

**Part A: Recommendations for SEZ
Development Master Plan**

CHAPTER I: SEZ DEVELOPMENT MASTER PLAN

I.1 Vision, Goal and Mission

(1) Vision

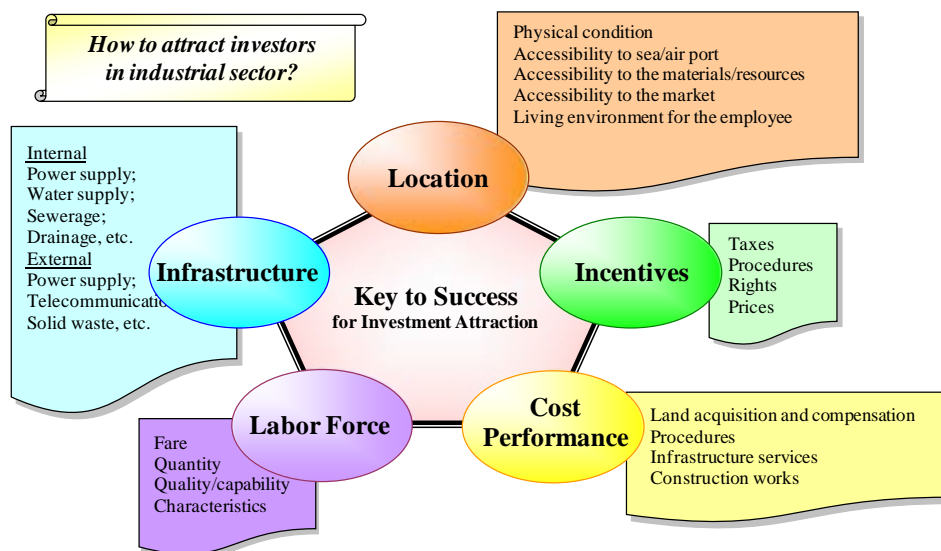
SEZ development will effectively and efficiently contribute to the improvement and growth of national/regional economy and society mainly by attracting more FDI. The progress of equal development throughout the country will be measured by the development of industry and job opportunity expansion in the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

(2) 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.

(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 I.1.1). 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 I.1.1: Keys to SEZ Success

(i) Location

The location of the SEZ should be strategic enough for: (a) raw materials (natural resources and/or parts from downstream industries), (b) logistics (air or sea transport for domestic and/or international trading route to the market), and (c) living place for the employee with sufficient environmental standard. Moreover, the land should also be sufficiently developed for the proposed SEZ type (industry, tourism, etc.), from physical point of view, such as (a) soil stability, (b) land elevation compared to flooding level, (c) natural environmental conditions, (d) number of resettlement, (e) existing structures to be removed, and (f) necessary item to be compensated.

(ii) Incentives

Incentives are necessary to attract FDI considering international competitiveness with surrounding countries such as Malaysia, Thailand, Vietnam and the Philippines, which currently give more incentives than Indonesia. Incentives aim to reduce the investor risk both on financial (by fiscal incentive) and non-financial (by non-fiscal incentive) issues, and encourage the investor to invest on that place. Fiscal incentives mainly consist of tax exemption and/or reduction, and non-fiscal incentive will consists of more simplified procedures, acquisition of related rights (e.g., rights on mining, fishery and land cultivation), and lower cost of infrastructure (e.g., fees for toll road, water supply and electricity).

(iii) Infrastructure

Infrastructure is one of the major factors which will directly affect manufacturing and operational works, and is categorized into internal infrastructure (inside the SEZ) and external infrastructure (outside the SEZ under the responsibility of not the developer/operator of the SEZ but the other agencies). The most common important infrastructure is electricity, water supply and transportation followed by drainage, sewerage, solid waste and telecommunication. Development of sufficient infrastructure requires coordination and cooperation among the SEZ developer, local government and other related infrastructure providers, because most of the infrastructure cannot be concluded only inside the SEZ itself (e.g., power supply shall be generated by PLN and transmitted to SEZ, and then the developer shall provide the distribution system inside the SEZ).

(iv) Labor Force

Laborers of manufacturing industry need to have basic knowledge to read the manuals, hand skills, time management skill (coming and working on time), and sense of sanitation. Also, it is necessary for SEZ to have enough number of workers to accommodate the size and type of the SEZ. Nevertheless, farmers or fishermen cannot become factory workers instantly. Tourism SEZ, for example, will require less headcount but much higher skilled laborers. Moreover, to sustain their employment, it is necessary to secure their living condition which is not limited to housing but also includes public services such as market, health care, security/police, school, and entertainment.

(v) Cost Performance

Initially, the investor will consider the total cost performance over the four issues mentioned above. Best but high cost infrastructure may not be attractive to investors as well as low cost but weak infrastructure. Therefore, to develop SEZ, it is necessary to set the marketing target and consider investor’s demand with cost efficient development. Incentives will help much to reduce investor’s burden on cost issues, which commonly evolve around land acquisition aspects such as compensation, construction of infrastructure and necessary facilities (e.g., factories, hotels and ports).

I.2 Development Framework

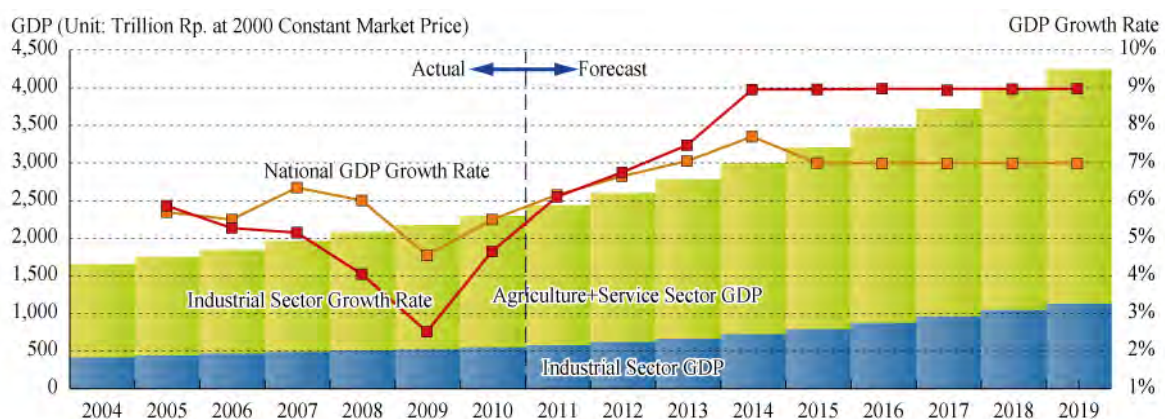
I.2.1 Development Target

(1) Economic Growth and Demographic Forecast in Indonesia

1) Economic Growth Forecast

Figure I.2.1 illustrates change in the actual/forecasted national GDP and industrial sector GDP and their annual growth rate. As shown in Figure I.2.1, the industrial sector’s GDP grew slower than the national GDP for the past five years. Particularly, industrial sector suffered from shrinking of worldwide demand due to economic downturn resulting from global economic crisis in 2009.

On the other hand, the Ministry of Industry forecasts high growth for industrial sector for the coming decade. GDP of industrial sector is expected to grow faster (6.10% to 8.98% per annum) than the national GDP (6.15% to 7.70% per annum). With this targeted growth, it is expected that the GDP share of industrial sector to national economy will increase from 23.8% in 2010 to 24.2% in 2015 and 27.5% in 2020. As for the employment sector, industries are expected to contribute in absorbing 17,212,000 workers in 2014, and could grow by 645,000 workers annually.



Source: Ministry of Industry Strategic Plan 2010-2014 page 56

Figure I.2.1: GDP Growth Forecast in Indonesia

2) Demographic Trend and Forecast

According to the population forecast of Indonesia made by the United Nations, Population Division, although the rate of population increase continues to slow down gradually (2000-05: 1.26% per annum, 2005-10: 1.08% per annum, 2010-15: 0.98% per annum, and 2015-20: 0.83% per annum), it is forecasted to increase by 22.7 million (from 239.9 million in 2010 to 262.6 million in 2020) during the coming decade.

On the other hand, working age¹ population is expected to grow faster (1.74% per annum during 2010 - 2020). As a result, working age population ratio (or dependency ratio) will increase from 64.7% in 2010 to 69.5% in 2020. Such rapid increase in working age population implies that if the government successfully provides job opportunities for these population strata, the country will be able to achieve a high economic growth. However, if the government fails to create sufficient job opportunities for the growing numbers of working age population, the country will have risk of unemployment, increased crime rate, and political instability.

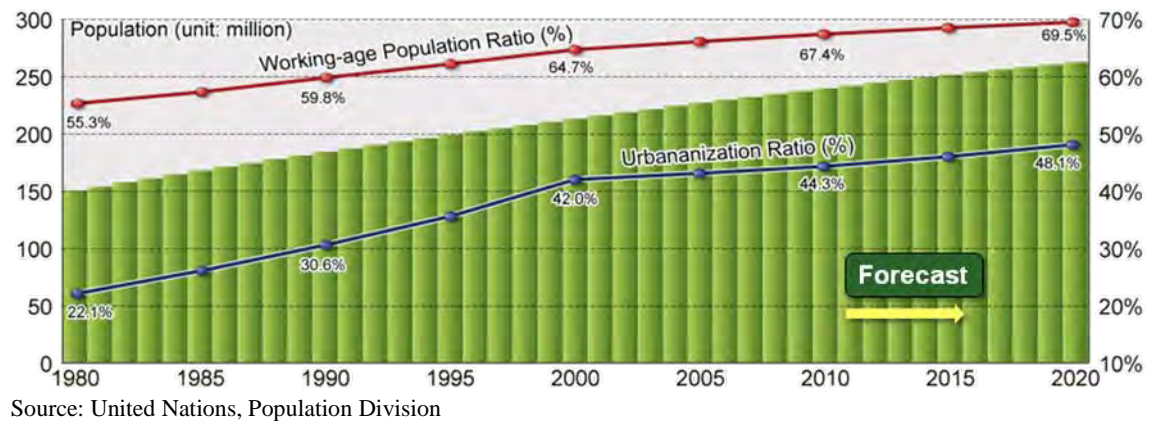


Figure I.2.2: Demographic Forecast of Indonesia by United Nations

Given the foreseen advancement of urbanization (from 44.3% in 2010 to 48.1% in 2020), employment should absorb not the agricultural sector in the rural areas, but the industrial and service sectors in the urban area.

(2) Direct Employment Impact of Industrial Zones in Other Countries/Regions

1) Importance of Creating Job Opportunities through Development of Industrial Zones

In order to achieve envisaged high economic development and to avoid high unemployment and subsequent political instability, Indonesian government needs to create sufficient job opportunity for the rapidly growing working age population.

SEZ will have great potential to contribute not only for providing direct/indirect job opportunities, but also for upgrading industrial structures, and thereby achieving high economic growth of the industrial sector.

¹ Age between 15 and 65.

2) Direct Employment Impact of Industrial Zones

One of the key objectives for industrial zone development is employment generation. Industrial zones are viewed as highly effective tools for job generation, particularly for women first entering the workforce².

In most countries, industrial zones are not a major source of employment. As shown in the following table, industrial zones account for 0.21% of the global workforce. While the employment impact of industrial zones on global average is marginal, the employment of industrial zones in Asia and the Pacific region are providing 2.3% of total employment in the region. Direct employment within industrial zones in Asia and the Pacific region is 61,689,000, which accounts for about 90% of direct employment of industrial zones in the world.

Table I.2.1: Industrial Zone's Direct Employment and Contribution to National Employment by Region

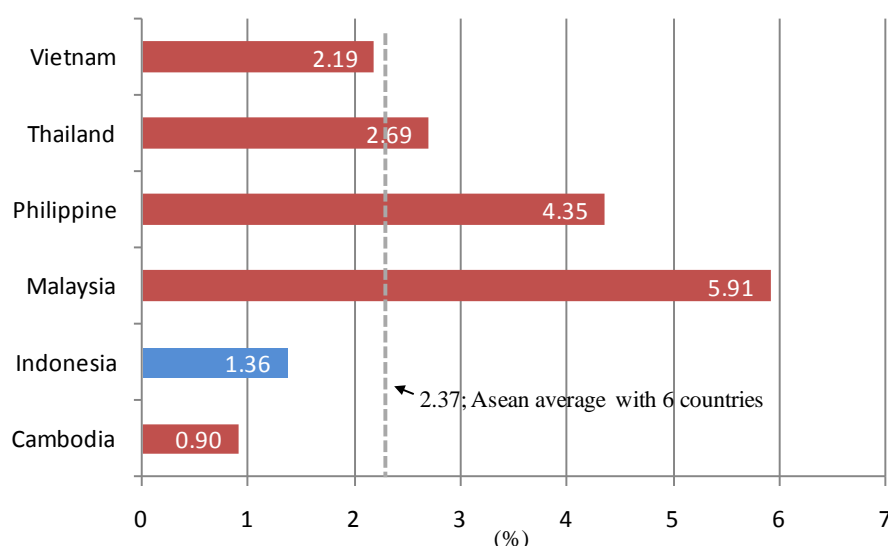
	Direct Employment (1,000)	% Share of National Employment
Global	68,441	0.21%
Asia and the Pacific	61,689	2.30%
Americas	3,084	1.15%
Western Europe	179	0.00%
Central/ East Europe and Central Asia	1,590	0.00%
Middle East & North Africa	1,458	1.59%
Sub Saharan Africa	1,040	0.20%

Source: ILO database on export processing zones, International Labour Office, April 2007, Special Economic Zones - Performance, Lessons Learned and Implications for Zone Development, World Bank, April 2008

Figures I.2.3 and Table I.2.2 show country-wise industrial zone's direct employment and contribution to national employment in Southeast Asian countries. As shown in Table I.2.2, industrial zones play a major role in employment creation in certain countries. 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. Industrial zones in Indonesia absorbed 1.43 million of direct employment or 1.36% of national employment.

² Special Economic Zones - Performance, Lessons Learned, and Implications for Zone Development, April 2008, World Bank



Remarks: Myanmar, Laos, Singapore, and Brunei are excluded in ASEAN average, because; data is unavailable for Myanmar. Laos has only one industrial park currently. Singapore and Brunei are not referred because of population size.

Source: see Table 1.2.1.2

Figure I.2.3: Industrial Zone's Employment and Contribution to National Employment in Asian Countries

Compared to these countries, industrial zones in Indonesia play a limited role in employment absorption. Industrial zones in Indonesia absorbed 1.43 million of direct employment or 1.36% of national employment.

Table I.2.2: Direct Employment of Industrial Zones and Contribution to National Employment in Asian Countries

Country	(1) Num. of employee in GIE,IP,SEZ,FTZ in 2009	(2) Working population in 2009	(3) % of employee in GIE, IP, SEZ, FTZ ((1)/(2))
Cambodia	70,000 ^{*1}	7,770,860 ^{*4}	0.90
Indonesia	1,429,200 ^{*2}	104,870,660 ^{*3}	1.36
Malaysia	683,000 ^{*1}	11,563,260 ^{*4}	5.91
Philippines	1,562,300 ^{*1}	35,906,710 ^{*4}	4.35
Thailand	1,029,900 ^{*1}	38,227,390 ^{*4}	2.69
Vietnam	994,800 ^{*1}	45,481,200 ^{*4}	2.19
ASEAN average with 6 countries	5,769,200	243,820,080	2.37

Source: *1: Estimated based on number of Industrial Estate (GIS, IP, EPZ, SEZ, etc. 2009) from ASEAN-Japan Center website and number of employee per industrial estate calculated by data of ILO database on export processing zones (2005/6).

*2: Number of employee in Industrial Estate in 2009 from ASEAN-Japan Center Website

*3: Active working population (without unemployed) in 2009 by Statistical Yearbook of Indonesia 2010.

