

THE REPUBLIC OF INDONESIA  
INVESTMENT COORDINATION BOARD REPUBLIC OF INDONESIA

THE REPUBLIC OF INDONESIA  
**SPECIAL ECONOMIC ZONE (SEZ)  
DEVELOPMENT MASTER PLAN  
SURVEY**

**FINAL REPORT**

FEBRUARY 2012

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

NIPPON KOEI CO., LTD.  
KRI INTERNATIONAL CORP.  
REGIONAL PLANNING INTERNATIONAL CO., LTD.

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## **EXECUTIVE SUMMARY**

### **1 Outline of the Survey**

#### **1.1 Objectives**

The overall objective is: “To encourage expansion of investment by private sectors with increased foreign direct investment (FDI) to Indonesia, and to give favorable impact on the economy and the industry toward enhancement of industrial competitiveness and structural adjustment to investment-driven economic growth.”

#### **1.2 Outputs of the Survey**

The outputs of the Survey are as follows: (i) Recommendations for SEZ Development Master Plan, (ii) Proposed SEZ Development Guideline, and (iii) Capacity development of human resources and management unit organizations responsible for SEZ development.

#### **1.3 Structure of the Deliverable**

This report is consists of 3 parts listed below.

Part A: Recommendation for SEZ Development Master Plan (item 2 to 7 of this Executive Summary)

Part B: Recommendation for SEZ Development Guideline (item 8 to 10 of this Executive Summary)

Part C: Present Condition and Detailed Analysis

## **RECOMMENDATION FOR SEZ DEVELOPMENT MASTER PLAN**

### **2 Vision, Goal and Mission**

#### **2.1 Vision**

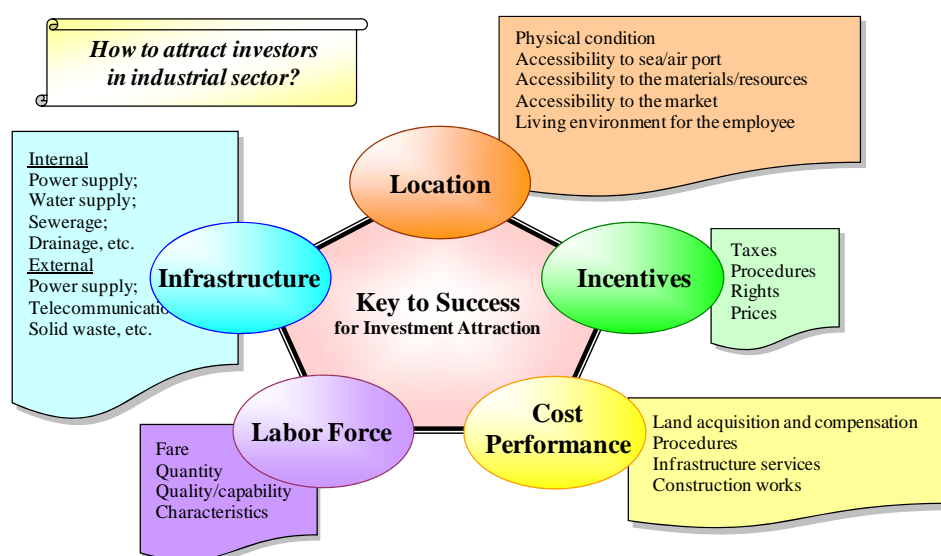
SEZ development will effectively and efficiently contribute to the improvement and growth of national/regional economy and society mainly by attracting more FDI. The progress of equal development throughout the country will be measured by the development of industry and job opportunity expansion in the region in order to create sustainable resources utilization and environmental preservation.

## 2.2 Goal

The target year of the master plan was set to 2019 following the National Midterm Development Plan (RPJMN). In addition, 2025 is also considered as the long-term development target with reference to the midterm plan.

## 2.3 Mission

The keys to the success of FDI promotion is the attractiveness of business location, preferable business incentives, developed infrastructure, capable labor force, and reasonable development cost provided to the promising investors (see Figure ES.1). The mission of the development is to prepare an SEZ facilitated with these attractive business environments. For this purpose, the development of SEZ should be appropriately and comprehensively planned.



Source: JICA Survey Team

**Figure ES.1: Keys to SEZ Success**

## 3 Development Framework of SEZ

Industrial zones play a major role in employment creation in certain countries and absorption by development of SEZ including industrial estates has been reaching outstanding results especially in Asia. According to a research by World Bank, the employment of industrial zones in Asia and the Pacific region are providing 2.3% of total employment in the region. The share of the industrial zone employment to national employment varies among countries with 5.91% for Malaysia, 4.35% for the Philippines, 2.69% for Thailand and 2.19% for Vietnam. Compared to these countries, industrial zones in Indonesia play limited role in employment absorption and absorbed only 1.36% of the national employment. Table ES.1 summarized the results of SEZ development target and its expected impacts by anticipating the data of national employment, industrial zones employment except SEZ, SEZ employment per unit area, and labor productivity in Indonesia.

**Table ES.1: Results of SEZ Development Target and Its Expected Impacts**

	2009 (Actual)	2019	2025
Industrial Zones Employment Contribution	1.36%	1.74%	2.37%
Industrial Zones Direct Employment	1,429,200	2,167,000	2,916,562
IZs (other than SEZ) Direct Employment	1,429,200	1,644,000	1,706,690
SEZ Direct Employment	-	524,000	1,300,728
Required Land Area of SEZ Area (ha)	-	4,100	11,100
Value Added Generated within SEZ (billion Rp.)	-	74,700	275,200

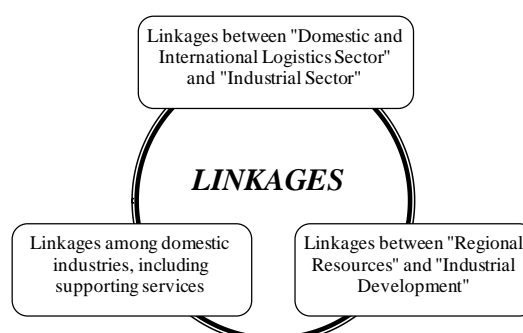
Source: JICA Survey Team

Note: 2000 constant price

## 4 SEZ Development Strategy

### 4.1 SEZ Development Strategy

SEZ's mission is to promote FDI to induce economic and social development of the region in which SEZ is established. For this purpose, especially for the SEZ with industrial function, it is necessary to consider the linkages summarized in Figure ES.2.



- (i) Linkage between “Domestic and International Logistics Sector” and “Industrial Sector”

Source: JICA Survey Team

**FigureES.2: Necessary Linkage between SEZ and Regional Background**

As a basic requirement for manufacturing work, it is necessary to bring the raw materials to be processed, and then sell the product to the market. For this purpose, sufficient logistic services, or in other words, frequent service with reasonable cost, are required. This is difficult to be solved by the factory (investor) and/or SEZ (developer). Therefore, linkage (coordination and cooperation) between logistic sector (loader and related public agencies) and SEZ needs to utilize the current system as much as possible.

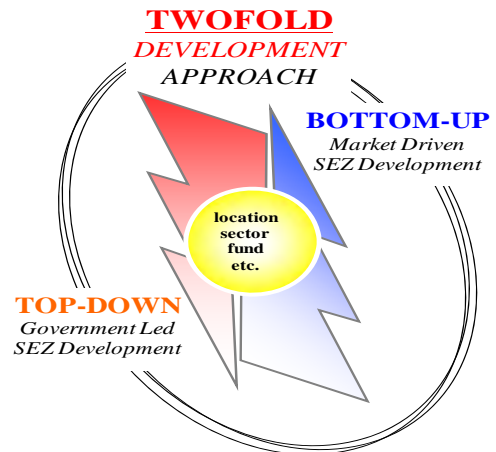
- (ii) Linkage among domestic industries

The manufacturing sector usually has a linkage between: (a) downstream, the industries which provide parts as raw material, and (b) upstream, the industry which delivers products for further manufacturing work or packaging. The shorter distance of each linkage is the better. Or at least, it should have good transportation connectivity.

(iii) Linkage between “Regional Resources” and “Industrial Development”

Regional resource may consist of: (a) natural resources, (b) human resources, and (c) infrastructure resources. Natural resources will be required by the SEZ targeting the development of existing natural resources in the region, while human and infrastructure resources will be required by all kinds of SEZ.

To fully utilize regional resources, bottom-up approach is fundamental for SEZ development. Bottom-up approach by market driven initiative with local government cooperation is necessary for SEZ development to: (a) realize or develop SEZ by utilizing private fund, (b) maximize the cost effectiveness on the basis of marketing principles which meet the demand-supply balance, and (c) attract investor (factories and/or tenants) by private marketing networks. On the other hand, top-down initiative by the central government is also important to coordinate the SEZ projects with the national development policy, with balanced development throughout the country especially targeted to distribute the development effects. Therefore, it is proposed to have “twofold development approach” as summarized in Figure ES.3.



