women empowerment, people with disabilities, or membership of institutions/associations promoting such issues.

Key Personnel Qualification:

Team Leader:

- A master's degree in business and management, finance, economy, and/or other related fields— with at least 8 years of experience in policy analysis, public financial management, strategic public and private sector engagement, partnerships and financing for development; or a bachelor's degree in public administration, business administration, development economics, environmental economics, sustainable finance, and/ or other related fields – with at least 10 years of experience in policy analysis, public financial management, strategic public and private sector engagement, partnerships and financing for development;
- Experience in country level work, with well established connections with government, regulators, and policymakers, both at the national and the subnational level;
- Experience in managing a team of researchers, experts, and/or consultants, in conducting studies, research, and/or developing guidelines on economic affairs;
- Experience in financial policy and regulations is a strong advantage;
- Excellent writing skills is required, as demonstrated by previous research/analytical reports/policy notes on relevant topics;
- Experience in the area of SDGs financing is a strong advantage

Sustainable Finance Expert:

- A master's degree in public administration, business administration, development economics, environmental economics, sustainable finance, and/ or other related fields – with at least 8 years of experience in policy analysis, public financial management, framework and instruments development, strategic public and private sector engagement, partnerships and financing for sustainable development; or a bachelor's degree in public administration, business administration, development economics, environmental economics, sustainable finance, and/ or other related fields – with at least 10 years of experience in policy analysis, public financial management framework and instruments development, strategic public and private sector engagement, partnerships and financing for sustainable development;
- Experience in country level work, in close collaboration with national government/regulators, local governments, and capital market stakeholders in Indonesia;
- Experience in working on, or conducting studies and/or research on, financial and macroeconomics concepts, as well as impact of global sector trends on market opportunities, risks and constraints;
- Experience in financial regulations is a strong advantage;
- Excellent writing skills is required, as demonstrated by previous research/analytical reports/policy notes on relevant topics;
- Experience in the area of SDGs financing is a strong advantage

Islamic/Sharia Finance Expert:

- A master's degree in Islamic/Sharia finance with at least 8 years of experience in Sharia-compliant policy analysis, public financial management, framework and instruments development, strategic public and private sector engagement, partnerships and financing in compliance with Sharia principles; or a bachelor's degree in Islamic/Sharia finance with at least 10 years of experience in

Sharia-compliant policy analysis, public financial management framework and instruments development, strategic public and private sector engagement, partnerships and financing in compliance with Sharia principles;

- Experience in country level work, in close collaboration with national government/regulators, local governments, and capital market stakeholders in Indonesia;
- Experience in working on, or conducting studies and/or research on, Islamic/Sharia financial and macroeconomics concepts, as well as trends on Sharia market opportunities, risks and constraints;
- Excellent writing skills is required, as demonstrated by previous research/analytical reports/policy notes on relevant topics;
- Experience in the area of SDGs financing is a strong advantage

Policy Analyst:

- Master's degree in public administration/policy, social politics, economic or relevant fields, with over 2 years of professional experience in policy analysis and development in Indonesia, particularly in relation to the areas of sustainable economic development/ sustainable development finance, both at national and sub-national level; or bachelor's degree in public administration/policy, social politics, economic or relevant fields, with over 3 years of professional experience in policy analysis and development in Indonesia, particularly in relation to the areas of sustainable economic development/ sustainable development finance, both at national and sub-national level;
- Experience in country level work, in close collaboration with national government/regulators, local governments, and capital market stakeholders in Indonesia is an advantage;
- Experience in working with, or on works related to, subnational governments with an understanding of subnational government structure and dynamics is a strong advantage;
- Excellent writing skills is required, as demonstrated by previous research/analytical reports/policy notes on relevant topics;

Personnel Competencies and Skill Requirements:

Each personnel of the team should have the following competencies and skill requirements:

- Strong analytical, writing and communication skills and fluency both in Bahasa Indonesia and English
- Strong motivation and ability to work and deliver under short deadlines
- Focuses on impact and result for the client and responds positively to critical feedback
- Able to work independently with little or no supervision
- Familiarity with the government system at the national and subnational level is preferable

Approved by,

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