*4: Calculated with (15-year over population), (economical active rate), and (unemployment rate) of World Bank Indicators

(3) Models for Determination of SEZ Development Target and Expected Impacts

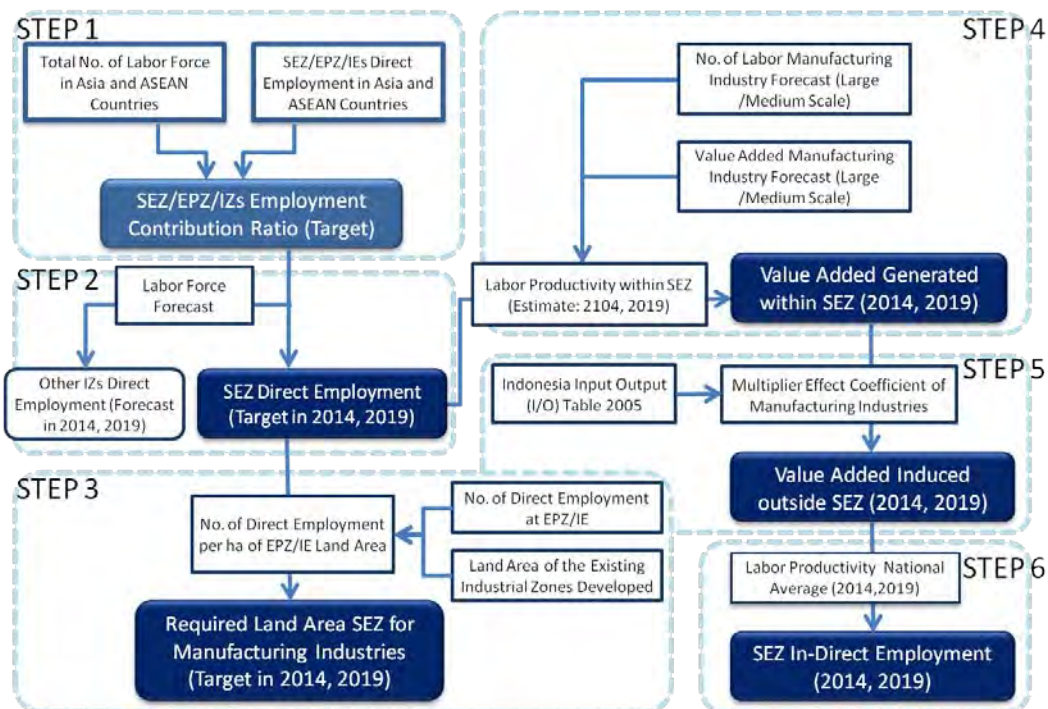
1) Target Employment Absorption within Industrial Zones

As reviewed previously, the Government of Indonesia aims to achieve strong economic growth (6.2% to 7.7% per annum) tracked by anticipated high growth of the industrial sector (6.1% to 8.9% per annum) during the period from 2011 to 2019. Also, industrial sector needs to absorb additional 7.19 million of labor force until 2019. In order to achieve the envisaged high GDP growth of industrial sector in the country, development of SEZ and its absorption of labor force will be highly expected.

Taking such circumstances into consideration, JST recommends achieving higher employment absorption by industrial zones. In particular, newly developed SEZ coupled with other industrial zones needs to absorb work force of at least the same level as other ASEAN member countries. Targets of employment within industrial zones in Indonesia are tentatively determined as follows: current level in 2009 = 1.36%, long-term target in 2025 = 2.37% as an average of major ASEAN countries (Cambodia, Indonesia, Malaysia, Philippines, Thailand and Vietnam) except Singapore, which is already an advanced country.

2) Models for Determination of SEZ Development Target and Expected Impacts

Based on the target levels determined above, development scale of SEZ, direct/indirect employment within SEZ, and value added generated inside/outside SEZ are worked out using the economic model shown below (see Figure I.2.4). Development target of SEZ and its expected direct and indirect impacts were estimated through six steps using the economic model.



Source: JICA Survey Team

Figure I.2.4: Economic Model Adopted for Estimating SEZ Development Target and its Expected Impacts

Step 1: Determination of Target Employment Contribution Ratio of Industrial Zones

As mentioned in the previous section, target level of employment contribution ratio of industrial zones (including SEZ) to national employment was determined, by referring to ratios of ASEAN countries, as 2.37% by 2025.

Step 2: Estimation of Employment within SEZ and Other Industrial Zones

In 2009, employment absorbed by the existing industrial zones in Indonesia was 1,429,200³, which occupied 1.32% of national employment in the country. Direct employment of industrial zones in the future will be absorbed by newly developed SEZ and industrial zones other than SEZ (including KAPET, FTZ and other industrial estates).

Direct employment of newly developed SEZ in 2025 was worked out using the following formula. Data other than 2025 were calculated using logistic curve interpolation method⁴.

$$DE_t^{sz} = DE_t^{iz} - DE_t^{oz}$$

$$DE_t^{iz} = DE_t^{oz} + DE_t^{sz} = EC_t \times WP_t \times LP \times UE_t$$

Where:

DE_t^{iz} = Direct employment in Industrial Zones in year "t"

DE_t^{oz} = Direct employment in Industrial Zones other than newly developed SEZ in year "t" (DE_{2009}^{oz} = 1,429,200: Indonesia Investment Guide, ASEAN Japan Center 2009) growth rate are assumed as same as working-age population growth; 2009~14: 1.31% p.a., from 2014 onwards: 1.13% p.a.

DE_t^{sz} = Direct employment in newly developed SEZ in year "t"

EC_t = Employment contribution ratio to national employment in year "t" (EC_{2025} = 2.37%)

WP_t = Working age population (population of 15 years old and over) in year "t" (WP_{2025} = 209.25 mil.) growth rates are assumed as same as United Nation's working-age population growth; 2009-14: 1.31% p.a., from 2014 onwards: 1.13% p.a.

LP = Labor force participation rate: 67.32% (assumed to remain unchanged from August 2009, BPS data)

UE_t = Open unemployment rate in year "t"; assumed to decrease from 7.87% (August 2009, BPS data) to 6.0% in 2014 and 5.0% in 2019 and 2025, which is referring to target open unemployment rate by the end of 2014 of 5~6% by national mid-term development plan (RPJMN) 2010-14

Step 3: Estimation of Required Land Area of SEZ for Manufacturing Industry

Required land area of SEZ was estimated by using the following formula:

$$LA_t = DE_t^{sz} \times LC$$

LA_t = Land area of SEZ for manufacturing industry in year "t"

DE_t^{sz} = Direct employment in newly developed SEZ in year "t"

LC = Number of labor force per ha of land area: 126.2 per ha

Here, number of direct employment per ha of land area of SEZ was estimated to be 126.2 per ha (number of laborers of 1,429,200 divided by developed area of 11,321 ha), based on the existing industrial zones in the country (see the table below).

³ The figure does not include two industrial estates in Sulawesi Tengah and Sulawesi Utara due to non availability of data.

⁴ Logistics curve [$y = \alpha / \{ 1 + \beta \exp(-\gamma * x) \} + \delta$, where y = SEZ direct employment, x = year] was estimated based on $y=0$ in 2009, $y= 100,995$ in 2014 (two SEZ with 400 ha of land area each multiplied with 126.2 employee/ha), and $y= 14,101,215$ in 2025. Then, the curve was estimated to be $y= 1,909,086 / \{ 1 + 167,511 * \exp (- 41.98x) \} - 39,185$

Table I.2.3: Basic Profiles of the Existing Industrial Zones in Indonesia

Province	No. of Zones	Total Area (ha)	Developed Area (ha)	No. of Tenants	No. of Laborers
Jakarta	3	1,800	914	491	210,000
Banten	14	5,230	1,117	270	90,000
West Java	26	11,560	6,118	2,335	620,000
Central Java	7	2,148	520	1,747	215,000
East Java	8	2,500	833	611	125,000
Riau Islands- Batam	21	4,850	700	326	87,250
Riau	1	400	150	5	1,250
North Sumatra	3	1,300	522	346	60,000
West Sumatra	1	200	45	5	1,000
South Sulawesi	1	700	350	180	19,000
North Sulawesi	1	22	N.A	N.A	N.A
Central Sulawesi	1	1,500	N.A	N.A	N.A
East Kalimantan	1	250	52	5	700
Total	88	32,460	11,321	6,321	1,429,200

Source: Indonesia Investment Guide 2009, ASEAN Japan Center

Step 4: Estimation of Direct Economic Effect (Value Added Generated within SEZ)

Value added generated within SEZ was estimated by multiplying estimated number of direct labor force in SEZ and labor productivity of large/medium industries.

$$VA_t^{sz} = DE_t^{sz} \times PR_t$$

$$PR_t = GDP_t^{lm} \div LF_t^{lm}$$

Where;

VA_t^{sz} = Value added generated within SEZ in year "t"

DE_t^{sz} = Direct employment in newly developed SEZ in year "t"

PR_t = Labor force productivity of medium and large industries (excl. oil and gas) in year "t" in 2000 constant price

GDP_t^{lm} = Value added of medium and large industries (excl. oil and gas) in year "t" in 2000 constant price, quoted from "Ministry of Industry Strategic Plan 2010-14" (GDP^{lm}_{2014} = Rp 685,500 trillion and GDP^{lm}_{2019} = Rp 1,075,450 trillion.)

LF_t^{lm} = Labor force engaged in medium and large industries (excl. oil and gas), growth rate was assumed same as growth rate of labor force engaged in industrial sector, quoted from "Ministry of Industry Strategic Plan 2010-14" (2009-14: 4.24% per annum)

Step 5: Estimation of Indirect Economic Effect

Inter-industrial linkages may influence industrial structure and economic development in a country. Production activities in one sector may have effects that directly and indirectly induce those in other sectors. Hirschmann (1958) called the effects of inter-industrial linkages that induce the production in downstream industries "forward linkage effects" and those that induce the production in upstream industries "backward linkage effects."

A unit increase in final demand for an industry in SEZ with strong inter-industrial linkages can induce a larger increase in production and thus promote economic development even outside SEZ. Such indirect economic effect (value added induced outside SEZ) will be estimated at a later stage of this project, using inverse matrix calculated based on Input-Output Table of Indonesia 2005.

Step 6: Estimation of Indirect Employment Effect

Indirect employment effect (indirect employment effect outside SEZ) will be estimated at a later stage of this project, based on forecast of labor productivity (all industries) and estimated value added induced outside SEZ.

(4) SEZ Development Target and Its Expected Impacts

Results of SEZ development target and its expected impacts can be summarized as follows:

Table I.2.4: 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

In 2025, about 11,100 ha⁵ of SEZ will be developed. This will absorb about 1.30 million laborers. Newly developed SEZ is expected to contribute in achieving the envisaged high GDP growth rate of the industrial sector. In 2025, value added generated within SEZ will account for 4.4% of the national GDP and 14.7% of the industrial sector GDP.

I.2.2 Promising Industry in Indonesia

Target industry for industrial development in Indonesia is stated in principle by National Medium Term Development Program (RPJMN). Industries effective for job opportunity creation, promotion of local resources processing, export of qualified products, high-technology introduction and SME empowerment are shown in Table I.2.5. Moreover, target industries to be privileged with preferential tax treatment are cited in Presidential Decree No/28/2008 (see Table I.2.6). BKPM has indicated the criteria of investments that are given facilities, amenities and/or incentives in investment in the General Plan on Investment.

Table I.2.5 Target Industry Principle

Origin	Target Industry Principle
National Medium Term Development Program (RPJMN) 2010-2014	<ol style="list-style-type: none"> 1. Industries which create enormous job opportunities 2. Industry which makes potential local natural resources into refined products 3. Industry which increases export-oriented products competitiveness 4. Develop potential industry with high technology 5. Industry which grows and develops SME, particularly medium industries to balance SME and large industry

⁵ More or less equivalent to the existing industrial zones in Indonesia (11,321 ha)

Table I.2.6 Target Industry Details

Origin	Target Industry Principle
Industries Entitled for Incentive (Presidential Decree No.28/2008)	<ol style="list-style-type: none"> 1. High priority industry, including national priority industry, regional priority industry and regional core competency industry 2. Pioneer industry; 3. Industry in isolated region, abandonment, outskirts or other region if necessary; 4. Industry which is supporting R&D; 5. Industry which is supporting infrastructure development; 6. Industry with technological shifting; 7. Green industry; 8. Industry which is cooperating with small and medium enterprise; 9. Industry with high local content; 10. Labor intensive industry
Criteria of Investments that are Given Facilities, Amenities and/or Incentives in Investment Final Draft Attachment, General Plan On Investment, BKPM	<ol style="list-style-type: none"> 1. Pioneer industry; 2. High priority industry; 3. Labor intensive industry; 4. Infrastructure development industry; 5. Technology transfer industry; 6. Located in isolated area, backward area, border area, or other area considered necessary; 7. Maintaining effective for environmental preservation; 8. Research and development and innovation activities; 9. Micro, small and medium enterprises or cooperative; or 10. Industry that used capital goods or machineries or equipment domestically produced.

Government Regulation No. 62 of 2008 and Ministry of Finance Regulation No. 130/PMK.011/2011 defined tax incentive for privileged industry by category. Table I.2.7 shows detailed category of target industry for income tax exemption and reduction.

Furthermore, the Ministry of Industry unveiled six industrial groups with 35 priority clusters for the purpose of strengthening the competitiveness of manufacturing and building a pillar of future prospective industry.

Table I.2.7 Category of Target Industry

Origin	Target Category of Industry		
Certain Business Fields (Government Regulation No.62 of 2008 on tax exemption or reduction) Note: revision will be soon unveiled.	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"> <ol style="list-style-type: none"> 1. Breeding business development big/small breeding business development 2. Forest exploitation 3. Mining and utilizing low rank coal 4. Geothermal exploitation 5. Milk industry 6. Food industries 7. Garment and textiles 8. Pulp and paper 9. Oil refining 10. Mini-natural gas refining </td> <td style="width: 50%; border: none;"> <ol style="list-style-type: none"> 11. Industrial chemical materials 12. Pharmaceutical 13. Artificial fiber 14. Rubber and rubber products 15. Porcelain goods 16. Iron and steel 17. Non-iron base metal 18. Machinery and equipment 19. Electronics motor 20. Electronics 21. Land transportation vehicle 22. Ship building and repairation 23. Non-iron steel (aluminum, etc.) </td> </tr> </table>	<ol style="list-style-type: none"> 1. Breeding business development big/small breeding business development 2. Forest exploitation 3. Mining and utilizing low rank coal 4. Geothermal exploitation 5. Milk industry 6. Food industries 7. Garment and textiles 8. Pulp and paper 9. Oil refining 10. Mini-natural gas refining 	<ol style="list-style-type: none"> 11. Industrial chemical materials 12. Pharmaceutical 13. Artificial fiber 14. Rubber and rubber products 15. Porcelain goods 16. Iron and steel 17. Non-iron base metal 18. Machinery and equipment 19. Electronics motor 20. Electronics 21. Land transportation vehicle 22. Ship building and repairation 23. Non-iron steel (aluminum, etc.)
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Certain business field with Regional Restriction (Government Regulation No.62 of 2008 on Tax exemption or reduction) Note: revision will be soon unveiled.	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; border: none;"> <ol style="list-style-type: none"> 1. Food Crops Development 2. Horticulture Cultivation 3. Food Processing 4. Agro-basis SDA Processing 5. Skins, Skins-made Goods, and Footwear 6. Packaging and Boxes made of Paper and Carton 7. Plastic made goods 8. Cement, Lime, and Gypsum 9. Electric Accumulators and Batteries </td> <td style="width: 50%; border: none;"> <ol style="list-style-type: none"> 10. Vessel and Boat Manufacture and Repair 11. Furniture 12. Catching of Sea Fish and its Processing 13. Catching of Sea Crustaceans and its Processing 14. Catching of Sea Mollusks and its Processing 15. Transshipment Port </td> </tr> </table>	<ol style="list-style-type: none"> 1. Food Crops Development 2. Horticulture Cultivation 3. Food Processing 4. Agro-basis SDA Processing 5. Skins, Skins-made Goods, and Footwear 6. Packaging and Boxes made of Paper and Carton 7. Plastic made goods 8. Cement, Lime, and Gypsum 9. Electric Accumulators and Batteries 	<ol style="list-style-type: none"> 10. Vessel and Boat Manufacture and Repair 11. Furniture 12. Catching of Sea Fish and its Processing 13. Catching of Sea Crustaceans and its Processing 14. Catching of Sea Mollusks and its Processing 15. Transshipment Port
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Origin	Target Category of Industry		
Pioneer Industries for Tax Holiday (Ministry of Finance Regulation No 130/PMK.011/2011) Note: for Rp. 1trillion value investment only (app. US\$90 million)	1. Base Metal Plants 2. Oil Refinery and/or oil and gas sourced chemical organic 3. Machinery industries 4. Alternative Energy Industries 5. Communication Equipment Industries		
Mission 2014 of MP of Ministry of Industry: 35 priority industrial clusters	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> 1. Manufacturing Based Industry a. Steel b. Cement c. Petrochemicals d. Ceramics e. Electrical Machinery and Electrical Equipment f. General Machinery Equipment g. Textiles and Textile Products h. Foot wear 2. Agro Industry a. Palm Oil Processing b. Rubber and Rubber Goods c. Cocoa d. Coconut Processing e. Coffee Processing f. Sugar g. Tobacco Products h. Fruit Processing i. Furniture j. Fish Processing k. Paper l. Milk Processing </td> <td style="width: 50%; vertical-align: top;"> 3. Transportation Industry a. Motor Vehicle b. Shipping c. Aerospace d. Railroad system 4. Industrial Electronics and ICT a. Electronics b. Telecommunication c. Computers and Equipment 5. Supporting Industries for Creative Industries a. Software and Multimedia Content b. Fashion c. Crafts and Art Goods 6. Particular Small and Medium Industry a. Stone and Jewelry b. Salt c. Pottery and Ceramics d. Essential Oils e. Snack Foods </td> </tr> </table>	1. Manufacturing Based Industry a. Steel b. Cement c. Petrochemicals d. Ceramics e. Electrical Machinery and Electrical Equipment f. General Machinery Equipment g. Textiles and Textile Products h. Foot wear 2. Agro Industry a. Palm Oil Processing b. Rubber and Rubber Goods c. Cocoa d. Coconut Processing e. Coffee Processing f. Sugar g. Tobacco Products h. Fruit Processing i. Furniture j. Fish Processing k. Paper l. Milk Processing	3. Transportation Industry a. Motor Vehicle b. Shipping c. Aerospace d. Railroad system 4. Industrial Electronics and ICT a. Electronics b. Telecommunication c. Computers and Equipment 5. Supporting Industries for Creative Industries a. Software and Multimedia Content b. Fashion c. Crafts and Art Goods 6. Particular Small and Medium Industry a. Stone and Jewelry b. Salt c. Pottery and Ceramics d. Essential Oils e. Snack Foods
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Examination by JST

JST examined the industrial and trade structure of manufacturing industry of Indonesia, adopting skyline chart and input-output analysis. Skyline chart analysis can, with the use of input-output tables, produce charts illustrating direct and indirect effects of domestic demand, exports, and imports on the production of each industry.