Source: JICA Survey Team

**Figure ES.3: Twofold Development Approach for SEZ Development**

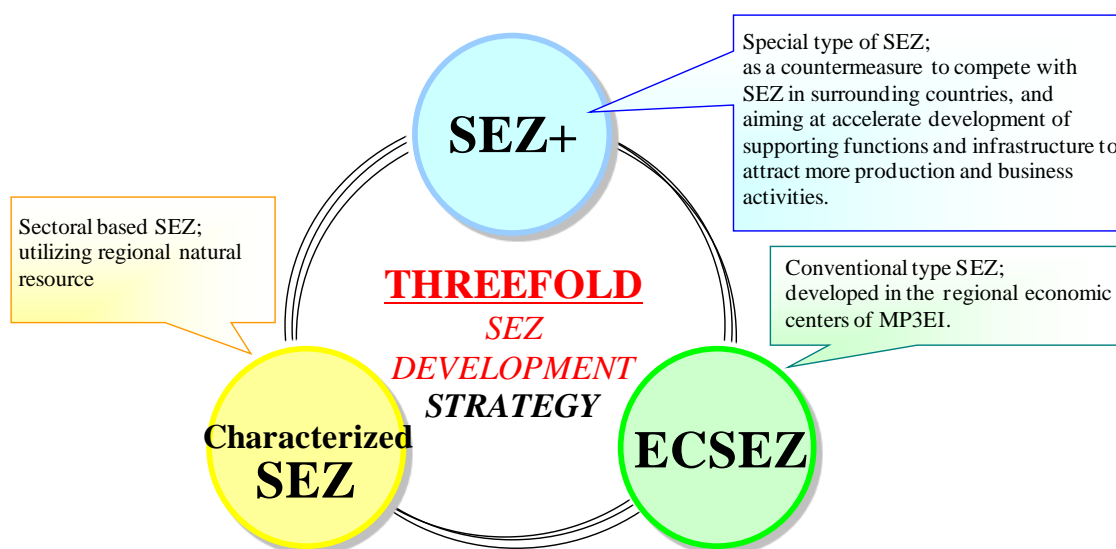
## 4.2 Types of SEZ

By referring to SEZ development history in the neighboring country and Indonesian development potential characterized by ample resources, development concept of Indonesian SEZ is proposed to include three types as described in Table ES.2 and Figure ES.4.

**Table ES.2: Proposed Three Types of SEZ in Indonesia**

SEZ Type		Role in economic growth	Major activity
SEZ+		Strategic and core SEZ for the acceleration of national economy with medium/long term perspective to compete with neighboring countries.	Ultra-multi function SEZ integrating with high-technology manufacture, advanced technology manufacture, R&D, ICT, media service, financial business, high-grade/international education, international medical service, convention, logistics, recreation and tourism, etc.
Economic Center SEZ (ECSEZ)		ECSEZ for the development of economic centers defined in MP3EI.	ECSEZ with manufacturing industry, international/inter-regional trade, R&D/ICT, etc.
Characterized SEZ (CaSEZ)	Mineral/Energy resource	CaSEZ on the basis of the regional resources and characteristics.	Primary/secondary processing industry of mineral resources and energy center integrated by energy resources for regional economic development
	Agro/fishery/timber resource		Food and wood processing manufacture
	Tourism		Villa, resort, tourism destination
	R&D including ICT		R&D, ICT industry, knowledge base industry complex
	Logistics		Logistic center, cargo terminal

Source: JICA Survey Team



Source: JICA Survey Team

**Figure ES.4: Three Types of Indonesian SEZ**

### 4.3 Component Characteristics by Type of SEZ

Three types of proposed SEZ are characterized by zone component as shown in Table ES.3 and Figure ES.5. SEZ+ is a multi-functional SEZ facilitated with almost all categories of economic activities. ECSEZ is composed of manufacturing/ICT activity zone, supporting logistic activities, recreation/tourism economic activity and export processing activity, whenever necessary. CaSEZ includes mineral/energy resources SEZ, agro/fishery resources SEZ, tourism SEZ, R&D/ICT SEZ, etc., where single function economic activity relating to local resources and economic characteristics is done.



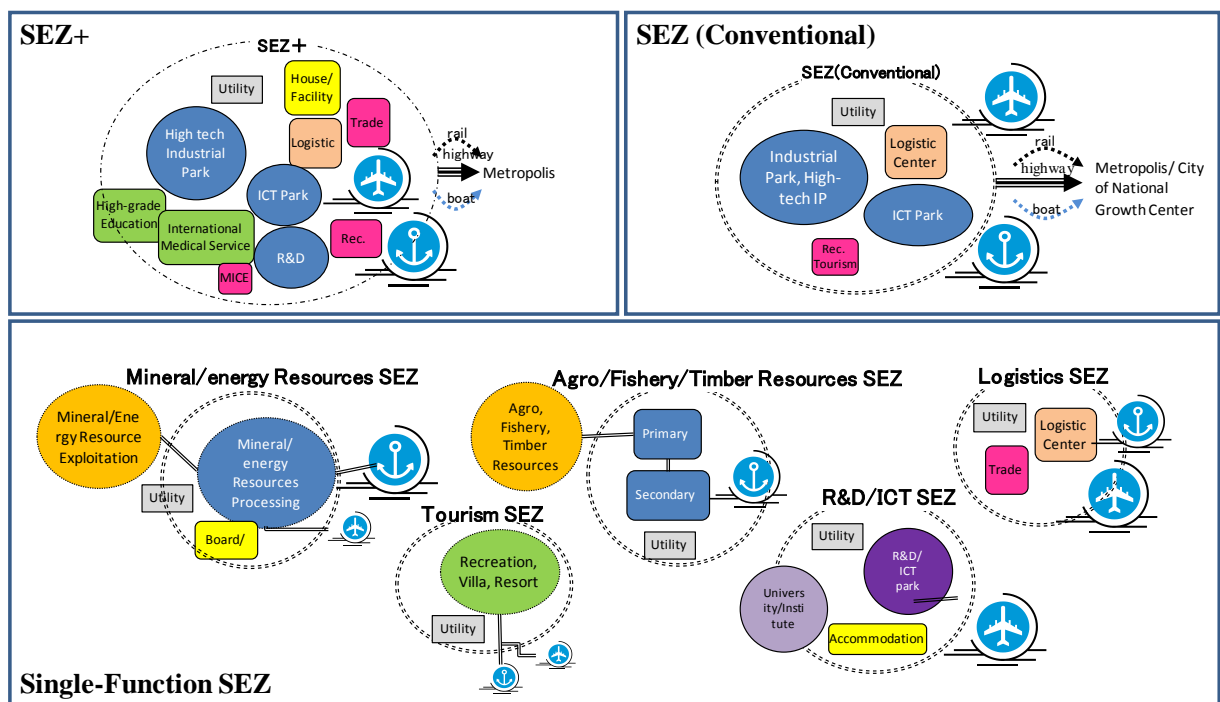
**Table ES.3: Zone Composition by Type of SEZ**

Type of SEZ	Zone/Function (based on SEZ Law No.39/2009)						
	export prc.	logistics	industry	R&D	tourism	energy	others
SEZ+	–	✓	✓	✓	✓	✓*1	✓
Economic Center SEZ (ECSEZ)	✓	✓	✓	✓	✓	–	–
Characterized SEZ (CaSEZ)							
Mineral/Energy Resources CaSEZ	–	–	✓	–	–	✓*2	–
Agro/Fishery/Timber Resources CaSEZ	–	–	✓	–	–	–	–
Tourism CaSEZ	–	–	–	–	✓	–	–
R&D / ICT CaSEZ	–	–	–	✓	–	–	–
Logistics CaSEZ	–	✓	–	–	–	–	–

Note: Characterized SEZ (CaSEZ) can be developed independently and jointly one another.

\*1 Renewable energy supply industry only

\*2 Mineral/energy resources processing industry such as coal upgrading, coal gasification industry including refinery industry of mineral and energy resources.



Trade tax treatment can be applicable inside.