The promising industries of Indonesia shown in Table I.2.8 identified by skyline chart and input-output analysis are fully consistent with the target industries in Table I.2.8. (Detailed results of skyline analysis are presented in Part C Chapter III.)

Table I.2.8 Promising Industries in Indonesia Identified by Skyline Chart Analysis

Sub-sector	Note
Oil & fats	Manufacture of oil and fats sub-sector largely intensified its export-oriented structure and had high inducement effects for other industries (particularly agriculture industry). This sub-sector is promising on the basis of strong demand, both domestic and international, quite rich and sustainable resources and know-how accumulated.
Wood and paper products, and rubber products	The wood, rubber and paper industries maintained their export-oriented nature as the principal manufacture. Thinking of high inducement effects for other industries and rich raw materials, these industries are promising.
Textile, wearing apparel, leather products	Although the sub-sector of textile, wearing apparel, leather products showed rapid decrease in gross output share, export-oriented products and local characterized products of this sub-sector are promising. In consideration of intensive competition with other Asian countries where cheaper labor cost is available, low value added products is not the target.

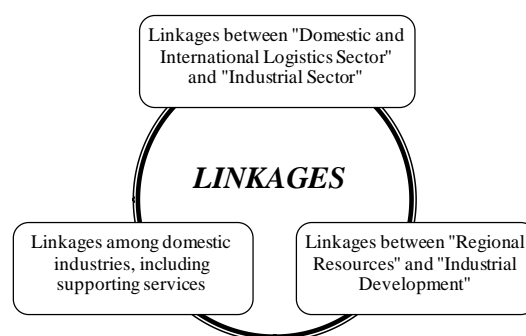
Sub-sector	Note
Fertilizer and chemicals	Fertilizer and chemical products, of which significant volume is imported, should be expanded in consideration of domestic demand increase in line with economic growth.
Iron and steel	Iron and steel manufacturing should be promoted more in addition to recent rapid increase in FDI thinking of high domestic demand.
Non-ferrous metal products	Metal industry, which rapidly became export-oriented industry, is promising on the basis of rich natural resources deposited throughout the country (particularly tin, copper, nickel and gold). Enactment of new mining law, which obliges to process all mined ore and minerals domestically, is supporting in making this sub-sector an upgraded value added industry.
Machinery, electrical equipment, transport equipment	This sub-sector expanded production volume and self-sufficiency ratio significantly; however, import volume is still not negligible due to rapidly growing domestic demand. Conversion from import substitution to export-oriented industry is expected.

Source: JICA Survey Team

I.3 SEZ Development Strategy

I.3.1 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 I.3.1.



Source: JICA Survey Team

Figure I.3.1 Necessary Linkage between SEZ and Regional Background

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

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.

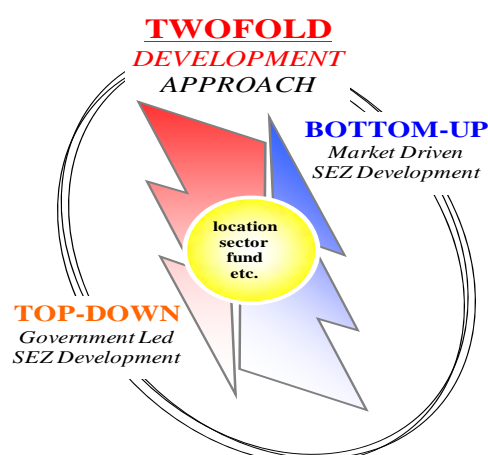
- (ii) Linkage among domestic industries

The manufacturing sector usually has a linkage between: (a) downstream, the industries which provide the parts as raw material, and (b) upstream, the industry which delivers products for further manufacturing work or packaging. The shorter the distance of each linkage, 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 I.3.2.



Source: JICA Survey Team

Figure I.3.2 Twofold Development Approach for SEZ Development

1.3.2 Component of SEZ

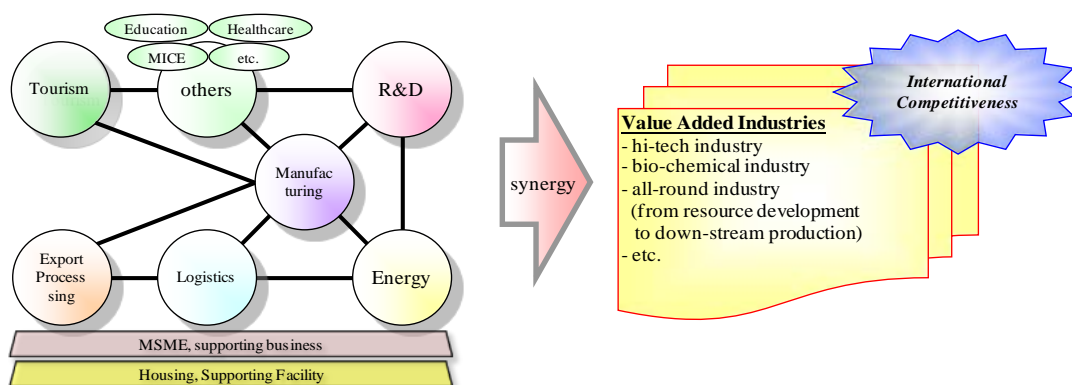
As SEZ Law (No. 39 2009) defines, SEZ should be developed on the basis of geo-economics and geostrategic advantages and accommodate functions of industry, export and import activities as well as other economic activities with high economic production value and international competitiveness.

For this purpose, SEZ shall consist of one or several zones of:

- (i) export processing,
- (ii) logistics,
- (iii) industry,
- (iv) technology innovation (research and development),
- (v) tourism,
- (vi) energy, and
- (vii) other economic activities.

SEZ components mentioned above are illustrated in Figure I.3.3.

Schematic Concept for SEZ Development



Source: JICA Survey Team

Figure I.3.3: Components of SEZ

SEZ Law also defined the physical location of SEZ as follows:

- i) it shall correspond to the spatial planning and shall not have any potential to disturb protected areas;
- ii) it shall be located in a position near to international trade course or international voyage course in Indonesia or in a preeminent resource potential area; and
- iii) it shall have clear borders.

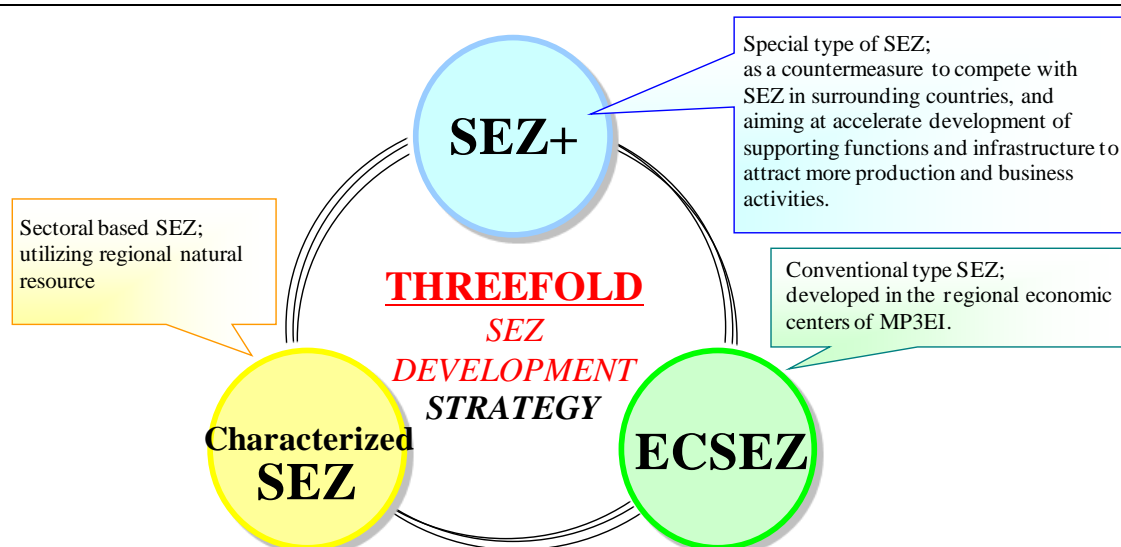
I.3.3 Types of SEZ

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 I.3.1 and Figure I.3.4.

Table I.3.1: 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 I.3.4: Three Types of Indonesian SEZ

1.3.4 Component Characteristics by Type of SEZ

Three types of proposed SEZ are characterized by zone component as shown in Table I.3.2 and Figure I.3.5.

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 I.3.2: Zone Composition by Type of SEZ

Type of SEZ	Zone/Function						
	export processing	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.

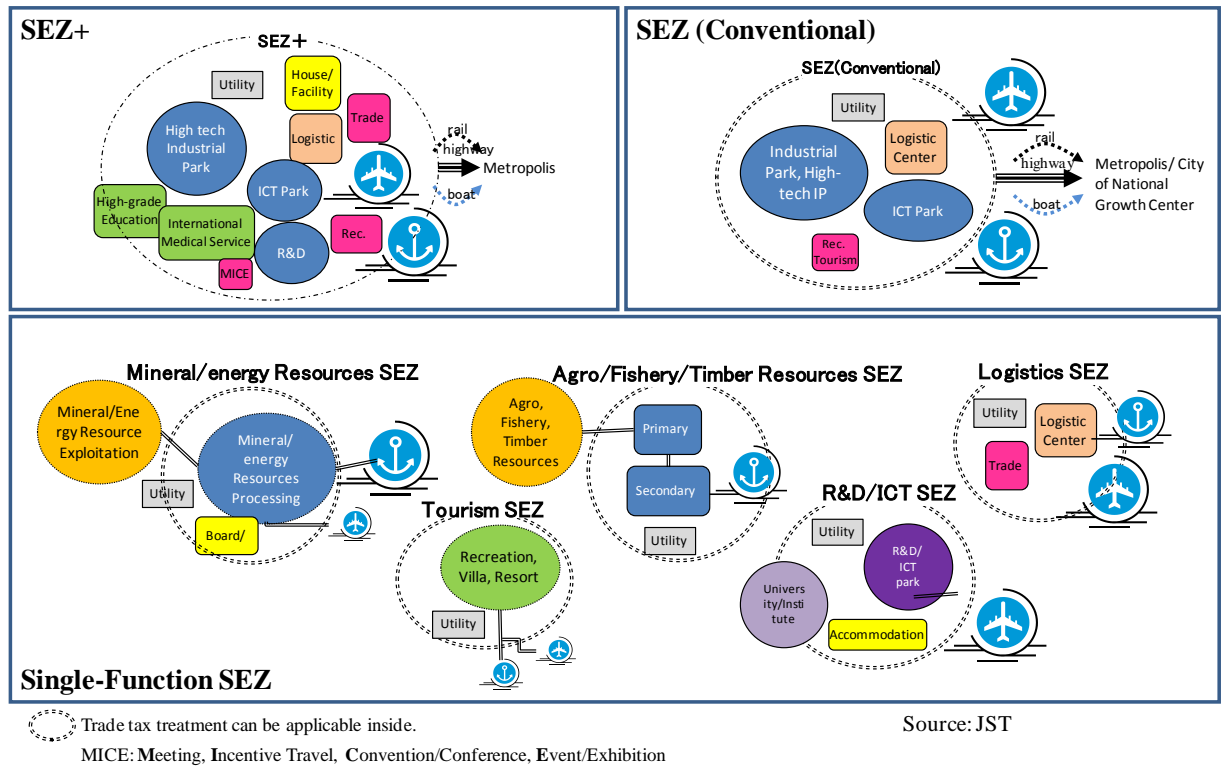


Figure I.3.5: Zone Composition by Type of SEZ

1.3.5 Expected Category of Industry by Type of SEZ

Actual economic activities to be established in SEZ are classified in Table I.3.3 based on the International Standard Industrial Classification (ISIC) of All Economic Activities, Revision 4. Selected category of primary and secondary industries is identified by coincidence with the priority industry and pioneer industry defined in GR No.62/2008 and No. 130/PMK/011/2011. Some categories of tertiary industry such as service sector excluded in these regulations are additionally identified by JST as possible industry to be accommodated within SEZ.