MICE: Meeting, Incentive Travel, Convention/Conference, Event/Exhibition

Source: JST

**Figure ES.5: Component of SEZ by Type**

## 5 Spatial Plan

### 5.1 Strategic Distribution of SEZ

Principle of distributing SEZ+, ECSEZ and characterized SEZ is proposed considering the strategic location for Indonesian industrial development in the future and expansion of regional economy. SEZ+ should be developed in and around the metropolis to play the core role for the accelerated expansion of national economy and industry, while ECSEZ will be developed in the economic centers defined by MP3EI to be the regional development core. Location of CaSEZ will be decided in accordance with the evaluation results of the project selection. The evaluation of the CaSEZ

development will be done by paying full attention to the plan feasibility and credibility as well as environmental impact magnitude. (See Table ES.4)

**Table ES.4: Idea of Prospective Area for SEZ**

SEZ Type	Distribution Criteria of Prospective Area for SEZ	Preliminary Location
SEZ+	SEZ+ should be defined as national strategic economic growth pole located on the international economic corridor. SEZ+ should be located in the metropolis to utilize rich and qualified human resources and upgraded business and living support, accessibility to primary international port/airport, and accessibility to reliable utility service.	Mega Economic Center defined in MP3EI (Jakarta and Surabaya) and other metropolis of economic centers for the purpose of contributing to national economic enhancement.
ECSEZ (Economic Center SEZ)	ECSEZ should be defined as regional industrial development center located on national economic corridor of MP3EI. ECSEZ should be located in economic centers defined by MP3EI to utilize human resources accumulation, business and living support, accessibility to primary port/airport, and accessibility to reliable utility service.	Economic centers defined by MP3EI
CaSEZ (Characterized SEZ)	Mineral resource/energy resource/agro-fishery resource CaSEZ: Accessibility to resource deposit (inland transportation and port), and availability of land and utility service especially power and water supply for resource processing are necessary.	CaSEZ will be selected from applicants proposed by local government and/or private sector on the basis of evaluation on resources distribution, accessibility to port/ airport, environmental condition, impact on regional economy, etc.  National Tourism Destination and National Strategic Tourism Area planned by Ministry of Tourism is the target for Tourism CaSEZ.
	Tourism CaSEZ: Sustainable tourism destination by balanced development of environment preservation and resource utilization, with air and water surface accessibility will be suitable.	
	R&D CaSEZ (inclusive of ICT/knowledge base): Proximity to academic organization, institute, accessibility by domestic and international air service, and availability of first grade communication service and stable power supply are necessary.	
	Logistics CaSEZ: To improve the logistic function with cargo terminal, logistic center in busy transportation area such as primary port/airport area and industrial estate developed area will be the target.	

Source: JICA Survey Team

## 5.2 SEZ Distribution Plan

SEZ distribution alternative by coupling three types of SEZ is planned hereunder.

Alternative 1 (aggressive plan): Four SEZ+ in Jakarta, Surabaya, Medan and Makassar and ECSEZ in economic centers defined by MP3EI are proposed to be developed. Characterized SEZ is proposed to be developed at the full extent on the basis of the evaluation results of screening selection.

Alternative 2 (medium plan): Three SEZ+ in Jakarta, Surabaya, and Medan are proposed to initiate national economic growth. However, ECSEZ that are limitedly selected from metropolitan areas<sup>1</sup>, i.e., larger economic centers, which are continuously urbanized and contributing to strategic regional development, are proposed. CaSEZ will be developed as in Alternative 1 on the basis of the evaluation results of screening selection.

<sup>1</sup> Ten metropolitan areas are defined by PU currently: Jabodetabek Punjur, Cekungan Bandung, Kedungsepur, Gerbang Kertosusila, Sarbagita, Mebidang, Banjarmasin-Banjarbaru-Martapura, Samarinda, Maminasata, Manado – Bitung.

Alternative 3 (moderate plan): Two SEZ+ (Jakarta and Surabaya) will be developed for the purpose of accelerated development of Java Island that will contribute to the expansion and significant upgrading of the Indonesian economy and industry. ECSEZ will be selected in metropolitan areas out of economic centers, similar in Alternative 2. CaSEZ will be limitedly developed alongside the economic corridors planned by MP3EI to attain its effective development.

Three alternatives of SEZ distribution plan are evaluated using five evaluation criteria recommended by the Development Assistance Committee (DAC) at the OECD (See Table ES.5). Evaluation score shows slight difference among three alternatives. Consequently, Alternative 2 (medium development with 3 SEZ+, ECSEZ in metropolitan areas and selected CaSEZ) is evaluated as advantageous with the highest score.

**Table ES.5: Evaluation Score by SEZ Distribution Alternatives**

SEZ Distribution Alternatives		Alternative 1 (aggressive plan)	Alternative 2 (medium plan)	Alternative 3 (moderate plan)
Validity	Consistency with national plans	10	10	10
	Consistency with MP of ministry/agency	10	10	5 <sup>*1</sup>
Effectiveness	Job opportunity increase	10	5 <sup>*2</sup>	5 <sup>*3</sup>
	Contribution to regional economy promotion	10	5 <sup>*4</sup>	5 <sup>*5</sup>
Efficiency (Viability)	Development demand (magnitude)	5 <sup>*6</sup>	10	10
	Organizational capacity	5 <sup>*7</sup>	10	10
Impact	Environmental impact magnitude	10 <sup>*8</sup>	20	20
Sustainability	Sustainability for continuous development	20 <sup>*9</sup>	20	20
Total		80	90	85

Evaluation:

- \*1 Disadvantageous because Tourism CaSEZ will be limitedly developed along the economic corridor, then master plan of national tourism destination development, planned throughout Indonesian archipelago, cannot be fully consistent with the plan.
- \*2 Job opportunity creation effectiveness of Alternative 2 will be less effective because number of ECSEZ is limited in comparison with Alternative 1.
- \*3 Job opportunity creation effectiveness of Alternative 3 will be less effective because number of ECSEZ is limited in comparison with Alternative 1.
- \*4 Contribution to regional economy development effect of Alternative 2 will be less because number of ECSEZ is limited in comparison with Alternative 1.
- \*5 Contribution to regional economy development effect of Alternative 3 will be less because number of ECSEZ is less in comparison with Alternative 1.
- \*6 Development of many ECSEZ in Alternative 1 needs significant volume of investment demand, therefore viability of Alternative 1 is evaluated less.
- \*7 Development of many ECSEZ in Alternative 1 needs significant tasks of stakeholders, therefore viability of Alternative 1 is evaluated less.
- \*8 A number of SEZ development in Alternative 1 throughout the whole country will cause disadvantageous impact in comparison with Alternatives 2 and 3.
- \*9 Sustainability for continuous development will be evaluated equally among three alternatives if utilization of resources is done appropriately in each SEZ.

Source: JICA Survey Team

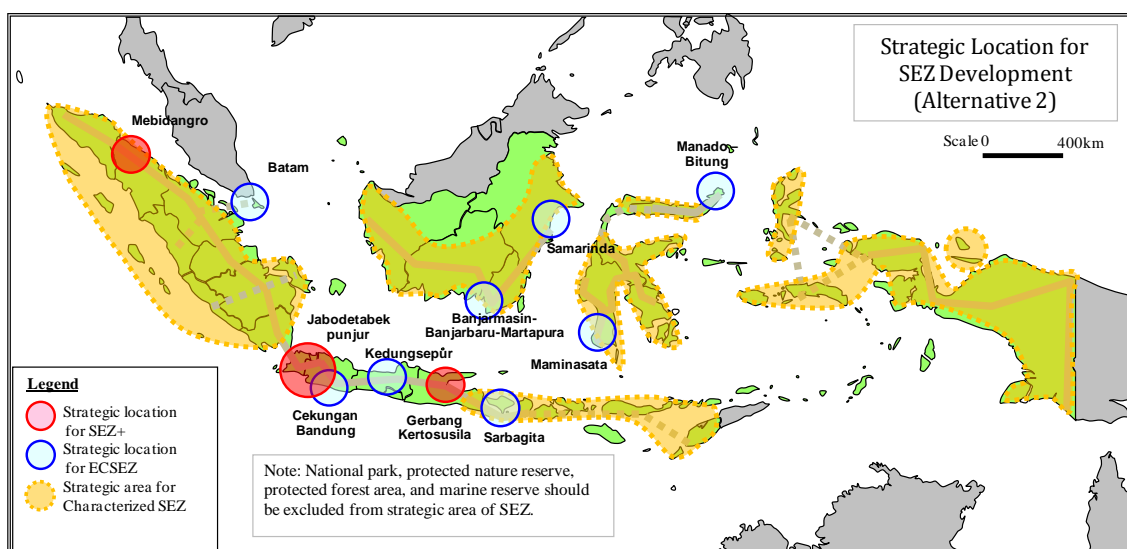


Figure ES.6: SEZ Distribution Plan by Coupling of SEZ Type (Alternative 2, Medium Plan)

### 5.3 Potential Area of CaSEZ

Although CaSEZ will be selected among applications of local government and/or private sector, evaluation of its potential area will be necessary not only to integrate the SEZ project appropriately with national and regional development principles decided in the national development plans but also to contribute to the prequalification of the SEZ application.

Types of CaSEZ will be as follows: 1) Mineral/Energy Resource SEZ, 2) Agro/Fishery/Timber Resource SEZ, 3) Tourism SEZ, 4) R&D/ICT SEZ, and 5) Logistics SEZ. Selection of potential area for characterized SEZ is made by SEZ type and provincial basis by analysis of three factors, namely: 1) development potential, 2) supporting facility, and 3) development needs. Figure ES.7 shows the analysis results of first priority and second priority potential areas for characterized SEZs with SEZ+ and ECSEZ by province.

## 6 Investment Incentive and Legal Arrangement

### 6.1 Measures for Investment Attraction

Basic measures to attract FDI consist of two categories, namely, providing fiscal incentives and providing non-fiscal incentives. The fiscal incentives proposed by the JST are shown in Table ES.6 in order to promote SEZ development efficiently and effectively in Indonesia. This is because the competitors have offered more attractive incentives to investors than those in the existing economic zones such as KAPET in Indonesia and SEZ Law No.39/2009 stipulates the possibility to offer more attractive incentives. The rationale for the period of exemption of corporate income tax was considered the envisaged competitors incentives such as Bangkok in terms of R&D, Malaysia (ECER-SEZ) in terms of Logistics and Priority Industry, and Philippines and Vietnam in terms of

Non-Priority Industry. Incentives for Tourism come from those in the Philippines that hold similar island based resorts. As for three Largest Metropolitan Areas with well developed infrastructure, similar incentives in Korea (Inchon FEZ) are proposed.

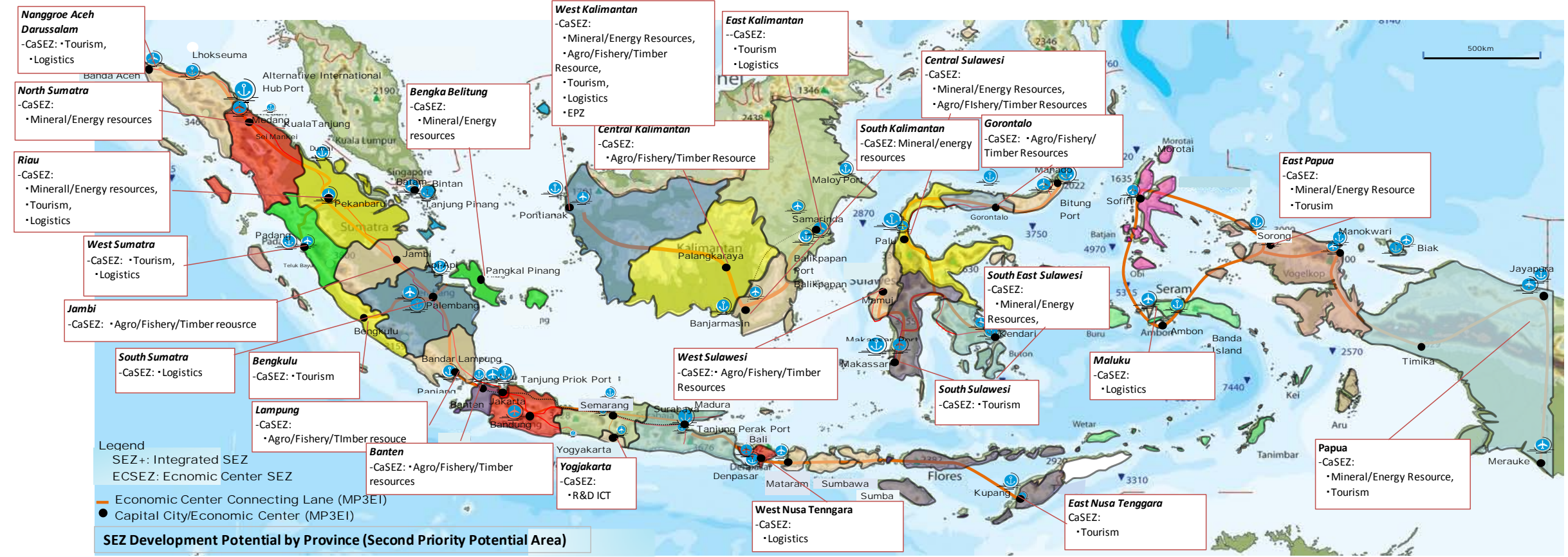
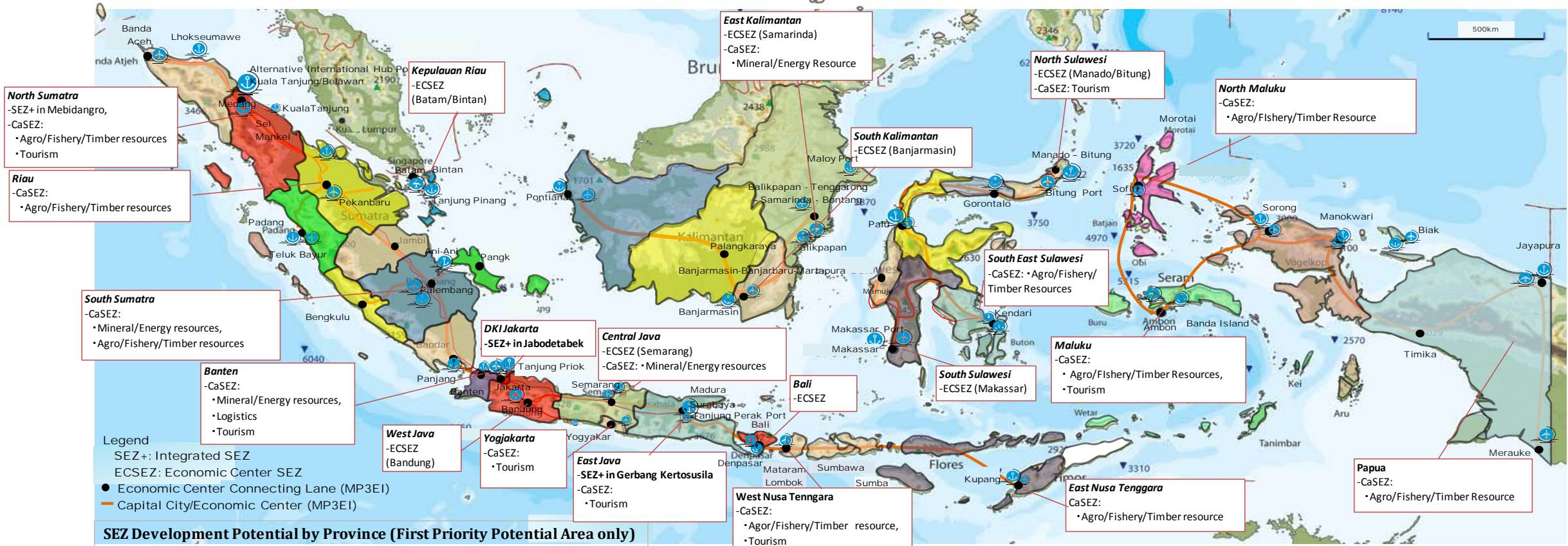
In Table ES.6, the incentives are proposed by specific area such as disadvantage region, primary and secondary development center of RPJMN, and economic centers of MP3EI.

The incentive will be granted to the business entities (investors) which cover major activities in each zone and developers of each zone as shown table ES-7 and ES-8. Since export subsidies<sup>2</sup> and local content subsidies are prohibited by World Trade Organization (WTO) under the Agreement on Subsidies and Countervailing Measures (the SCM Agreement<sup>3</sup>), the incentives proposed here will be open to both export and domestic oriented activities.

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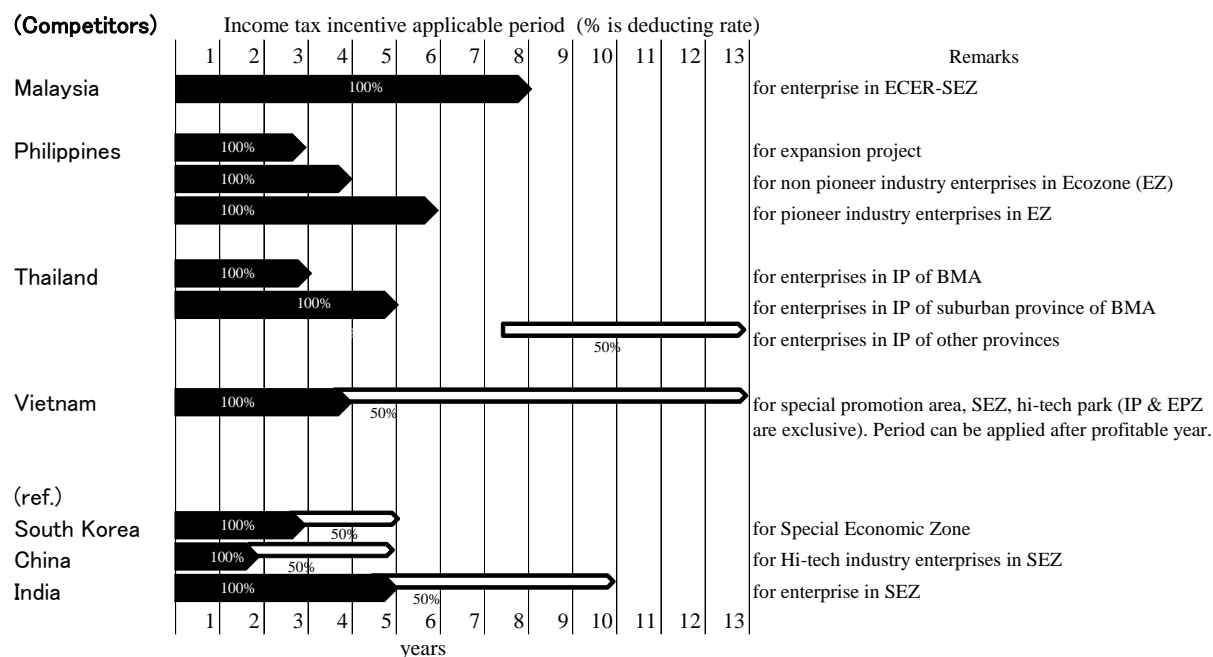
<sup>2</sup> The SCM Agreement contains a definition of the term “subsidy”. The definition contains three basic elements, namely: (i) a financial contribution (e.g., grants, loans, equity infusions, loan guarantees, fiscal incentives, provision of goods or services, and purchase of goods); (ii) by a government or any public body within the territory of a member; and (iii) which confers a benefit.