Table I.3.6 Expected Economic Activity by SEZ Type and Zone Components

Industrial Activity (International Standard Industrial Classification (ISIC) of All Economic Activities, Rev.4)	SEZ Type	SEZ+					ECSEZ					Characterized SEZ (CaSEZ)				Target Industries of National Policy						
		logistics	industry	R&D	tourism	energy	others	export prc.	logistics	industry	R&D	tourism	Mineral/ Energy Resources CaSEZ	Agro/ Fishery/ Timber Resources	Tourism CaSEZ	R&D / ICT CaSEZ	Logistics CaSEZ	Tax holiday privileged industry ⁹ / 2011	Tax allowance privileged industry ¹⁰ / GR No.62/2008	Mission 2014 of priority industrial clusters		
																					logistics	industry
A - Agriculture, forestry and fishing																						
[01] Crop and animal production, hunting and related service activities; [02] Forestry and logging; [03] Fishing and aquaculture																						
B - Mining and quarrying																						
[05 - Mining of coal and lignite																						
[06 - Extraction of crude petroleum and natural gas																						
[07 - Mining of metal ores																						
[08 - Other mining and quarrying																						
[09 - Mining support service activities																						
C - Manufacturing																						
[10 - Manufacture of food products																						
[11 - Manufacture of beverages																						
[12 - Manufacture of tobacco products																						
[13 - Manufacture of textiles																						
[14 - Manufacture of wearing apparel																						
[15 - Manufacture of leather and related products																						
[16 - Manufacture of wood and of products of wood and cork, except furniture; manufacture of articles of straw and plaiting materials																						
[17 - Manufacture of paper and paper products																						
[18 - Printing and reproduction of recorded media																						
[19 - Manufacture of coke and refined petroleum products																						
[20 - Manufacture of chemicals and chemical products																						
[21 - Manufacture of basic pharmaceutical products and pharmaceutical preparations																						
[22 - Manufacture of rubber and plastics products																						
[23 - Manufacture of other non-metallic mineral products (glass, clay, cement, etc.)																						
[24 - Manufacture of basic metals																						
[25 - Manufacture of fabricated metal products, except machinery and equipment																						
[26 - Manufacture of computer, electronic and optical products																						
[27 - Manufacture of electrical equipment																						
[28 - Manufacture of machinery and equipment n.e.c.																						
[29 - Manufacture of motor vehicles, trailers and semi-trailers																						
[30 - Manufacture of other transport equipment																						
[31 - Manufacture of furniture																						
[32 - Other manufacturing (jewelry, toy, sports goods, etc.)																						
[33 - Repair and installation of machinery and equipment																						
[35 - Electricity, gas, steam and air conditioning supply																						
[36] Water supply; sewerage, waste management and remediation activities																						
activities; materials recovery; [39] Remediation activities, and other waste management services																						
D - Construction																						
[41] Construction of buildings; [42] Civil engineering; [43] Specialized construction activities																						
[44] Wholesale and retail trade; repair of motor vehicles and motorcycles																						
[45 - Wholesale and retail trade and repair of motor vehicles and motorcycles																						
[46 - Wholesale trade, except of motor vehicles and motorcycles																						
[47 - Retail trade, except of motor vehicles and motorcycles																						
[49] Land transport and transport via pipelines; [50] Water transport; [51] Air transport; [52] Warehousing and support activities for transportation; [53] Postal and courier activities																						
[55] Accommodation; [56] Food and beverage service activities																						
[58] Publishing activities; [59] Motion picture, video and television program production, sound recording and music publishing activities; [60] Programming and broadcasting activities; [61] Telecommunications; [62] Computer programming, consultancy and related activities; [63] Information service activities																						
K - Financial and insurance activities																						
[64] Financial service activities, except insurance and pension funding; [65] Insurance, reinsurance and pension funding, except compulsory social security; [66] Activities auxiliary to financial service and insurance activities																						
L - Real estate activities																						
[68 - Real estate activities																						
M - Professional, scientific and technical activities																						
[69 - Legal and accounting activities																						
[70 - Activities of head offices; management consultancy activities																						
[71 - Architectural and engineering activities; technical testing and analysis																						
[72 - Scientific research and development																						
[73 - Advertising and market research																						
[74 - Other professional, scientific and technical activities																						
[75 - Veterinary activities																						
N - Administrative and support service activities																						
[77] Rental and leasing activities; [78] Employment activities; [79] Travel agency, tour operator, reservation service and related activities; [80] Security and investigation activities; [81] Services to buildings and landscape activities; [82] Office administrative, office support and other business support activities																						
[84 - Public administration and defense; compulsory social security																						
[84 - Public administration and defense; compulsory social security																						
[85 - Education																						
[86] Human health activities; [87] Residential care activities; [88] Social work activities without accommodation																						
[90 - Creative, arts and entertainment activities																						
[91 - Libraries, archives, museums and other cultural activities																						
[92 - Gambling and betting activities																						
[93 - Sports activities and amusement and recreation activities																						
[94] Activities of membership organizations; [95] Repair of computers and personal and household goods; [96] Other personal service activities																						
[97] Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use																						
[98] Undifferentiated goods- and services-producing activities of private households for own use																						
[99 - Activities of extraterritorial organizations and bodies																						

1/ ISIC Rev.4 was defined in 2008 by UN.
2/ Renewable energy industry only such as solar, wind, geothermal, etc.
3/ Telecommunication equipment industry only
4/ Low rank quality coal mining only
5/ Geothermal power plant only
6/ In certain region only
7/ Sustainable reforestation only
8/ Fashion industry only
9/ No.130/PMK/01/2011 enacted tax holiday for pioneer industry with high economic integration, high value added, new technology, strategic role of national economy. (5-10 years exemption plus 50% reduction in 2 years)
10/ GR No.62/2008 enacted tax allowance incentive (30% income tax reduction of investment value)
Source: JST

I.4 Possibility of Introduction of Public-Private Partnership (PPP) Scheme for SEZ Development

I.4.1 Past Private Sector Participation in Industrial Estate Development in Indonesia

Similar to international experiences, industrial zone development in Indonesia was started under public sector initiatives. During inception stage, industrial zone development in the country was done by the state-owned enterprises (BUMN) and has been gradually shifting to private sector initiative.

Private sector participation in developing industrial zones has started in late 1980s, after the law on the management of industrial estates by private companies was passed based on Presidential Decree No. 53/1989.

Since then, any company (domestic, foreign or their joint venture) has been able to start developing an industrial estate with a minimum of 10 ha, if it obtains the necessary permits, especially the location and acquisition license from the local government and the industrial zone developments permit from the Ministry of Industry and Trade.

Jababeka was the first national private industrial estate developer (PMDN) to be formed in Indonesia. In 1989, Jababeka obtained its first license for the development of 540 ha of land in Cikarang City in West Java Province. Also, private Japanese trading company Sumitomo Corporation (foreign private company: PMA) started to develop East Jakarta Industrial Park (EJIP) in 1990 as the first foreign industrial estate developer in the country.

Since then, industrial zones in the country have been developed by private sector (PMA and/or PMDN). Typically, these privately operated industrial zones were financed solely by private sector, which bear various project risks.

On the other hand, under PPP, public sector and private sector jointly execute a project. Typically, under a PPP scheme, part of financing obligation for capital expenditure and operating expenditure will be borne by the public sector. Also, project risks will be shared between private sector and public sector. Judging from such definition, the existing typical private sector's industrial zones could be categorized as not PPP but purely private sector projects.

If a proposed SEZ project is financially feasible without government support, the project could be implemented solely by private sector as it has always been in the past. On the other hand, if an SEZ project is financially not feasible, but is worthwhile implementing, the project could be implemented under a PPP scheme by private sector utilizing government fiscal and non-fiscal supports.

This section analyzes the possibility and necessity of introducing PPP scheme for SEZ development in the future.

I.4.2 Necessity of Introduction of PPP Scheme for Infrastructure Projects in Indonesia

The Indonesian economy has remarkably grown since the Asian financial crisis of the late 1990s. Indonesia's stable economic growth has led to increasing infrastructure needs. The government estimates that during the five-year period from 2010 through 2014, about Rp 1,430 trillion (approximately US\$150 billion) worth of infrastructure investment is required at the national level⁶. The government has recognized the vital role of the private sector in fulfilling these needs and has been laying the foundation for private sector participation in infrastructure development through PPP. Specifically, the government is targeting Rp.980 trillion (approximately US\$94 billion or 69% of the total requirement) in private sector investment under this PPP framework, over the 2010-2014 period.⁷

(1) PPP Regulations in Indonesia and Applicability to SEZ Development

To meet the increasing infrastructure demand, the Government of Indonesia is currently promoting active utilization of private sector finance. Candidate projects for PPP are compiled in the government's PPP Book prepared by P3CU (PPP Central Unit), which was established under BAPPENAS. P3CU is responsible for updates and publicly releases PPP Book each year. While PPP Book 2011 includes infrastructure projects of various sectors, industrial zone development project is not listed in the document. This is because the existing regulations do not consider industrial zone development under PPP scheme.

In Indonesia, Presidential Regulation No. 67 of 2005 and Presidential Regulation No. 13 of 2010 on Amendment to Presidential Regulation No. 67 of 2005 govern PPP for specified infrastructure projects. These include: airports, ports, railways, roads, untreated water supply/irrigation systems, drinking water, wastewater, solid waste, information & communications technology, electricity, and oil & gas. However, the regulation does not specify industrial zone development project. Also, Presidential Regulation No. 13/2010 allows Indonesian Infrastructure Guarantee Fund (IIGF) to cover projects risks from the only above mentioned sectors (industrial zone is not included as well).

However, intriguingly, in Indonesia, PPP project could be implemented without applying the said regulations. Instead, if a project is not executed in line with the PPP regulations, the project could not receive fiscal and non-fiscal support for PPP projects from central government.

(2) Possibility of SEZ Development under PPP

There are varieties of project implementation scheme utilizing private sector participation in infrastructure project. These could be broadly divided into three patterns based on project feasibilities, namely: 1) management contract, 2) PPP with government support, and 3) pure private sector development (see Figure I.4.1). While PPP with government support and pure private sector

⁶ Public Private Partnership (PPP) Investor's Guide, Coordinating Ministry of Economic Affairs, Indonesia, April 2010

⁷ Public Private Partnership (PPP) Investor's Guide, Coordinating Ministry of Economic Affairs, Indonesia, April 2010

development require private finance on capital expenditure, management contract does not utilize private finance.

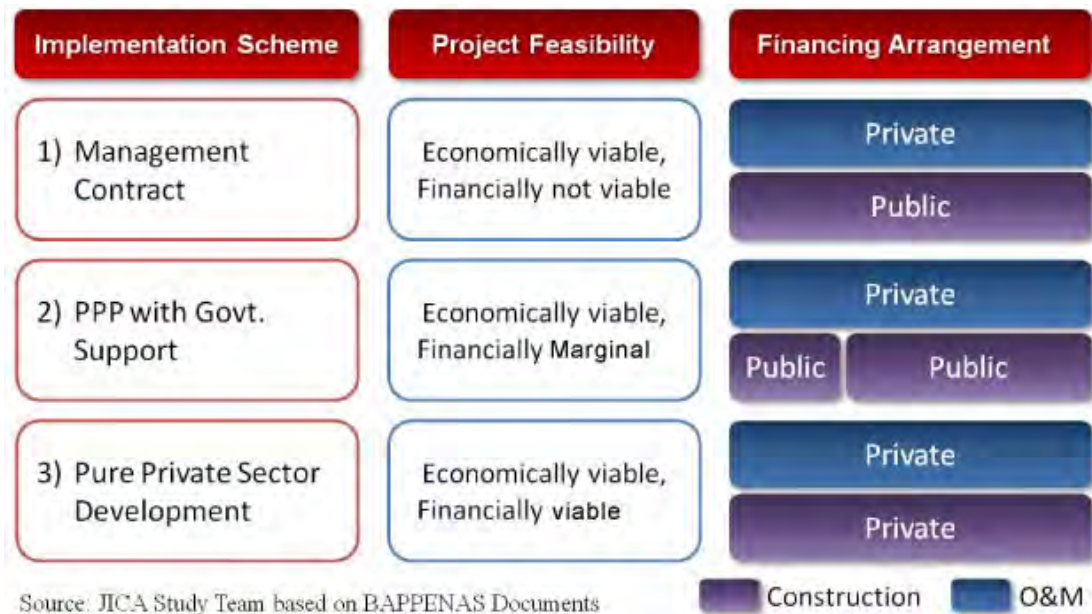


Figure I.4.1: Three Types of Private Sector Participation Scheme for SEZ Development

Under management contract, determination of project concept and design is typically decided by the public sector, and construction supervision and finance for project facilities will also be done by the public sector. Then, after completion of project facilities, public sector will procure private sector to undertake operation and maintenance of SEZ, through tender process. Under this scheme, demand risk will be typically borne by the public sector.

As mentioned, the public sector's motive in introducing private sector participation in infrastructure project is to procure private fund to fulfill huge financing needs in developing infrastructure in the country. Thus, management contract seems not attractive for the government. Also, private sector's skills and experiences in managing SEZ/ industrial estate could not be fully utilized under the project designed by the public sector. Therefore, management contract is precluded from the analysis.

Accordingly, this section analyzes the remaining two options, which are PPP with government support and pure private sector development. Taking the current regulatory environment into consideration, PPP with government support can be further divided into following three options:

- a-1) Development of SEZ under PPP scheme by applying PPP regulations for "solicited" project (revision of the exiting PPP regulations would be required)
- a-2) Development of SEZ under PPP scheme by applying PPP regulations for "unsolicited" project (revision of the exiting PPP regulations would be required)
- b) Development of SEZ under PPP Scheme without adopting the PPP regulations

Merits and demerits of abovementioned three PPP options and conventional pure private sector development scheme were analyzed as follows:

a) Development of SEZ by Applying PPP Regulations

As mentioned, the current PPP regulations seem not applicable for SEZ development project. Thus, revision of the current regulation may be required in introducing the scheme for SEZ development. The following discussion on the application of PPP regulations is based on the presumption that the PPP regulation will be applicable for SEZ development due to revision or flexible interpretation of the current regulations.

If an infrastructure project under private sector participation is executed by applying the existing PPP regulations, the project will be potentially eligible to receive fiscal and non-fiscal support from central government to improve financial feasibility of the project.

So, if an SEZ development project is financially not feasible without government support and if the government contracting agency (GCA)⁸, e.g., regional government, national level organization or state owned entity, doesn't have a enough budget to support the project, GCA may wish to apply PPP scheme in developing SEZ.

Under PPP regulations, projects may be developed on a "solicited" or "unsolicited" basis but in all cases, the selection of a private operator shall be conducted through an open tender process. A solicited project is identified and prepared by the government, whereas an unsolicited project is identified and proposed to the government by a private consortium.

a-1) Development of SEZ by Applying PPP Regulations for Solicited Project

As mentioned, solicited project is typically identified and prepared by the public sector. Consequently, the public sector could control whole project design, including project location, development scale, and types of industries to be lured. This is one of the merits from the viewpoint of public sector. On the other hand, from the viewpoint of private sector, such public sector-led readymade projects are sometimes not attractive for them, because they typically like to develop owner-made projects that match their needs and financial capability. Also, time-consuming government procedures and tender process would potentially delay project implementation schedule. Such time-consuming procedure is a demerit for both private and public sectors.

On the other hand, the biggest merit of this scheme, without doubt, is fiscal and non-fiscal support from the central government. Fiscal support for solicited PPP project, or in other words, viability gap funding (VGF), is provided from the central government to make the project attractive for the private sector. Under such mechanism, the central government would provide one-time capital subsidy of up to 40% of the project cost⁹. Also, private sector's financial loss caused from action/ inaction of the public sector could be compensated through government guarantee provided from newly established

⁸ GCA will be the ministry, government institution, or provincial, regency or city government, as stipulated by government regulation, that tenders the project and serves as the investor's government counterpart for the project. The GCA will contract with the private company for delivery of the project through a cooperation agreement (CA), or will issue a license to the project company to carry out the PPP project.

⁹ This mechanism has not been officially approved yet. Subsidy allocation will be regulated by presidential decree on the government's investment support in infrastructure sector. The draft of presidential decree is now being formed by Fiscal Policy Office, Ministry of Finance

Indonesia Infrastructure Guarantee Fund (IIGF). Provision of such sovereign guarantee would reduce political risks of the project.

The abovementioned as well as other merits and demerits of the scheme from the viewpoints of both private and public sectors are summarized in Table I.4.1.

a-2) Development of SEZ by Applying PPP Regulations for Unsolicited Project

Unlike in the solicited project case, private sector would propose an SEZ development project to the public sector under an unsolicited type project. Accordingly, private sector will be able to formulate SEZ suitable to fulfill its needs and interests. If the GCA accepts the proposed project concept and associated documentation, the GCA provides the status of “project initiator” to the private company/consortium initiating the project¹⁰.

Under PPP Regulation 13/2010, the project initiator could receive either additional points in the evaluation, a right to match the offer of the first-ranked bidder, or financial compensation for the work and intellectual property resulting from the feasibility study. To effectuate one of the first two forms of compensation listed, the project initiator must participate in the tender process. The third form of compensation is available only if the project initiator does not participate in the tender process.

As mentioned, private project initiator participating in the tender process will obtain additional benefit, which will give the project initiator an edge in the competition. It does not, however, guarantee the award of the contract to the initiator. In addition, private sector could not receive direct government fiscal support under unsolicited project. There are critical demerits for private sector initiating the project.

The abovementioned as well as other merits and demerits of the scheme from the viewpoints of both private and public sectors are summarized in Table I.4.2.

b) Development of SEZ under PPP Scheme without Following the Current PPP Regulations

If the proposed SEZ project is not financially feasible from the viewpoint of the developer, and if the GCA has enough financial capability to support the private sector in ensuring project’s profitability, the GCA could formulate PPP project without applying the PPP regulations.

Under this option, neither the GCA nor the private developer could obtain fiscal and non-fiscal supports from the central government allowed for PPP project¹¹. While private sector will obtain fiscal support from the GCA, the support is not guaranteed by the central government. Therefore, if the GCA’s financial credibility is not sufficient, private sector will have serious concern about the

¹⁰ The existing PPP regulation does not regard a project as unsolicited if it: i) is already included in the government’s SEZ or industrial development master plan, ii) is not reasonable economically and financially, and iii) needs support from central government in the form of fiscal contribution.

¹¹ While the scheme is not eligible for various government supports defined in the PPP regulations, various incentives specifically mentioned in the SEZ regulations (such as) would be applicable.

risk of the GCA's non fulfillment of its duty. As a result, there is a potential risk that no private sector will show interest on the project.