<sup>3</sup> Two categories of subsidies are prohibited by Article 3 of the SCM Agreement. The first category consists of subsidies contingent, in law or in fact and whether wholly or as one of several conditions, on export performance (“export subsidies”). The second category consists of subsidies contingent, whether solely or as one of several other conditions, upon the use of domestic over imported goods (“local content subsidies”). These two categories of subsidies are prohibited because they are designed to directly affect trade and are thus most likely to have adverse effects on the interests of other members.



Source: JICA Survey Team

Figure ES.7: Distribution of SEZ Potential Area by Province (First Priority Potential Area and Second Priority Potential Area)



Note: Incentive is applied from commencement of business in Philippine, India, China, while profitable year in Vietnam, Malaysia, Thailand and Korea.

**Figure ES.8: Period of the Exemption/Reduction of the Corporate Income Tax of Neighboring and Competing Asian Countries**

ES.6: Exemption of Corporate Income Tax

	regional development target		top-down development target (RPJMN) President Regulation No.5/2010		GERBANGKERTA-SUSILA and MEBIDANGRO	JABODETA-BEKPUNJUR	Economic Center (MP3EI)	other area
	disadvantage region	primary dev. center	secondary dev. center					
energy	8	n.a.	8	n.a.	n.a.	n.a.	8	8
R&D (including IT)	n.a.	n.a.	n.a.	n.a.	8	8	n.a.	n.a.
export processing	8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
logistics	8	8	8	8	3	0	8	n.a.
industry (priority)	8	8	8	8	3	3*	8	8
industry (non priority)	4	4	4	4	0	0	4	4
tourism	4	4	4	4	0	0	4	4
others (MICE, intl medical care and intl education)	n.a.	n.a.	n.a.	n.a.	3	3	n.a.	n.a.
others (other than above)	n.a.	n.a.	n.a.	n.a.	0	0	n.a.	n.a.

**NOTES:**  
Primary dev. cnt.: [Sumatra] Bandar Lampung and vicinity, Palembang and vicinity, Lhokseumawe, Dumai, Batam and Padang; [Java] Bandung, Denpasar, Semarang, Yogyakarta and vicinity; [Kalimantan] Balikpapan, Banjarmasin, and Pontianak; [Sulawesi] Mamasasata and Manado-Bitung; [Nusa Tenggara] Mataram and Kupang, [Maluku] Ambon and Ternate-Sofifi; [Papua] Sorong and Jayapura.  
Secondary dev. cnt.: [Sumatra] Pekanbaru and Jambi; [Java] Serang and vicinity, Cilacap and vicinity, Cirebon and vicinity, and Sukakarta and vicinity; [Kalimantan] Palangka Raya, Samarinda, Bontang and Tarakan; [Sulawesi] Gorontalo, Palu and Mamuju; [Papua] Manokwari and Timika.  
Economic Center: [Sumatra] Banda Aceh, Medan, Pakenbaru, Jambi, Palembang, Tanjungpinang, Pangkal Pinang, Padang, Bandar Lampung, Bengkulu and Serang; [Java] Jakarta, Bandung, Semarang, Yogyakarta and Surabaya; [Kalimantan] Pontianak, Palangkaraya, Banjarmasin and Samarinda; [Sulawesi] Makassar, Kendari, Mamuju, Palu, Gorontalo and Manado; [Bali-Nusa Tenggara] Denpasar, Lombok, Kupang and Mataram; [Papua-Maluku] Sofifi, Ambon, Sorong, Manokwari, Timika, Jayapura and Merauke.  
Disadvantage region: based on the evaluation conducted every year by Kementerian Pembangunan Daerah Tertinggal (Ministry for Development of Disadvantage Region).  
Priority industry was described in the Government Regulation No. 62/2008.  
In JABODETABEKPUNJUR, 3-year tax exemption will only be offered to high-tech industries.  
In case that the regional classification is overlapped, the priority will be given from the left column (disadvantage region) to the right column (other area).

**LEGEND:**  
[ n.a. ] not available in the area/region.  
[ 0 ] Already ongoing and it may conflict with current similar economic activities if incentive will be given to the new investor.  
[ 8 ] R&D (technical innovation) is the priority target stated in National Strategic Plan and necessary to prop-up by incentive similar to Bangkok Energy sector is the priority and focus sector sets in several law and regulation, such as RPJMN and RUPM (Investment General Plan).  
[ 8 ] Investment on Logistics and Priority Industry are necessary to be accelerate to create development center.  
[ 8 ] The incentive will be similar to Malaysia (ECER-SEZ) as the nearest competitor.  
[ 8 ] inline with National Development Policy to mitigate regional economic gap, necessary to provide the best incentive to the disadvantage region.  
[ 4 ] Non-Priority Industry will be the major investment and common incentive (such as Philippines and Vietnam) will be given.  
[ 4 ] Tourism will be competed with Philippines as a similar island based resort, and similar incentive will be given.  
[ 3 ] Largest Metropolitan already have a locational and infrastructural advantage.  
The incentive similar to Incheon FEZ (Korea) will be given.

Abbreviated Regional Name:  
Gerbangkeitsusila: Gersik, Jombang, Kertosono, Surabaya, Sidoarjo, Lamongan  
Jabodetabekpunjur: Jakarta, Bogor, Depok, Tangerang, Bekasi, Puncak, Cianjur.  
Mebidangro: Medan, Binjai, Deliserdang, Karo.



## 6.2 Value Added tax (VAT) and Tax on Luxurious Goods

Exemption from VAT, Tax on Luxurious Goods, and import duties for imported capital equipment and raw material for production has already been implemented in the existing economic zones such as FTZ and KAPET. Exception from the Taxes is necessary to keep the special status of SEZ. As shown Table ES.7.

**Table ES.7: Exemption from VAT and Tax on Luxurious Goods (Proposed)**

	regional development target	top-down development target (RPJMN)		GERBANGKERT A-SUSILA and	JABODETA-BEKPUNJUR	Economic Center (MP3EI)	other area
	depressed area	primary dev. center	secondary dev. center				
energy	✓	n.a.	✓	n.a.	n.a.	✓	✓
R&D (including IT)	n.a.	n.a.	n.a.	✓	✓	n.a.	n.a.
export processing	✓	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
logistics	✓	✓	✓	✓	✓	✓	n.a.
industry (priority)	✓	✓	✓	✓	✓	✓	✓
industry (non priority)	✓	✓	✓	✓	✓	✓	✓
tourism	✓	✓	✓	✓	✓	✓	✓
others (MICE, intl medical care and intl education)	n.a.	n.a.	n.a.	✓	✓	n.a.	n.a.
others (other than above)	n.a.	n.a.	n.a.	✓	✓	n.a.	n.a.

Note: “✓” means “Exemption is proposed”. “n.a” means not applicable in this proposed exemption.

The tax exemption will be given to all SEZ considering other similar zones such as FTZ, KAPET and Bonded Area which are entitled to obtain this incentive.

## 6.3 Non-fiscal Incentives

Summarized matrix of non-fiscal incentives offered by neighboring Asian countries is shown in Table ES.9. It shows that various non-fiscal incentives are offered to investors and developers such as one-stop window, special permit for foreigners, competitive utility tariff, land premium, training for employees and financial assistance. Based on these examples, it is proposed to introduce the following non-fiscal incentives to investors and developers for promotion of SEZ development:

- (1) Establishment of One-stop Service (PTSP) Unit and allocation of SEZ.
- (2) Establishment of Electronic Investment Licensing and Information Service System (SPIPISE).
- (3) Flexible Approach to Provision of Visa for Non-resident Foreign Nationals.
- (4) Land Premium.
- (5) Competitive Utility Tariffs.
- (6) Simplified Import-export Procedures.

**Table ES.9: Summarized Matrix on Non-Fiscal Incentives Offered by Neighboring Asian Countries**

	One-stop window/Simple Procedures	Special Permit for Foreigners	Competitive Utility Tariff	Land premium	Training for employees	Financial Assistance (Grants/Loans)	Others
Malaysia	✓	✓	✓	✓	✓	✓	Flexibility in foreign exchange administration
Thailand	✓	✓	n.a.	✓	n.a.	n.a.	
Philippines	✓	✓	n.a.	n.a.	n.a.	n.a.	Unrestricted use of consigned equipment
Vietnam	✓	✓	n.a.	✓	✓	✓ (Development of Infrastructure)	
South Korea	✓	✓	n.a.	✓	n.a.	✓	Flexible approach to labor regulation, Establishment of educational institutions and hospitals for foreigners
India	✓	✓	n.a.	n.a.	n.a.	✓	

Note: “✓” means “Non-fiscal incentives exist”. “n.a” means “Non-fiscal incentives do not exist”.

Source: JICA Survey Team based on the websites of investment promotion agencies in the selected countries.

#### 6.4 Composition of SEZ Law and Its Relation to Other Laws and Regulations by Article

There are some points to be amended in Law No.39/2009 on SEZ and Government Regulation No.2/2011 on Implementation of SEZ as shown Table ES.10.

**Table ES.10: List of Major Laws and Regulations Relevant to SEZ Law (No. 39/2009) and the Development of SEZ**

Point	Laws and Regulations	Current Status	Details to be amended
Incentives on Import Duty	Article 32, Law No. 39/2009 on SEZ,	Clause (1) a. of Article 32 of the law stipulates that imports of goods to SEZ may be provided through the following facilities: a. deferral of import duty.	This part shall be modified as “a. exemption and/or deferral on import duty”. This is because investors in similar zones and manufactures are already granted exemption from import duties under some conditions although the exemption period is limited.
Type or Business Fields Open to Investment for SEZ	Article 39 Law No. 39/2009 on SEZ, Presidential Decree No.76/2007	Article 39 of the law stipulates that in SEZ, the regulation on business fields open with conditions to investment shall not apply (to SEZ), except for investment by micro, small and medium enterprises and cooperatives.	This part shall be modified as follows since some business fields should not be opened to SEZ: “In SEZ, large part of business fields open with conditions to investment by the regulation shall not apply (to SEZ), except for investment by micro, small and medium enterprises and cooperatives. The detailed list of business fields open to investment shall be shown in a new regulation.” The draft detailed list of business fields open to investment is shown in Appendix A-3.
Avoidance of Duplication of Incentives	-	There is no description about duplication of incentives in the laws and regulations.	New article shall be added in the law or regulation to avoid the duplication of grant of fiscal incentives as follows: “Investors that shall enjoy fiscal incentives under the regulations for SEZ cannot obtain the incentives under Section 31A of the Income Tax Law No. 36/2008 and Government Regulation No. 62/2008 regarding income tax incentives.”

Point	Laws and Regulations	Current Status	Details to be amended
Simultaneous submission to several economic zones	Between Article 11 and Article 12 of Governmental Regulation No.2/2011 on implementation of SEZ	There is no description about simultaneous submission to several economic zones in the laws and regulations.	New article shall be added as follows between Article 11 and Article 12 of the regulation to attract more investors: “Business entity, local government or provincial government can submit proposal on establishment of SEZ and other types of specific zone such as industrial estate simultaneously. The zone will be entitled to be SEZ with the approval of establishment of SEZ even if the zone has already been established as another zone “
Termination of Contract	Article 49 (2) of Governmental Regulation No.2/2011 on implementation of SEZ	Clause (2) f. of Article 49 of the regulation stipulates that the agreement .... shall include termination of contract by government of regency/city, provincial government, or ministry/non-ministerial government agency for certain cases.	In this sentence, the managing business entity itself should be added.
Handover of Assets/Infrastructure	Article 49 (2) of Governmental Regulation No.2/2011 on implementation of SEZ	Clause (2) i. of Article 49 of the regulation stipulates that the agreement .... shall include handover of assets and infrastructure by the managing business entity to the ministry/agency, provincial government .... after the completion of management partnership.	This sentence should be deleted since the handover of assets is only valid for build, operate and transfer (BOT) or build, operate, own and transfer (BOOT) project.
Transfer of Land	Article 49 (3) of Governmental Regulation No.2/2011 on implementation of SEZ	Clause (3) of Article 49 of the regulation stipulates that the agreement with the SEZ managing business entity should contain the provisions regarding prohibition to transfer some or the entire land of SEZ location to other party.	However, this provision shall halt selling or transfer of the land right such as building right from SEZ management business entity or developer to investors/tenants that will be located within SEZ. Thus, this provision should be deleted.
Authority of Administrator of SEZ	-	There is no description in the case that an SEZ is established within the existing specific zone such as KAPET in the laws and regulations.	New article shall be added in Article 43 of the regulation to clarify the authority of administrator of SEZ as follows:  “In case that an SEZ shall be established within the existing specific zone such as KAPET, the authority of administrator of SEZ is independent from the authority of the existing zone.”

Source: JICA Survey Team based on the information of BKPM

Note: Laws and regulations on environment are not included.

## 7 Implementation Plan

Based on political decision, two (2) SEZs shall be approved by 2011/2012 and additional three (3) SEZs by 2014/2015 as fast track projects. To reach the mid-term (year 2019/2020) and long-term (year 2025) development targets, it is required to develop 4,100 ha and 11,100 ha of industrial-based SEZ, respectively. The summary of the road map is shown in Figure ES.9.

To reach those targets, there are two (2) major challenges necessary to be tackled by SEZ National Council, which are; (i) achievement of incentives, and (ii) amendment of current law. Incentives

shall be competitive enough compared to the surrounding countries, and SEZ law shall not prohibits and make a limitation on the necessary activities and/or common business scheme of SEZ developer.

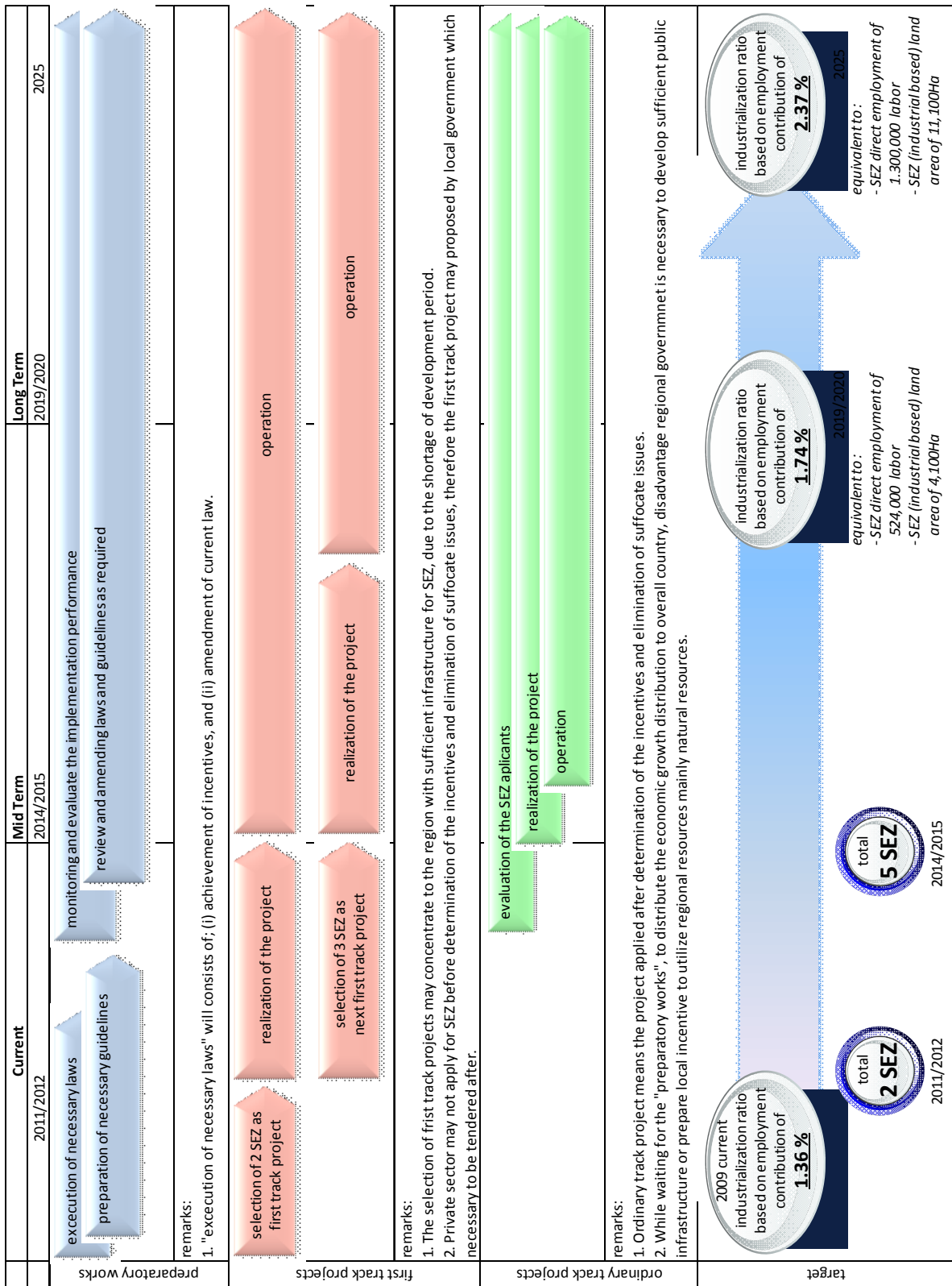


Figure ES.9: Road Map 2019/2020

## **RECOMMENDATION FOR SEZ DEVELOPMENT GUIDELINE**

### **8 Application Form and Evaluation Criteria**

The application form contains the following: (i) form, (ii) filling-out instruction and (iii) required attached document for the SEZ applicant, that was prepared based on the requirement stated in the SEZ Law UU-39/2009 and Governmental Regulation No. 2/2011 on the implementation of SEZ. This form was developed in the simplest possible manner to avoid confusion in filling-out on the part of the applicants and to simplify the evaluation work.