On the other hand, the GCA (e.g., local government) could formulate project without (or with limited) central government intervention. Also, the GCA will be able to negotiate directly with the private sector (typically proposer of the project) without executing tender process. This will affect transparency of procurement to some extent, while fastening implementation speed.

c) Pure Private Sector Development

Industrial estate development projects under this scheme have been successfully implemented in the country since 1989. Under this scheme, capital expenditure and operating expenditure for the project will be wholly financed by the private sector. Also, all the risks in developing/ operating SEZ will be basically borne by the private sector. Financial feasibility and risks of the project will be carefully checked by private investors and associated lenders. Also, marketing activity will be done by experienced private sector. Accordingly, as international experience already indicates, the industrial estate/SEZ development projects under this scheme are likely to end up more successfully than public sector implementation.

The other merit of this scheme is that most of industrial estate projects have adopted this scheme, and thus, legal, financial and political requirement and process have been accepted, tested and consequently well understood by all stakeholders. This will shorten the time to start the project. One of the biggest merits of this scheme is that public sector has no financial obligation and risks associated with the project.

So, if SEZ development is financially feasible from the viewpoint of the private developer, public sector should let the private sector implement the project.

On the other hand, under this scheme, development of SEZ would tend to concentrate in the capital region of the country where infrastructures are well developed. In the case of Indonesia, most industrial estates developed under this scheme are mainly located in suburban areas of megacities like Jakarta and Surabaya. If Indonesian government wishes to develop SEZ in less developed regions having less promising resources, there might be no interested private investors.

The abovementioned as well as other merits and demerits of the scheme from the viewpoints of both private and public sectors are summarized in Table I.4.1.

Table I.4.1 Merits and Demerits of Probable Implementation Schemes

	Implementation under PPP Scheme			Pure Private Sector Implementation
	Applying PPP Regulation	Without Applying PPP Regulation		
	Solicited	Unsolicited		
Public Sector (GCA)	<p>Merit</p> <ul style="list-style-type: none"> - Fiscal and non-fiscal support, including guarantee, from central govt. will contribute to attract more private developers. - High controllability over project cycle (initial project design will be done by public sector). 	<ul style="list-style-type: none"> - Feasibility study and project design is done by the private sector, thus the GCA no needs to spent own budget for that purpose. - Fiscal and non-fiscal support, including guarantee, from central govt. will contribute to attract more private companies/consortiums 	<ul style="list-style-type: none"> - No complex approval and tender process necessary for PPP regulation will shorten time to start project - Other than some kind of fiscal and non fiscal supports from GCA to private operator, implementation scheme is more or less same as traditional scheme. Thus, the procurement process is generally well understood by all stakeholders. - High controllability of project design and operation of the project, due to no (less) central government intervention. 	<ul style="list-style-type: none"> - No complex approval and tender process necessary for PPP regulation will shorten time to start project - Most of GCAs in Indonesia have been adopted such scheme. Thus, regulatory, legal, financial and political requirements for the procurement process has been accepted, tested and consequently are well understood by all stakeholders. - All project related risks will be borne by the private sector
Public Sector (GCA)	<p>Demerit</p> <ul style="list-style-type: none"> - Revision of PPP regulations may necessary - The GCA may not be as familiar with PPP process and its contract terms. - Intervention of central govt. over whole process resulted in long project gestation period. - The GCA need to formulate the project concept and design using own finance 	<ul style="list-style-type: none"> - Revision of PPP regulations may necessary - The GCA may not be as familiar with PPP process and its contract terms. - Intervention of central govt. over whole procurement process resulted in long project gestation period. 	<ul style="list-style-type: none"> - No fiscal and non-fiscal support from central govt. - GCA need to provide fiscal and non-fiscal support by themselves 	<ul style="list-style-type: none"> - Low controllability of project design and operation of the project. - No investors will come, if the project is financially not self-sustainable. - Direct negotiation with private sector, sometime criticized due to its un-transparency.
Private Sector (SEZ Operator)	<p>Merit</p> <ul style="list-style-type: none"> - Commitment of central govt. typically reduces the risk of unforeseeable action/ inaction by public sector (political risk) that adversely affects the financial viability of the Project. - Chance of obtain guarantee from IIGF, which will further reducing political risk - Solicited project could obtain direct fiscal support for capital investment of the project from central govt. 	<ul style="list-style-type: none"> - Commitment of central govt. typically reduces the risk of unforeseeable action/ inaction by public sector (political risk) that adversely affects the financial viability of the Project. - Chance of obtain guarantee from IIGF, which will further reducing political risk - Private company could propose project suitable to fulfill their objectives 	<ul style="list-style-type: none"> - Potentially, able to obtain development right without competition, if GCA execute direct negotiation with their private partner. - Private company could propose project suitable to fulfill their objectives 	<ul style="list-style-type: none"> - High controllability of project design and operation of the project, due to less public sector intervention. - Potentially, able to commence project earlier due to no tender process and no complex procedure necessary for project applying PPP regulation.
Private Sector (SEZ Operator)	<p>Demerit</p> <ul style="list-style-type: none"> - Competition with other private companies/ consortiums needed to obtain development right. - Private company could not propose project suitable to fulfill their objectives (concept and design of the SEZ will be done by the public sector) 	<ul style="list-style-type: none"> - No chance to obtain direct fiscal support for capital expenditure for the SEZ development project from central govt. - Open competitive tender process not allows private sector's initiator of the project to guarantee obtaining development right of the project. 	<ul style="list-style-type: none"> - No guarantee provided from central govt. - Fiscal and non-fiscal supports from GCA are generally uncertain due to lack of their financial capability. - Policy of GCA may changes due to changes in their administration (e.g. change in head of local govt.) - Potentially, direct negotiation with local govt. is not transparent, and thus sometime needs facilitation payment 	<ul style="list-style-type: none"> - No fiscal and non-fiscal support from public sector. - All project related risks need to be borne by the private sector - Potentially, direct negotiation with local govt. is not transparent, and thus sometime needs facilitation payment

(3) Recommended Private Participation Scheme Suitable for SEZ Development in Indonesia

If the project is financially feasible without government fiscal support, public sector should let private sector implement the project. Success of this model is already proven in Indonesia as well as in other developing countries including South Korea, Philippines, India and Vietnam. This model is typically suitable mainly in suburban areas of urban regions, where transport and other necessary infrastructure are well developed.

To reduce regional discrepancies in the country, government may wish to develop SEZ in remote areas suffering from lack of sufficient infrastructure but rich in natural resources and cheap labor force. If the SEZ development project is found out to be economically feasible but not financially feasible, government needs to implement the project through PPP with government support. Taking the merits and demerits of three PPP schemes into consideration, if a GCA has sufficient budget for providing fiscal support, the GCA should select PPP scheme without applying the PPP regulations.

On the other hand, if a GCA does not have sufficient budget for supporting the project, it should implement the PPP project by applying solicited or unsolicited PPP regulations¹². Decision on whether solicited or unsolicited would be made taking merits and demerits of both scheme as well as private sector's interest on SEZ development into consideration.

¹² The current PPP regulations seem not applicable for SEZ development project. Thus, revision of the current regulation may be required in introducing the scheme for SEZ development. Above discussion on the application of PPP regulations is based on the presumption that the PPP regulation will be applicable for SEZ development due to revision or flexible interpretation of the current regulations.

CHAPTER II: SPATIAL PLAN FOR PROSPECTIVE SEZ LOCATION

II.1 Prospective Area

(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.

Table II.1.1: 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. 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.	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.

Source: JICA Survey Team

As shown in Table II.1.2, SEZ+ location is proposed in Mega Economic Center and some metropolis characterized by strategic location for national economic and social development.

SEZ+ candidate areas are proposed below.

- (1) Jakarta Capital Mega Economic Center: Main engine for Indonesian economy and industry should be expanded by facilitation of SEZ+ in Jakarta Capital Metropolitan Area focusing on the evolution of the manufacturing sector.
- (2) Surabaya Mega Economic Center: Core of Eastern Java development will realize twin-engine locomotive for the Java Island development and accelerate Indonesia's prosperity.
- (3) Medan Metropolis/Economic Center: should be developed as the development engine for northern Indonesia, which is located at an advantageous geographical location in Northern Sumatra to protect outflow of natural raw resources from Sumatra to the northern neighboring countries and contribute to encourage the development of resource-based industry.
- (4) Makassar Metropolis/Economic Center: should be SEZ+ that will be the spearheading center of the economic and social development of eastern Indonesia.

(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 areas¹³, 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.

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.

SEZ distribution plans are illustrated in Figure II.1.1 to Figure II.1.3.

¹³ Ten metropolitan areas are defined by PU currently: Jabodetabek Punjur, Cekungan Bandung, Kedungsepur, Gerbang Kertosusila, Sarbagita, Mebidang, Banjarmasin-Banjarbaru-Martapura, Samarinda, Maminasata, Manado – Bitung.

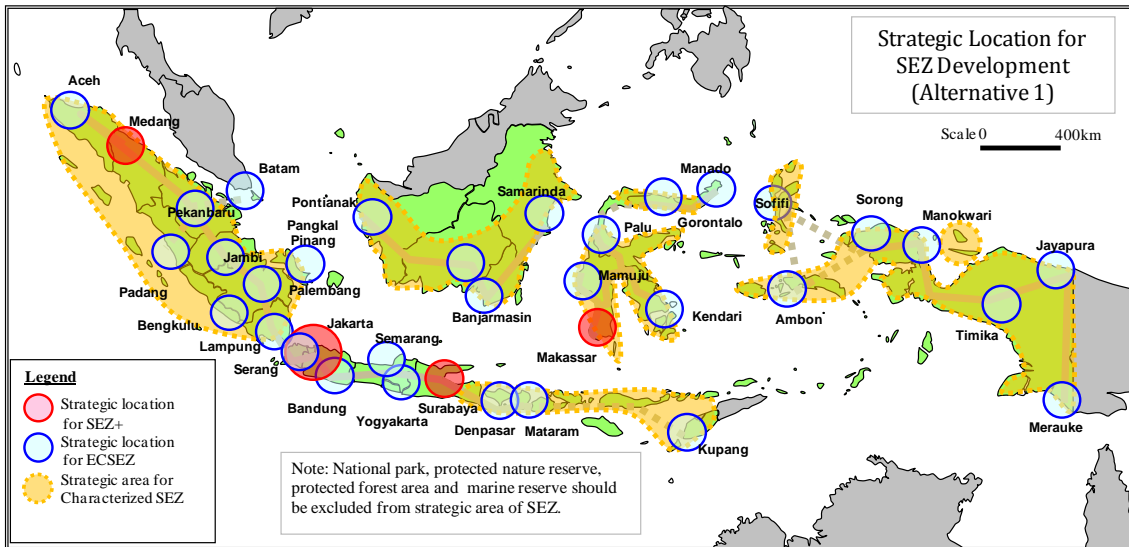


Figure II.1.1: SEZ Distribution Plan by Coupling of SEZ Type (Alternative 1, Aggressive Plan)

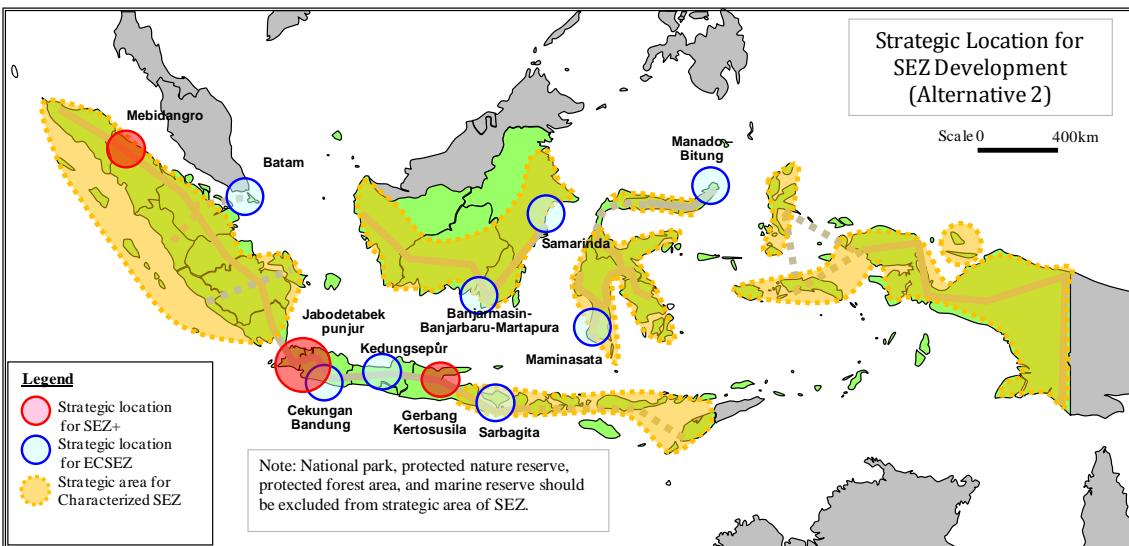


Figure II.1.2: SEZ Distribution Plan by Coupling of SEZ Type (Alternative 2, Medium Plan)

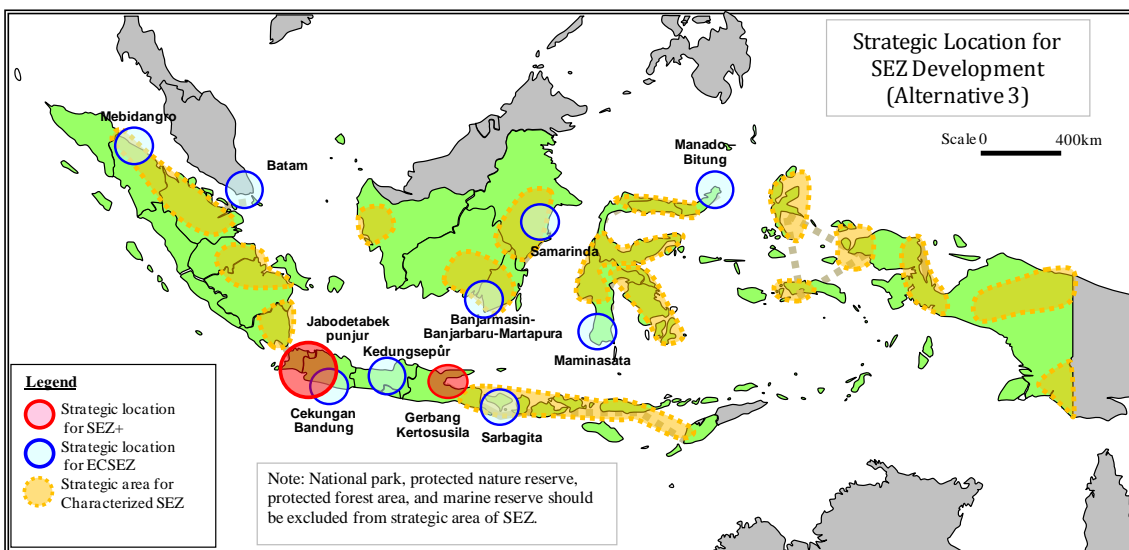


Figure II.1.3: SEZ Distribution Plan by Coupling of SEZ Type (Alternative 3, Moderate Plan)

(3) Evaluation of SEZ Distribution Alternatives

Three alternatives of SEZ distribution plan are evaluated using five evaluation criteria recommended by the Development Assistance Committee (DAC) at the OECD. When evaluating programmes and projects it is useful to consider the DAC Criteria. Understanding of evaluation criteria, namely: validity, effectiveness, efficiency, impact and sustainability, is slightly revised as shown hereunder to accommodate the SEZ development principle as an Indonesian national development project.

- **Validity:** Evaluation on how SEZ development alternatives can be consistent with current national development policy of Indonesia is necessary. Consistency to national plans such as MP3EI, PRJMN (National Medium-term Development Plan) and consistency with development master plans of relevant ministry/agency are taken into consideration.
- **Effectiveness:** A measure to evaluate the extent to which SEZ development alternative attains its objectives. Job opportunity creation and contribution to regional economy development are taken into consideration.
- **Efficiency:** Viability of SEZ development is to be evaluated. Evaluation by aspect of investment demand magnitude and capacity of relevant organization concerning implementing management of the project is to be done.
- **Impact:** The positive and negative environmental changes caused by SEZ development intervention, directly or indirectly and intended or unintended, should be evaluated.
- **Sustainability:** Sustainability is concerned with measuring whether the benefits of an activity are likely to continue. SEZ development alternatives need to be evaluated by environmental as well as resources sustainability.

Five criteria are proposed to be divided into sub-items with scores as shown in Table II.1.2. Total score is designed to be 100 points.