Evaluation will be conducted based on the application form together with the required supporting document submitted by the applicant. The proposed document criteria are not aim to rank the applicant since there are no limitations on the number of establishments on the SEZ. Therefore, scoring method for the evaluation is not recommended. An applicant whose application was rejected can revise and resubmit their application with the improvements suggested on the evaluation report.

### **9 Progress Monitoring**

After the authorization of the SEZ, the applicant shall start its operation within three years and the implementation works will be monitored and evaluated every six (6) months in accordance with SEZ Law on No.39/2009. Considering the sequence and simplification of the evaluation work, it is proposed to conduct monitoring works based on; (i) the application form, and (ii) work items on the action plan for implementation of SEZ development.

### **10 Infrastructure Implementation Standard**

Standard for the related infrastructure and public facilities related to SEZ development was determined by the related ministries such as Ministry of Public Works and Ministry of Industry. Therefore, to ensure the quality and quantity of the necessary infrastructure and public facilities in the SEZ, “Infrastructure Implementation Standard” was developed to guide the SEZ applicant and/or SEZ developer to prepare sufficient hardware. Several items recommended to be added to the existing Infrastructure Implementation The Application Form (including guidelines for filling-out the forms) and Infrastructure Implementation Standard have already been prepared by the SEZ National Council with support from JST and distributed to the interested agencies, Standard are described in the report such as special planning approach and common facility implementation standards.

# SEZ Development Master Plan Survey in the Republic of Indonesia

## Final Report

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### List of Abbreviations

ACFTA	ASEAN-China Free Trade Zone Area
AFTA	ASEAN Free Trade Agreement
AMDAL	environmental impacts assessment
ASEAN	Association of South-East Asian Nations
BAPPENAS	National Development Planning Agency
BBK	Batam, Bintan Karimun
BKK	Batam SEZ
BKPM	Investment Coordinating Board Republic of Indonesia
BOI	Board of Investment
BOOT	Build, Operate, Own and Transfer
BOT	Build, Operate and Transfer
BUMN	State-owned enterprises
CA	Cooperation Agreement
CaSEZ	Characterized Special Economic Zone
CMEA	Coordinating Ministry for Economic Affairs
CPI	Consumer Price Index
DAC	Development Assistance Committee
DPN	National Tourism Destination
ECER-SEZ	East Coast Economic Region
ECSEZ	Economic Center Special Economic Zone
EJIP	East Jakarta Industrial Park
EPZ	Export Processing Zone
ETDZ	Economic and Technological Development Zone
FDI	Foreign Direct Investment
FEZ	Free Economic Zone
FTZ	Free Trade Zone
FY	fiscal year, from April to March of the following year
GCA	Government Contract Agency
GDP	Gross Domestic Product
GRDP	Gross Regional Domestic Product
GHG	Green House Gas
GIE	General Industrial Estate
GIZ	General Industrial Zone

GL	Guide Line
HTDZ	High Technological Development Zone
ICT	Information and Communication Technology
IDR	Indonesian Rupiah
IIGF	Indonesian Infrastructure Guarantee Fund
ILO	International Labour Organization
IP	Industrial Park
ISIC	International Standard Industrial Classification
ITA	Investment Tax Allowance
IZ	Industrial Zone
JBIC	Japan Bank of International Cooperation
JICA	Japan International Cooperation Agency
JST	JICA Survey Team
KAPET	Integrated Economic Development Area
KB	Bonded Area
KBLI	Industrial Classification of Indonesia
KSPN	National Strategic Tourism Area
LARAP	Land Acquisition and Resettlement Action Plan
LPI	Logistics Performance Index
MICE	Meeting, Incentive Travel, Convention/conference, Event/Exhibition
MOF	Ministry of Finance
MP	Master Plan
MP3EI	The Master Plan for the Acceleration and Expansion of Economic Development of Indonesia
O&M	Operation & Management
OECD	Organization for Economic Co-operation and Development
P3CU	PPP Central Unit
PEZA	Philippine Economic Zone Authority
PLN	Perusahaan Listrik Negara
PMA	Foreign Private Company
PMDN	National Private Industrial Estate Developer
PPh	Income tax
PPP	Private-public-partnership
PTSP	One-stop Service
R&D	Research and Development
RAPBN	Draft Government Budget

RKP	Annual Government Work Plan
RPJMN	National Midterm Development Plan
RTRW	Spatial Plan
RUPM	Indonesia Investment Planning
SAIDI	System Average Interruption Duration Index
SCM	Agreement on Subsidies and Countervailing Measures
Agreement	
SEA	Strategic Environment Assessment
SEZ	Special Economic Zone
SEZLC	Special Economic Zone Local Council
SEZNC	Special Economic Zone National Council
SME	Small Medium Enterprise
SPIPISE	Electronic Investment Licensing and Information Service
USD	United States Dollar
VAT	Value Added Tax
VGf	Viability Gap Funding
WTO	World Trade Organization

## INTRODUCTION

### 1 Outline of the Survey

#### 1.1 Objectives

The overall objective is:

“To encourage expansion of investment by private sectors with increased foreign direct investment (FDI) to Indonesia, and to give favorable impact on the economy and the industry toward enhancement of industrial competitiveness and structural adjustment to investment-driven economic growth.”

The objectives of the survey are:

1. To formulate the recommendations for SEZ Development Master Plan.
2. To formulate the proposal of SEZ Development Guideline.
3. To develop personal and organizational capacity of the counterpart staff and SEZ National Development Council.

#### 1.2 Schedule

SEZ development was set as the national program to improve the investment climate in Indonesia. As national program, the set schedule is shown below:

Master Plan: preliminary draft in July 2011

Approval: minimum of two SEZs within 2011

minimum of five SEZs within 2014

Guidelines: based on the necessity to reach the schedule above

Original schedule, which was targeted in the middle of 2012, for (i) Recommendations for SEZ Development Master Plan, and (ii) Proposal of SEZ Development Guideline, was rearranged to cope with the National Program based on the request from Indonesian side in the kickoff meeting. Current assignment schedule for the experts is shown in Figures 1.2.1 and 1.2.2 hereafter. The assignment in Indonesia was completed in 2011 and the final report will be submitted by February 2012.

Considering the working manner described hereinafter, the assignment for Investment Promotion Assistant / Capacity Development Expert was distributed to the other experts, since capacity development was implemented daily to the working group member and counterpart, through the supporting works on the preparation of master plan and guideline.

Detailed working process on the schedule and working flow for the survey is shown in Figure 1.2.3.

Special Economic Zone (SEZ) Development Master Plan Survey in the Republic of Indonesia  
Final Report

	Position/ Expertise	Name	The First Year												The Second Year							The First year		The Second Year				
			2010		2011												2012							Field	Work in Japan	Field	Work in Japan	
			11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7					
Work in Indonesia	1 Team Leader / Investment Promotion Expert	Teddy Masanori KARTASASMITA			40				50				50			50				50							6.33	0.67
	2 Regional / Infrastructure / Utility Planner	Isamu ASAKURA			21				30				35			35				20							4.03	0.67
	3 Zone Planner	Nobuhiro OSHIMA				21			30				30			30				20							3.70	0.67
	4 Institutional Expert	Manabu FUJIKAWA					22			35			35			45				45							4.57	1.50
	5 Common Facilities / Supporting Services Planner / Coordinator	Nozomi SAITO			30								30			30											3.00	
	6 Investment / Economic Analyst	Takeshi YAMASHITA							42				30			38											3.67	
	7 Environmental and Social Expert	Tomoaki TANABE							30							60											3.00	
	8 Assistant / Capacity Development Expert	Kumi SAITO							30							40				20							2.33	0.67
																										30.63	4.18	
Work in Japan	1 Team Leader / Investment Promotion Expert	Teddy Masanori KARTASASMITA		5		3				3						3			3		3						0.57	0.20
	2 Regional / Infrastructure / Utility Planner			5		3				3						3			3		3						0.57	0.20
	3 Institutional Expert			5						3						3					3						0.47	0.20
																											1.61	0.60