Table II.1.2: Score for Evaluation of SEZ Distribution Plan Alternatives

Evaluation item	Score	Sub-item	Score
Validity	20	Consistency with national development plans	10
		Consistency with master plans of relevant ministry/agency	10
Effectiveness	20	Job opportunity increase	10
		Contribution to regional economy promotion	10
Efficiency (Viability)	20	Investment demand (magnitude)	10
		Organizational capacity	10
Impact	20	Environmental changes	20
Sustainability	20	Environmental as well as resources sustainability	20
Total	100		100

Source: JICA Survey Team

Table II.1.3 shows the evaluation results of SEZ development alternatives. 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 II.1.3: 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 ^{*1}
Effectiveness	Job opportunity increase	10	5 ^{*2}	5 ^{*3}
	Contribution to regional economy promotion	10	5 ^{*4}	5 ^{*5}
Efficiency (Viability)	Development demand (magnitude)	5 ^{*6}	10	10
	Organizational capacity	5 ^{*7}	10	10
Impact	Environmental impact magnitude	10 ^{*8}	20	20
Sustainability	Sustainability for continuous development	20 ^{*9}	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

(4) 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.

As discussed in Section II. 1. (1) in Part A, 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. Indicators for analysis of factors differ in accordance with the characteristics of each characterized SEZ. Table II.1.4 shows the indicators chosen by SEZ type in the analysis.

Table II.1.4 Indicators Applied to Potential Area Analysis for CaSEZ

Analysis indicators			Characterized SEZ				
			Mineral/ energy resource SEZ	Agro/ fishery /timber resource SEZ	Tourism SEZ	R&D/ ICT SEZ	Logistics SEZ
Development potential	Mining resources	Current production amount (GRDP)	✓				
		Magnitude of potential resource *3	✓				
	Agro, timber, fishery resources *1	Current production amount (GRDP)		✓			
		Magnitude of potential resource *3		✓			
	Tourism resources	Hotel & restaurant current production amount (GRDP)			✓		
		Tourism development plans *2 *3			✓		
		Magnitude of tourism resources			✓		
	High-level education facility	Accumulation of university				✓	
		University quality (top 10 universities)				✓	
	Transportation demand potential	Industrial accumulation (presence of industrial parks)					✓
Urban accumulation (total population of major cities)						✓	
Supporting facility	Accessibility to international airport *3				✓	✓	✓
	Accessibility to international seaport (fishery port for fishery characterized SEZ) *3		✓	✓			✓
	Accessibility to international sea lane		✓	✓			✓
	Availability of highway						✓
	Quality of electricity supply (system average interruption duration: SAIDI)					✓	
Development needs	Regional redundant worker ratio		✓	✓	✓		✓
	Regional per capita income		✓	✓	✓		✓

*1 Food crops, estate crops, timber, fishery, and animal husbandry resources are analyzed.

*2 National Tourism Destination (DPN) and National Strategic Tourism Area (KSPN) planned by Ministry of Tourism

*3 Refer to Appendix A: "Distribution of Potential Resources, National Tourism Destination and Logistic Infrastructure Contributable for SEZ Development"

Note: "✓" means that the indicator was used for the area analysis.

Source: JICA Survey Team

Table II.1.5 shows the analysis results with first priority and second priority potential areas for characterized SEZ with SEZ+ and ECSEZ by province while Figure II.1.4 shows the geographical distribution of these SEZ potential areas. Detailed analysis method and results can be referred to in Appendix B: Potential Analysis Results of Characterized SEZ Development by Province.

Table II.1.5 Potential Province for CaSEZ Development

no.	Province	Major city	Characterized SEZ (CaSEZ)					SEZ+	ECSEZ
			Mineral/ Energy resources SEZ	Agro/ fishery/ timber resource SEZ	Tourism SEZ	R&D, ICT SEZ	Logistics SEZ		
1	Nanggroe Aceh Darussalam	Banda Aceh		✓	✓				
2	Sumatera Utara	Medan	✓	✓✓	✓✓		✓✓		
3	Sumatera Barat	Padang			✓				
4	Riau	Pekanbaru, Dumai	✓	✓	✓				
5	Jambi	Jambi		✓					
6	Sumatera Selatan	Palembang	✓✓	✓✓			✓		
7	Bengkulu	Bengkulu			✓				
8	Lampung	Bandar Lampung		✓					
9	Bangka Belitung	Pangkal Pinang	✓						
10	Kepulauan Riau	Batam			✓✓	✓	✓✓	✓✓	
11	DKI Jakarta	DKI Jakarta			✓✓	✓✓	✓✓	✓✓	
12	Java Barat	Bandung		✓✓	✓✓	✓✓		✓✓	
13	Java Tengah	Semarang, Solo	✓✓	✓✓			✓	✓✓	
14	Yogyakarta	Yogyakarta			✓✓	✓			
15	Java Timur	Surabaya, Malang		✓✓	✓✓	✓✓	✓✓		
16	Banten	Serang	✓✓	✓	✓✓		✓✓		
17	Bali	Denpasar			✓✓	✓	✓	✓✓	
18	Nusa Tenggara Barat	Mataram		✓✓	✓✓		✓		
19	Nusa Tenggara Timur	Kupang		✓✓	✓✓		✓		
20	Kalimantan Barat	Pontianak	✓	✓	✓		✓		
21	Kalimantan Tengah	Palangkaraya		✓					
22	Kalimantan Selatan	Banjarmasin	✓	✓			✓✓	✓✓	
23	Kalimantan Timur	Samarinda	✓✓	✓✓	✓		✓	✓✓	
24	Sulawesi Utara	Manado	✓	✓✓	✓✓		✓✓	✓✓	
25	Sulawesi Tengah	Palu	✓	✓					
26	Sulawesi Selatan	Makassar	✓	✓✓	✓		✓✓	✓✓	
27	Sulawesi Tenggara	Kendari	✓	✓✓					
28	Gorontalo	Gorontalo		✓					
29	Sulawesi Barat	Mamuju		✓					
30	Maluku	Ambon		✓✓	✓✓		✓		
31	Maluku Utara	Sofifi		✓✓					
32	Papua Barat	Sorong, Manokwari	✓		✓				
33	Papua	Jayapura, Merauke, Timika	✓	✓✓	✓				

Legend

- ✓✓: first priority potential area
- ✓: second priority potential area

Sourced: JICA Survey Team

Potential area distribution including 3 SEZ+, 7 ECSEZ and 1 SEZ – BKK (Batam SEZ) and CaSEZ will consist of 32 first priority potential areas and 36 second priority potential areas as shown in Table II.1.6.

Table II.1.6 Number of Potential Areas by Type of SEZ by Region

First Priority Potential Area

SEZ Type	Num. of Potential Area						
	Sumatra	Java	Kalimantan	Sulawesi	Bali-Nusa Tenggara	Papua-Maluku	Total
SEZ+	1	2					3
Economic Center SEZ (ECSEZ)		2	2	2	1		7
SEZ -BKK	1						1
Characterized SEZ (CaSEZ)	5	6	1	2	3	4	21
Mineral/energy resources IP SEZ	1	2	1				4
Agro/fishery/timber resources IP SEZ	3			1	2	3	9
Tourism SEZ	1	3		1	1	1	7
R&D inclusive of ICT park SEZ							
Logistics/trade SEZ		1					1
Total	7	10	3	4	4	4	32

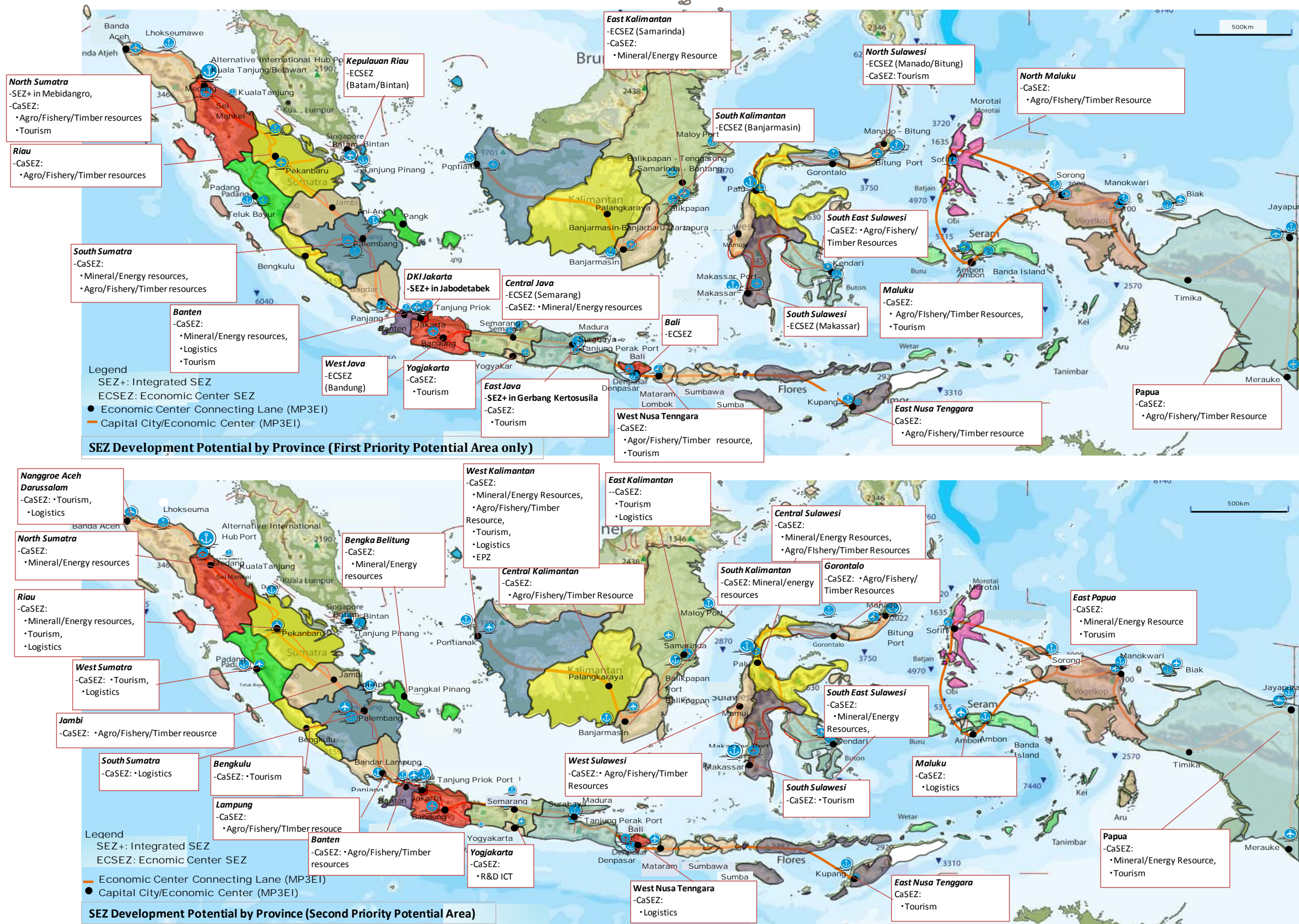
Second Priority Potential Area

SEZ Type	Num. of Potential Area						
	Sumatra	Java	Kalimantan	Sulawesi	Bali-Nusa Tenggara	Papua-Maluku	Total
SEZ+							
Economic Center SEZ (ECSEZ)							
SEZ -BKK							
Characterized SEZ (CaSEZ)	13	2	8	6	2	5	36
Mineral/energy resources IP SEZ	3		2	2		2	9
Agro/fishery/timber resources IP SEZ	2	1	2	3			8
Tourism SEZ	4		2	1	1	2	10
R&D inclusive of ICT park SEZ		1					1
Logistics/trade SEZ	4		2		1	1	8
Total	13	2	8	6	2	5	36

Source: JICA Survey Team

Area of SEZ is estimated at 9,600 ha for first priority potential areas and 6,800 ha for second priority potential areas as shown in Table II.1.7 under the assumption of unit size by type of SEZ.

The extent of first priority potential area of 9,600 ha estimated as shown in Table II.1.7 is sufficient considering the SEZ development target of 4,100 ha in 2019 shown in Table II.1.4. For the medium and long terms, second priority potential area estimated at 6,800 ha in Table II.1.7 is necessary to be developed in addition to the first priority potential area to cover SEZ development target of 11,100 ha in 2025.



Source: JICA Survey Team

Figure II.1.4 Distribution of SEZ Potential Area by Province (First Priority Potential Area and Second Priority Potential Area)

Table II.1.7 Estimated Area of SEZ by Type of SEZ and by Province

First Priority Potential Area

SEZ Type		Area of SEZ (ha) (Gross area)						Total
		Sumatra	Java	Kalimantan	Sulawesi	Bali-Nusa Tenggara	Papua-Maluku	
SEZ+		400	800					1,200
Economic Center SEZ (ECSEZ)			800	800	800	400		2,800
SEZ -BKK		400						400
Characterized SEZ (CaSEZ)								5,200
	Mineral/energy resources IP SEZ	400	800	400				1,600
	Agro/fishery/timber resources IP SEZ	1200			400	800	1200	3,600
	Tourism SEZ							
	R&D inclusive of ICT park SEZ							
	Logistics/trade SEZ							
Total		2,400	2,400	1,200	1,200	1,200	1,200	9,600

Second Priority Potential Area

SEZ Type		Area of SEZ (ha) (Gross area)						Total
		Sumatra	Java	Kalimantan	Sulawesi	Bali-Nusa Tenggara	Papua-Maluku	
SEZ+								
Economic Center SEZ (ECSEZ)								
SEZ -BKK								
Characterized SEZ (CaSEZ)								6,800
	Mineral/energy resources IP SEZ	1,200		800	800		800	3,600
	Agro/fishery/timber resources IP SEZ	800	400	800	1,200			3,200
	Tourism SEZ							
	R&D inclusive of ICT park SEZ							
	Logistics/trade SEZ							
Total		2,000	400	1,600	2,000		800	6,800

Note

*1 Size of industrial land use of SEZ+, ECSEZ, and CaSEZ is assumed 400 ha.

*2 Logistics/trade SEZ, R&D (ICT) SEZ, and Tourism SEZ area are excluded in area counting because of non-manufacturing land use.

Source: JICA Survey Team

CHAPTER III: INVESTMENT INCENTIVES AND LEGAL ARRANGEMENT

III.1 Measures for Investment Attraction

Basic measures to attract FDI consist of two categories, namely, providing fiscal incentives and providing non-fiscal incentives.

Fiscal incentives are defined as those special exemptions, deductions or credits that provide special credits, i.e., preferential tax treatment or deferral of tax liability. Tax incentives for FDI are often structured through income tax systems, providing relief from corporate income tax (e.g., tax holidays, reduced corporate tax rates, special corporate tax deductions, investment tax allowances and credits), and in some cases providing relief from personal income tax for expatriates. They can also take the form of reduced import tariffs/customs duties and other taxes.

Non-fiscal incentives, on the other hand, refer to the variety of services and assistance provided to investors by the government other than fiscal incentives. For example, these include (a) simplified import-export procedures, (b) special treatment of immigration for foreign nationals, i.e., special non-immigrant visa with multiple entries, (c) special treatment of employment, i.e., employment of non-resident foreign nationals in supervisory, technical or advisory positions, (d) provision of grant and/or investment guarantee, (e) provision of sophisticated infrastructure, and so on.

III.2 Fiscal Incentives

III.2.1 Current Situation of Fiscal Incentives

(1) Fiscal Incentives Offered by Neighboring Asian Countries

Table III.2.1 shows the fiscal incentives offered to investors/tenants in industrial and/or economic zones and developers of those zones by neighboring Asian countries.

It should be noted that most of the countries have provided fiscal incentives such as exemption of corporate income tax for two to ten years to investors and developers in order to promote foreign investment in the various types of economic zones.