Source: JICA Survey Team

Figure 1.2.1: Original Assignment Schedule

	Position/ Expertise	Name	First Year												Second Year							First year					
			2010		2011												2012							Field	Work in Japan		
			11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7				
Field Work	1 Team Leader / Investment Promotion Expert	Teddy Masanori KARTASASMITA			50			60			50			50			50										7.40
	2 Regional / Infrastructure / Utility Planner	Isamu ASAKURA			21			28			46			41			45										5.03
	3 Zone Planner	Nobuhiro OSHIMA				21			36			27			15												3.30
	4 Institutional Expert	Manabu FUJIKAWA					22			40			45			45											4.07
	5 Junior Institutional Expert	Megumi YANAGITSUBO								50																	1.67
	6 Common Facilities / Supporting Services Planner / Investment Promotion Expert / Coordinator	Nozomi SAITO			50				60			51			48			55									8.80
	7 Investment / Economic Analyst	Takeshi YAMASHITA							60					30													3.00
	8 Environmental and Social Expert	Tomoaki TANABE									30				30												2.00
																										35.27	
Work in Japan	Team Leader / Investment Promotion Expert			5			5						5			3			12							0.97	
	Regional / Infrastructure / Utility Planner			5		3				3			3			3			3							0.77	
	Institutional Expert			5			3						3			3										0.83	
	Investment / Economic Analyst												15													0.33	
	Common Facilities / Supporting Services Planner / Investment Promotion Expert / Coordinator																		5							0.20	
																										3.10	
Report																											
Workshop																											
Study Phase and Total M/M																										Total MM	
																										35.27	
																										38.37	

Source: JICA Survey Team

Figure 1.2.2: Revised Assignment Schedule

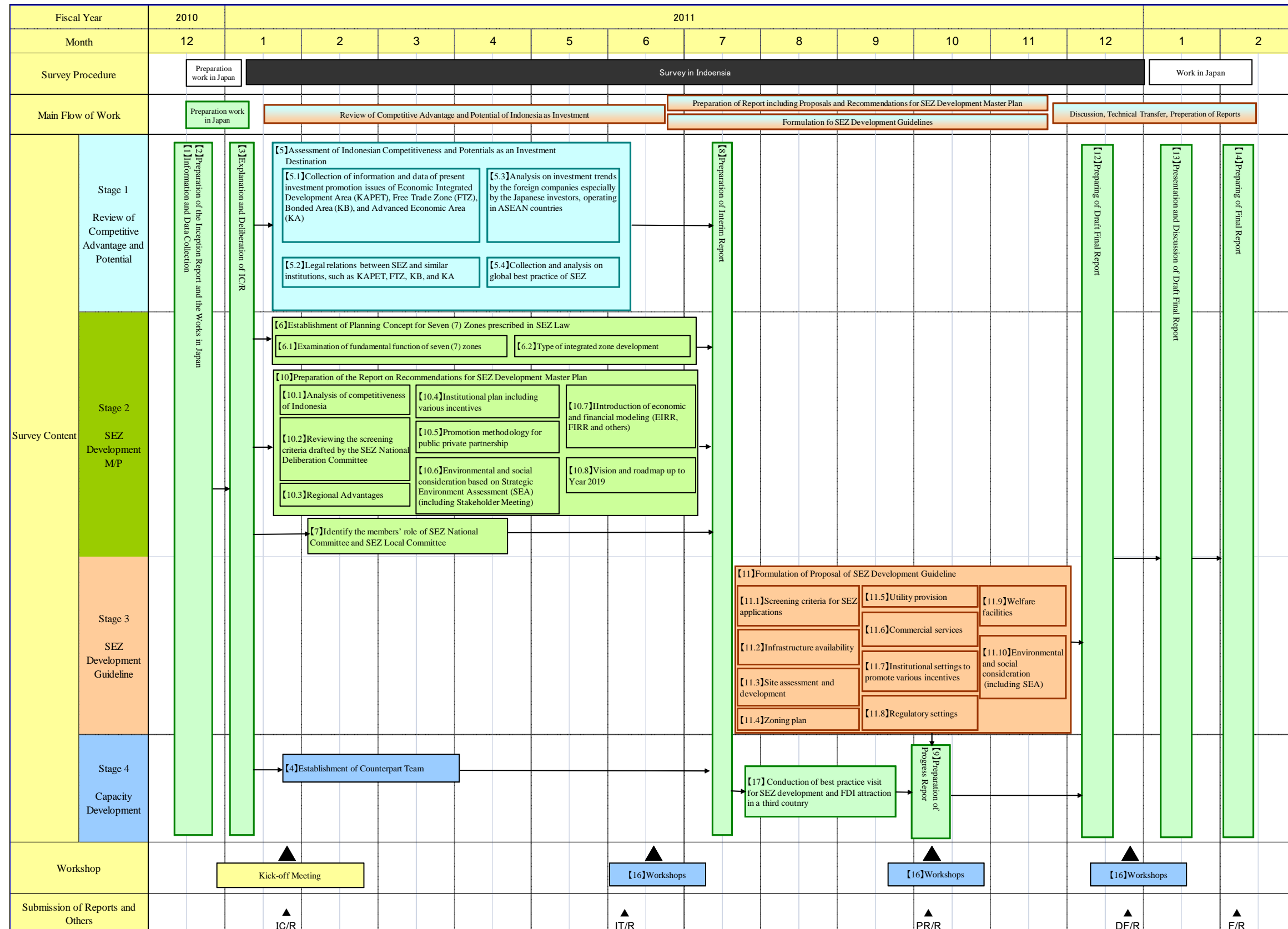
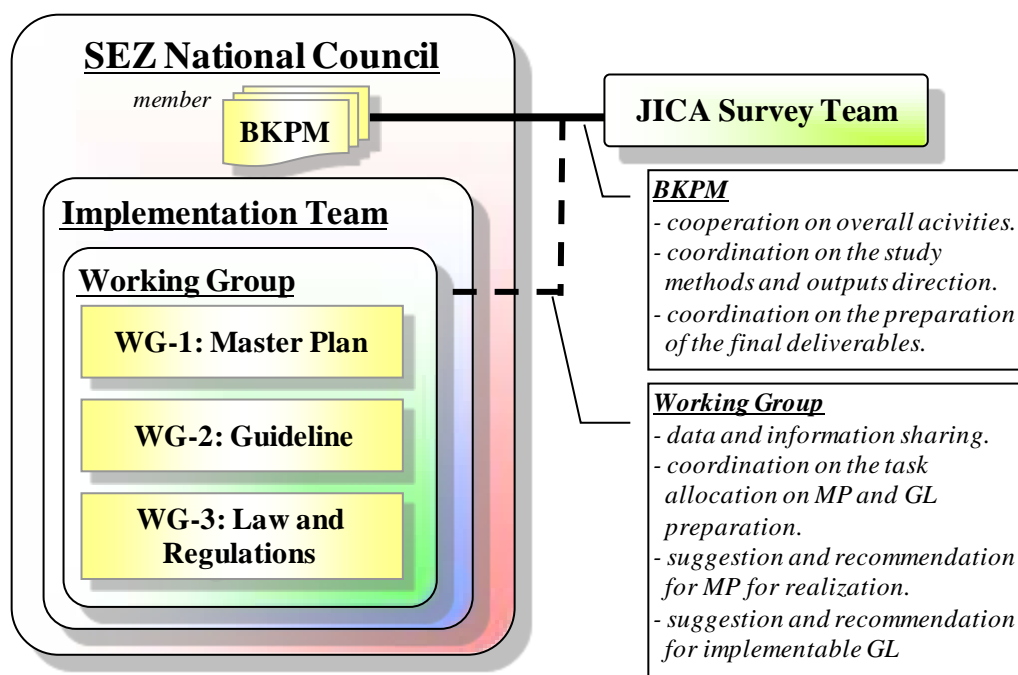


Figure 1.2.3: Work Flow for the Survey

## 2 Implementation Manner

The JICA Survey Team (JST) will work daily not only with Investment Coordinating Board Republic of Indonesia (BKPM), study counterpart, but also with SEZ National Council for the preparation of the master plan and guidelines under the SEZ National Council. BKPM will act as the deputy chairman of the council as well as a member of the working group.



Source: JICA Survey Team

Figure 2.1.1: Organization for the Implementation

## 3 Outputs of the Survey

The outputs of the Survey are as follows:

- (i) Recommendations for SEZ Development Master Plan

The recommendation for the master plan is not limited to the spatial plan but shall also include development strategy, framework, spatial plan for prospective location, incentives, legal arrangement, and implementation plan.

- (ii) Proposed SEZ Development Guideline

The guideline required by the SEZ National Council for implementation will be drafted as a recommendation. Basically, it consists of guidelines for application forms, evaluation criteria, and infrastructure implementation standard, including some necessary forms related to these works.

- (iii) Capacity development of human resources and management unit organizations responsible for SEZ development.