Table III.2.1: Fiscal Incentives Provided by Selected Countries

Country	Basic corporate income tax rate	Incentives on corporate income tax	Incentives on import duties/customs tariff	Other incentives
Indonesia	25%	30% net tax deduction on the total investment, charged for 6 years at 5% annually, and accelerated depreciation are given under several conditions. (Gov. Reg. No.1/2007 and Gov. Reg. No.62/2008)	Import duty holiday or reduction, exemption of VAT and sales tax in certain period and certain zones (Law on Investment No. 25/2007 and other regulations)	

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Country	Basic corporate income tax rate	Incentives on corporate income tax	Incentives on import duties/customs tariff	Other incentives
China	25%	<u>For investors:</u> Exemption for the first 2 years and tax at the rate of 12.5% (50% reduction) for the next 3 years for high technology industries in SEZ. As for high technology industries, a reduced rate of 15% is eligible and an additional 50% deduction for R&D expenses is applicable regardless of location.	Exempted from import duties on imported capital equipment in SEZ and Economic and Technological Development Zone (ETDZ) and High Technological Development Zone (HTDZ).	Business tax is exempted under some conditions.
Korea	22%	<u>For investors:</u> Exemption for 5 years and then a 50% reduction for 2 years for specific sector under the Restriction of Special Taxation Act. As for Free Economic Zone (FEZ), exemption for 5 years and then 50% reduction for 2 years are offered to investors. <u>For developers of FEZ:</u> Exemption for 5 years and then 50% reduction for 2 years	<u>For investors and developers:</u> Exempted for 3 years from imported capital goods.	<u>For investors and developers:</u> Local tax (acquisition/ registration/ property tax) is exempted or reduced based on conditions. Cash grant is provided under several requirements.
India	40%	<u>For investors:</u> Exemption for first 5 years, 50% for next 5 years in SEZ <u>For developers:</u> Exemption on income derived from the business of development of the SEZ for 10 years out of 15 years.	<u>For investors and developers:</u> Duty free import/domestic procurement of goods for development.	<u>For investors and developers:</u> Service tax and commodity tax are exempted based on the conditions in SEZ. Also, VAT is exempted in several provinces.
Malaysia	27%	<u>For investors:</u> Exemption of 70% of income for 5 years if Pioneer Status is applicable, Exemption of 100% for 10 years if Multimedia Super Corridor Status, Exemption of 100% for 8-10 years in SEZ in East Coast Economic Region (ECER-SEZ) <u>For developers:</u> Exemption of 100% for 5-10 years if developing infrastructure of industrial park and SEZ or undertaking the project in ECER.	<u>For investors and developers:</u> Exempted from import duties on components, machinery and equipment that are not produced locally in ECER-SEZ.	If no income tax holiday, alternatively Investment Tax Allowance (ITA) shall be offered; (a) For enterprises that hold Pioneer Status, deduct 60% of capital investment against 70% of income for 5 years, and (b) For enterprises that hold Multimedia Super Corridor Status and enterprises in ECER-SEZ, deduct 100% of capital investment against 100% of income for 5 years.
Thailand	30%	<u>For investors:</u> 100% exempted for 3 years in Bangkok Metropolitan Area, 7 years in the suburban provinces and 8 years in other provinces. <u>For developers:</u> 100% exempted for 8 years if the zone is designated for software development, high tech industries or agro-processing. 100% exempted for 3 years in Bangkok Metropolitan Area, 7 years in the suburban provinces and 8 years in other provinces for other types of zones.	<u>For investors and developers:</u> Exempted or reduced from import duties on imported machinery, equipment, etc. that are designated by BOI.	<u>For investors and developers:</u> VAT for imported capital goods is virtually exempted. Deduction of transport cost and utility cost from taxable income under some conditions.

Country	Basic corporate income tax rate	Incentives on corporate income tax	Incentives on import duties/customs tariff	Other incentives
Vietnam	25%	<p><u>For investors:</u> 100% exempted for 2 years in the promotion area, 4 years in the special promotion area and special promotion sectors, followed by 50% reduction period in 4-9 years.</p> <p><u>For developers:</u> The same incentives will be offered to developers.</p>	<p><u>For investors and developers:</u> Exempted from import duties on machinery, capital equipment and certain types of equipment.</p>	VAT is exempted for investors under the conditions.
Philippines	30%	<p><u>For investors:</u> Incentives by BOI: 100% exempted for 4 years for non-Pioneer project and for 6 years for Pioneer project *1). Incentives by PEZA: 100% exempted for 3-6 years depending on Pioneer / Non-pioneer project status.</p> <p><u>For Economic Zone Developers & Operators:</u> Special 5% tax on gross income and exemption from all national and local taxes shall be offered.</p>	Exempted from duties on import machinery, equipment, spare parts and accessories for investors (export-oriented enterprises).	Tax credit on raw materials, supplies and semi-manufactured Products, etc. Additional deduction from taxable income for labor expense, necessary and major infrastructure works, etc.

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

Note 1): Definitions of the Pioneer Status according to the Omnibus Investment Code of 1987 in the Philippines are shown below. The enterprises that are not able to obtain the Pioneer Status have Non-pioneer status.

“Pioneer enterprise” shall mean a registered enterprise (1) engaged in the manufacture, processing or production, and not merely in the assembly or packaging of goods, products, commodities or raw materials that have not been or are not being produced in the Philippines on a commercial scale or (2) which uses a design, formula, scheme, method, process, or system of production or transformation of any element, substance or raw materials into another raw material or finished goods which is new and untried in the Philippines or (3) engaged in the pursuit of agricultural, forestry and mining activities and/or services including the industrial aspects of food processing whenever appropriate, pre-determined by the Board, in consultation with the appropriate Department, to be feasible and highly essential to the attainment of the national goal, in relation to a declared specific national food and agricultural program for self-sufficiency and other social benefits of the project or (4) which produces non-conventional fuels or manufactures equipment which utilize non-conventional sources of energy or uses or converts to coal or other non-conventional fuels or sources of energy in its production, manufacturing or processing operations”.

(2) Fiscal Incentives Offered in the Existing Economic Zones and SEZ in Indonesia

As shown in Table III.2.2 which compares fiscal incentives among the existing economic zones and SEZ in Indonesia, income tax allowance (ITA), which is designated by Government Regulation No. 62/2008 or Government Regulation No. 147/2007, and accelerated depreciation have been given to investors. Tax holiday or exemption from corporate income tax has not been provided.

In August 2011, the Finance Minister Regulation No. 130/ PMK.011/2011 for the first time offers 5-10 years tax holidays to investors in specific sectors or pioneer industry, although this is not for investors located in the specific zones.

According to a fiscal policy paper on incentives for SEZ which was prepared in December 2010 by the Ministry of Finance, provision of incentives such as (i) exemption or reduction on import duty and VAT for manufacturers under some conditions, (ii) 30% reduction from net income for manufacturers and the current investment tax allowance of 30%, i.e., 5% deduction per year for 6 years, and (iii) accelerated amortization and depreciation to all investors in SEZ have been proposed, if the requirements are fulfilled for selected business fields as shown in Government Regulation No. 62/2008.

The abovementioned incentives for SEZ by the Ministry of Finance seem not enough to meet the current international competitiveness.

Table III.2.2: Comparison of Fiscal Incentives in the Existing Economic Zones, SEZ and the Proposal by JST

	Bonded Area (KB)	Integrated Economic Development Area (KAPET)	Free Trade Zone (FTZ)	Special Economic Zone (SEZ)
Corporate income tax	30% net tax deduction on the total investment, 5% annual deduction for 6 years under several conditions: (Gov. Reg. No.1/2007 and Gov. Reg. No.62/2008)	30% net tax deduction on the total investment, 5% annual deduction for 6 years under several conditions: (Gov. Reg. No.147/2007)	30% net tax deduction on the total investment, 5% annual deduction for 6 years under several conditions: (Gov. Reg. No.1/2007 and Gov. Reg. No.62/2008)	Additional income tax incentives will be provided by Article 30 of SEZ Law. (No.39/2009)
Incentives related to income tax	- Accelerated depreciation and/or amortization; - Compensation for fiscal losses up to 10 years; - Reduction of income tax on dividends with the prevailing treaty	- Accelerated depreciation and/or amortization; - Compensation for fiscal losses up to 10 years; - Reduction of income tax on dividends with the prevailing treaty	- Accelerated depreciation and/or amortization; - Compensation for fiscal losses up to 10 years; - Reduction of income tax on dividends with the prevailing treaty	The same incentives as in FTZ or other zones shall be offered. (Article 30 (1) of SEZ Law)
Import duties, VAT and sales tax on luxury goods	Exemption for imported capital equipment and raw materials from import duties, VAT and other import-related tax.	Exemption for imported capital equipment and raw materials from import duties, VAT and other import-related tax.	Goods entered into FTZ are exempted from import duties and excise. Other import-related taxes including VAT are not collected.	Provision of exemption from import duties, VAT and sales tax on luxury goods is stipulated in Article 32, 33 of SEZ Law.
Land and building tax	NA	NA	NA	Provision of land and building tax incentives is stated in Article 21 of SEZ Law.
Local tax	NA	NA	NA	Provision of local tax incentives is stipulated in Article 35 of SEZ Law.

Source: JICA Survey Team based on information from BKPM and the related laws and regulations

Note: Incentives provided to investors and developers of SEZ are not finalized yet.

(3) Stipulation of the Fiscal Incentives by SEZ Law and Relation to Other Regulations

Article 30 of the Law on SEZ No. 39/2009 provides the following provisions on income tax incentives:

- i) Every taxpayer who operates business in SEZ shall be provided with income tax incentives.
- ii) In addition to the income tax incentives aforementioned in paragraph 1), additional income tax incentives may be provided in accordance with zone characteristics.
- iii) The incentives aforementioned in paragraphs 1) and 2) shall be provided in accordance with the laws and regulations.
- iv) Further provisions on the income tax incentives aforementioned in paragraphs 2) and 3) shall be stipulated in a Government Regulation.

Also, as shown in Table III.2.2, SEZ Law stipulates the provision of additional incentives on import duties, VAT, sales tax of luxury goods, land and building tax and local tax, although the detailed or concrete incentives are under preparation through the formulation of a new regulation.

As for the income tax, in response to the above movement, Government Regulation No. 94/2010 on Calculation of Non Taxable Income and Payment of Income Tax in Current Year has been issued. It should be noted that this regulation gives discretion to the Minister of Finance to be able to provide a tax holiday incentive to new investors in certain industries and locations (Article 29 and Article 30).

Moreover, in order to offer local tax incentives, Government Regulation No. 45/2008 on Guidelines for Incentives and Facilitation Guideline in the Region stipulates the criteria, requirements and the formulation of local regulations for incentives of local tax.

III.2.2 Proposed Fiscal Incentives

In order to launch the scheme of SEZ development, the Indonesian government should commit an attractive incentive policy or package that will differentiate Indonesia from its competitors, by taking into account the positive economic impact of new investment, and assessing the negative impact on short-term government revenue. These incentives will be applicable to both investors and developers. This is because that the incentives offered to developers in most of neighboring Asian countries or competitors are the same as those to investors shown in Table III.2.1.

(1) Corporate Income Tax

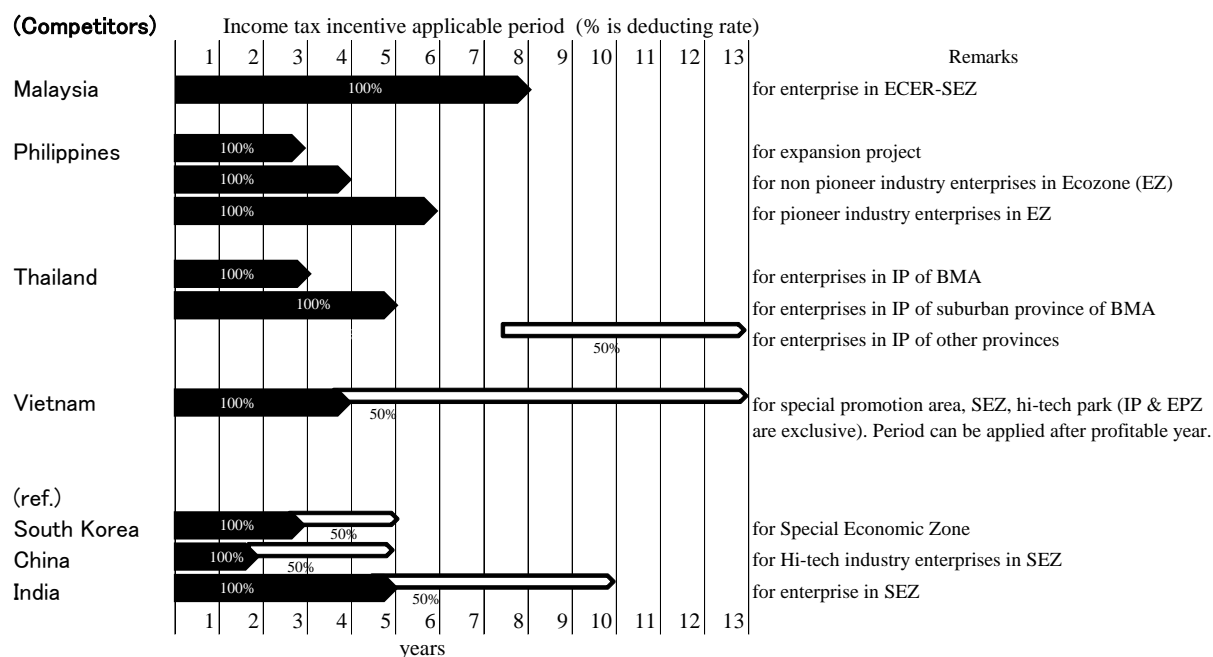
The incentives proposed by the JST are shown in Table III.2.2. They were mainly based on the actual current incentives in the neighboring countries (see Figure III.2.1) which will be the competitor for the SEZ in Indonesia especially from the viewpoint of FDI. The proposed incentives also give consideration to the area necessary to be given priority for development, as stated in the RPJMN and other higher national plan.

The incentive will be granted to the business entities (investors) which cover major activities in each zone and developers of each zone.

Since export subsidies¹⁴ and local content subsidies are prohibited by World Trade Organization (WTO) under the Agreement on Subsidies and Countervailing Measures (the SCM Agreement¹⁵), the incentives proposed here will be open to both export and domestic oriented activities.

¹⁴ 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.

¹⁵ 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.



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

Figure III.2.1: Period of the Exemption/Reduction of the Corporate Income Tax of Neighboring and Competing Asian Countries

Three recent movements shall be taken into account in terms of incentives on corporate income tax in SEZ.

The first one is the offering of tax holiday or exemption of corporate income tax through Finance Minister Regulation No. 130/ PMK.011/2011. If investors in SEZ are entitled as pioneer industry through this regulation, they are able to choose the most favorable option.

The second is the clarification of the definition of pioneer industry and priority industry through BKPM's Indonesia Investment Planning (RUPM). According to the draft of the plan, the investment criteria for pioneer industry and high priority industry are designated as follows:

1) Pioneer industry: the investment which shall:

- have a wide linkage/ connectivity;
- give high value added;
- introduce new technology; and
- have strategic value for national economy.

These criteria are accorded with the definition of pioneer industry described in Article 2 of Finance Minister Regulation No. 130/ PMK.011/2011 regarding tax holiday.

2) High priority industry: the Investment which shall:

- encourage diversification of economic activity;
- strengthen the national industrial structure;
- have high competition in international market; and

- have relation with strategic investment in food, infrastructure or energy.

The third is the expansion of the selected industries designated in Government Regulation No. 62/2008 in order to promote investment. The Ministry of Finance states that the number of selected industries will be expanded through a new regulation.

As a result, the definition of priority industry shown in Table III.2.3 may be modified if the definition of priority industry is updated through the Indonesia Investment Planning (RUPM) and/or the expansion of the selected industries through the revision of Government Regulation No. 62/2008. Currently, the priority industries are based on the selected business fields¹⁶ as shown in Government Regulation No. 62/2008.

¹⁶ In Government Regulation No. 62/2008, 23 business fields: Breeding business, Forest exploitation, Mining and utilizing low rank coal, Geothermal exploitation, Milk food industries, Garment and textiles, Pulp and paper, Oil refining, Mini-natural gas refining, Industrial chemical materials, Pharmaceutical industries, Artificial fiber, Rubber and rubber products, Porcelain goods, Iron and steel, Non-iron base metal, Machinery and equipment, Electronics motor, Electronics, Land transportation vehicle, Ship building and repair and non-iron steel (aluminum, etc.) are designated. Also, 15 business fields such as Food Crops Development, Horticulture Cultivation, Food Processing, Agro-basis SDA Processing, Skins, Skins-made Goods, and Footwear, Packaging and Boxes made of Paper and Carton, Plastic made goods, Cement, Lime, and Gypsum, Electric Accumulators and Batteries, Vessel and Boat Manufacture and Repair, Furniture, Catching of Sea Fish and its Processing, Catching of Sea Crustaceans and its Processing, Catching of Sea Molluscs and its Processing, and Transshipment Port are indicated on a regional basis.

Table III.2.3: Exemption of Corporate Income Tax

	regional development target	top-down development target (RPJMN) President Regulation No.5/2010		GERBANGKERTA-SUSILA and MEBIDANGRO	JABODETA-BEKUPUNJUR	Economic Center (MP3EI)	other area
		primary dev. center	secondary dev. center				
energy	8	n.a.	8	n.a.	n.a.	8	8
R&D (including IT)	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.
logistics	8	8	8	3	0	8	n.a.
industry (priority)	8	8	8	3	3*	8	8
industry (non priority)	4	4	4	0	0	4	4
tourism	4	4	4	0	0	4	4
others (MICE, intl medical care and intl education)	n.a.	n.a.	n.a.	3	3	n.a.	n.a.
others (other than above)	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] Mammasata 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, Cirebon and vicinity, and Surakarta and vicinity; [Kalimantan] Palangka Raya, Samarinda, Bontang and Tarakan; [Sulawesi] Gorontalo, Palu and Manuju; [Papua] Manokwari and Timika.
 Economic Center: [Sumatra] Banda Aceh, Medan, Pekanbaru, 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 JABODETABEKUPUNJUR, 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.
 [8] 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.
 [3] The incentive similar to Incheon FEZ (Korea) will be given.

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

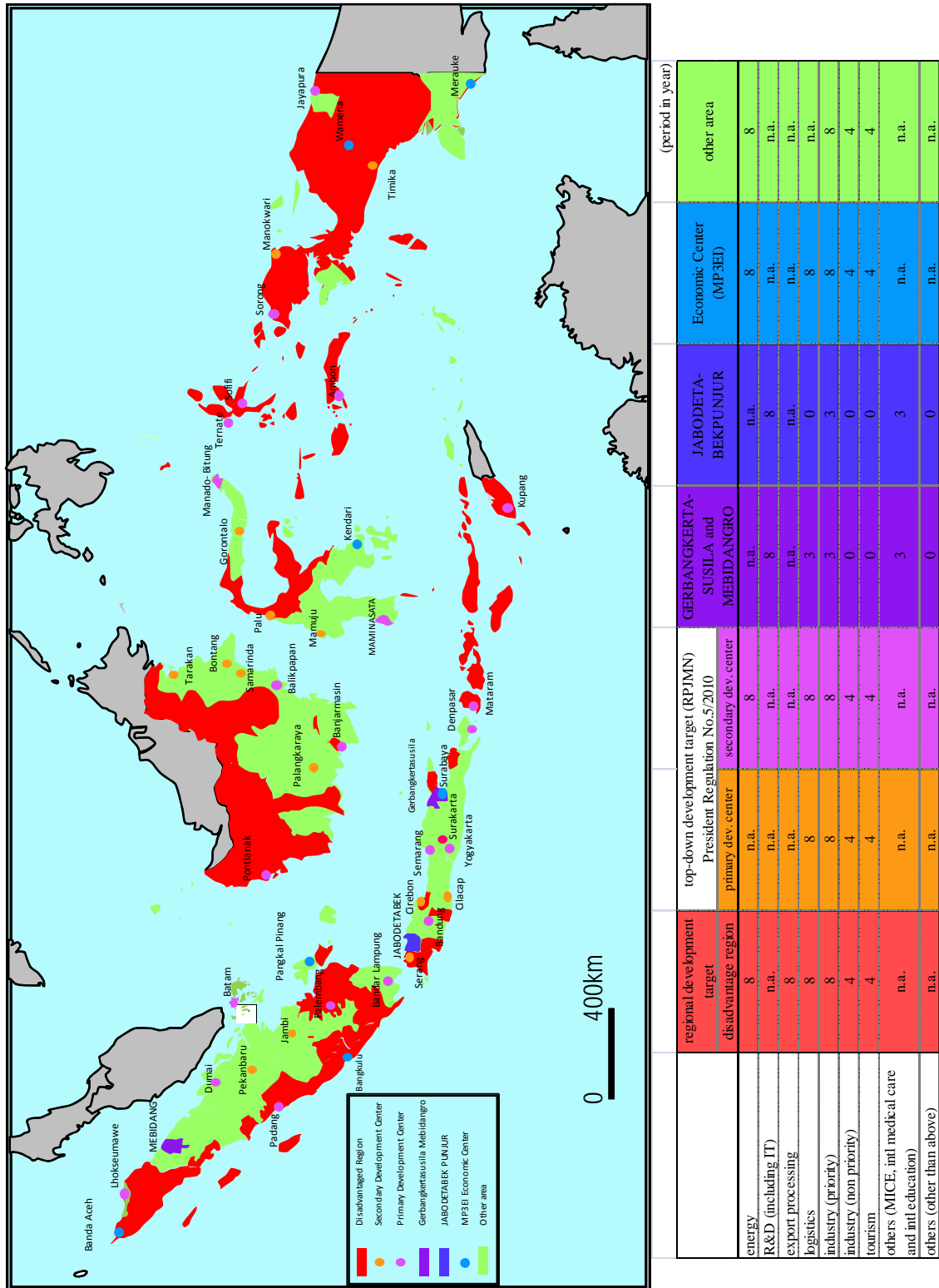


Figure III.2.2: Map for Tax Exemption

(2) Value Added Tax (VAT), Tax on Luxurious Goods and Import Duties

Exemption from VAT and import duties for imported capital equipment and raw material for production and tax on luxurious goods has already been implemented in the existing economic zones such as FTZ and KAPET. Therefore, exemption from VAT and tax on luxurious goods based on Article 32 of SEZ Law No. 39/2009, and additional exemption from Import duties are necessary to keep the “special” status of SEZ in order to accelerate the industrialization.

The incentive will be granted to the business entities (investors) which cover major activities in each zone and developers of each zone.

Table III.2.4: Exemption from VAT, Tax on Luxurious Goods and Import Duties (Proposed)

	regional development target	top-down development target (RPJMN)		GERBANGKERT A-SUSILA and	JABODETA-BEKUNJUR	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: VAT and import duty 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.

(3) Others

The land and building tax (or property tax) should be reduced for investors and developers since the SEZ Law states that (i) any taxpayer who conducts business in SEZ are given incentive in a form of exemption from or reduction of regional taxes and levies in accordance with the provisions of the legislation and (ii) in addition to local tax incentives and levies as referred to in clause (i), local governments can provide other amenities.

Also, double deductions for the cost of utility (electricity, water supply and garbage collection, etc.) may be introduced to investors and developers.

III.3 Non-fiscal Incentives

III.3.1 Current Situation on Non-fiscal Incentives

(1) Non-Fiscal Incentives Offered by Neighboring Asian Countries

Several non-fiscal incentives have been offered to investors and developers in SEZ or other economic zones in Asian countries as shown below.

According to this table, common non-fiscal incentives in Asian countries are as follows:

- i) Administrative support through formulation of one-stop services center which provide simplified procedures of business and investment licenses,
- ii) Flexible approach to provision of visa for non-resident foreign nationals, and
- iii) Land premium such as competitive land pricing, significantly reduced rental fees for public land and permission of longer period of land use.

Additionally, some countries introduce financial assistance such as cash grant, simplified import-export procedures and competitive utility tariffs.

Table III.3.1: Non-Fiscal Incentives Offered by Neighboring Asian Countries

Country	Non-fiscal Incentives		Legal Basis/ Resources
Korea	(1) Financial assistance	<p>(a) Cash grants: Corporations investing in industries involving highly advanced technology and high value-added service industries may receive government subsidies for the purchase of land, construction of facilities, start-up of businesses, and employment of qualified personnel.</p> <p>(b) Educational subsidies: Subsidies provided for construction of foreign educational and research centers in the FEZs, and related start-up costs.</p> <p>(c) Waived or significantly reduced rental fees for public land: Companies may lease land for up to 50 years in exchange for 1% of the necessary development costs.</p> <p>(d) Rent reduction: Major foreign investors can receive public land for free or at a significant discount (more than 50%)</p> <p>(e) Support for infrastructure: Central and local governments will give priority to infrastructure (e.g., roads, airports, ports, parks) when allocating funds.</p>	<p>Special Act on Designation and Management of the Free Economic Zones (FEZ) (Amended by Act No.10272, April 15, 2010)</p>
Korea (continued)	(2) Flexible approach to labor regulation	<p>(a) Employment quotas: No obligation to fill quotas for special classes of workers (elderly workers, veterans and workers with disabilities)</p> <p>(b) Registrations on outsourcing: Employers will have greater freedom to hire temporary (outsourced) workers for longer periods</p> <p>(c) Mandatory paid leave: Employers are not required to offer paid leave to employees or paid special monthly leave for women (but must offer unpaid leave)</p>	
	(3) Better living conditions for foreign residents	<p>(a) Special Act on Foreign Educational Institutions: Foreign organizations will be permitted to establish educational institutions in the FEZs and Jeju Special Self-Governing Province Institutions at all levels (kindergarten to university) will receive financial support from the Korean government, and K-12 institutions will be allowed to admit students with Korean citizenship (up to 30% of the student body).</p> <p>(b) Special Act on International Hospitals: Foreign organizations will be permitted to establish medical centers, hire foreign-trained medical personnel, treat local patients and conduct incidental business (e.g., provide leisure services such as spa treatment)</p> <p>(c) Special housing sale: As much as 10% of all housing built by public companies in the FEZs will be set aside specifically for employees of foreign-invested enterprises.</p> <p>(d) Housing assistance: A certain percentage of rental accommodations will be set aside specifically for foreign employees of foreign-invested enterprises.</p> <p>(e) Simplified regulations on remittance of funds: Foreign remittances of up to US\$10,000 will not require paperwork.</p> <p>(f) Deregulation of broadcasting industry: More foreign radio and television programs will become available.</p>	
	(4) Administrative support	<p>(a) One-stop administrative services: FEZ Authority will be present in each FEZ.</p> <p>(b) Foreign language service: Various official documents and administrative procedures will be issued and conducted in foreign languages.</p>	

Country	Non-fiscal Incentives		Legal Basis/ Resources
Malaysia	(1) Competitive utility tariffs	The state government is implementing competitive utilities tariffs.	ECER Incentive Brochure
	(2) Land premium	Competitive land pricing encompassing discount rate for land premium, quit rent and land assessment, guaranteed land lease periods for a specific time period by the respective state governments to approved companies	
	(3) Employment of expatriates	Flexibility in the employment of expatriates: Unlimited number of expatriate knowledge workers for key management post.	
	(4) Foreign exchange administration	The special flexibility in foreign exchange administration under Bank Negara Malaysia will be exclusively granted for companies accorded the ECER status with fiscal incentives.	
	(5) Training of local labor force	Incentive relating to training of skilled workforce for the local population shall be provided.	
	(6) Accessibility to grants	Grants may be provided based on merit of each case.	
Thailand	(1) Permit for study on investment opportunities and activity of investment promotion	(a) Permit for foreign nationals to enter the Kingdom for the purpose of studying investment opportunities will be given (Sec. 24). (b) Permit to bring into the Kingdom skilled workers and experts to work in investment promotion activities will be given (Sec. 25&26).	The Board of Investment is authorized to grant the following non-tax incentives (Investment Promotion Act B.E.2520)
	(2) Establishment of 'One Start One Stop Investment Center'	'One Start One Stop Investment Center' as a centralized location to assist investors with the requirements of the various investment-related government agencies has been established.	
	(3) Land for foreign entities	Permit to own land for foreign entities will be given (Sec. 27).	
	(4) Special permit of remittance of foreign currency	Permit to take out or remit money abroad in foreign currency will be given (Sec. 37).	
Vietnam	(1) Land use incentives	(a) The term of land use of an investment project shall be fifty (50) years and may be extended to seventy (70) years in the case of investing in areas with specially difficult socio-economic conditions (b) Investors which invest in investment incentive sectors and geographical areas shall be entitled to an exemption from payment of or a reduction of land rent and land use fees in accordance with the law on land and the law on tax. (Art. 36)	Law on Investment 2005
	(2) Support for technology transfer and training support	The Government shall create favorable conditions for and ensure the lawful rights and interests of parties to technology transfers (including capital contribution in the form of value of technology) and shall encourage the establishment of assistance funds for human resources training. (Art. 40 and Art. 41)	
	(3) Support for and encouragement and provision of support for development of investment services	The Government shall encourage and provide support for organizations and individuals to provide the investment support services such as (a) investment consultancy, management consultancy, (2) intellectual property and technology transfer consultancy, (3) vocational education, technical training and training on management skills, (4) provision of market information, information about science, technical matters and so on. (Art. 42)	
	(4) Assistance of investment in the development of infrastructure systems	The Government shall provide investment capital from the State Budget and preferential credit funds in order to assist investment in the development of technical and social infrastructure systems of high-tech zones and economic zones. (Art. 43)	
	(5) Special treatment on entry and exit visas	Investors carrying out investment activities and experts and technicians being foreign individuals who work regularly for an investment project and their family members shall be issued with multiple entry and exit visas. The maximum term of a visa shall be five years on each occasion of issuance of a visa. (Art. 44)	

Country	Non-fiscal Incentives		Legal Basis/ Resources
Philippines	(1) Simplified import-export procedures	Electronic Import Permit System and Automated Export Documentation System have been introduced.	The Special Economic Zone Act of 1995
	(2) Special treatment on employment and provision of visa for non-resident foreign nationals	(a) In PEZA-registered Economic Zone Enterprises, non-resident foreign nationals in supervisory, technical or advisory positions shall be employed. (5% of its workforce; Not exceeding 5 years from its registration; At least 2 Filipino understudies/per one foreigner) (b) The following non-resident foreign nationals in a PEZA-registered Economic Zone Enterprise: investor/s, officers, and employees in supervisory, technical or advisory position, and their spouses and unmarried children under 21 years of age can hold non-immigrant visa with multiple entry privilege. PEZA extends Visa Facilitation Assistance to foreign nationals, their spouses and dependents. (c) Any investor within the ECOZONE, whose initial personal investments shall not be less than US\$150,000.00, his /her spouse and dependent children under 21 years of age can hold permanent resident status.	
	(3) Unrestricted use of consigned equipment	The use of consigned machinery, equipment and spare parts which are reasonably needed in the registered operations and for the exclusive use the ECOZONE Export or Free Trade Enterprise beyond the period permitted under other laws, rules and regulations is permitted by PEZA.	
India	(1) External commercial borrowing	External commercial borrowing up to US\$500 million in a year without any maturity restriction shall be provided through recognized banking channels.	Ministry of Commerce & Industry, Department of Commerce
	(2) Establishment of single window system	System of single window clearance for Central and State level approvals shall be established.	

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

Summarized matrix of non-fiscal incentives offered by neighboring Asian countries is shown below. It is much more common to establish one-stop service window/unit and to issue special permit for foreigners.

Table III.3.2: 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	✓	✓		✓			
Philippines	✓	✓					Unrestricted use of consigned equipment
Vietnam	✓	✓		✓	✓	✓ (Development of Infrastructure)	
South Korea	✓	✓		✓		✓	Flexible approach to labor regulation, Establishment of educational institutions and hospitals for foreigners
India	✓	✓				✓	

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

(2) Non-Fiscal Incentives Offered in Indonesia

Currently, Indonesia has given non-fiscal incentives to investors in obtaining land rights¹⁷, through immigration service facilities and through import approval facilities. In Batam FTZ, simplified or streamlined procedures on the issuance of licenses for investors are employed by Regional BKPM.

The SEZ Law states that non-fiscal incentives or facilities on land rights, business licensing, immigration for foreign stakeholders/workers, and so on shall be provided, although the details are referred to in the forthcoming new regulations.

III.3.2 Proposed Non-fiscal Incentives

Based on the examples shown in Table III.3.1, result of interview with BKPM officer in Batam FTZ, and other information, it is proposed to introduce the following non-fiscal incentives to investors and developers for promotion of SEZ development:

(1) Consideration on introduction of One-stop Service (PTSP) Unit

For proper operation of the one-stop service (PTSP) unit in each SEZ which is described in articles 43 and 44 of Government Regulation No. 2/2011, dispatch of appropriate persons who have authorization and capability to expedite the process on site are crucial for investment approval, construction permit and customs services.

Therefore, cooperation among related authorities such as BKPM and taxation department is required before the PTSP is established completely.

(2) Early Introduction of Electronic Investment Licensing and Information Service System (SPIPISE)

As stated in the Investment Coordinating Board Decree No. 14/2009 concerning electronic investment licensing and information service system (SPIPISE), introduction of SPIPISE will be an effective non-fiscal incentive for investors (factory tenants) due to the procedures transparency and time saving. It is proposed to introduce and operate this system from the beginning of SEZ development so that it becomes an advantage of the SEZ. The system has already been established at a national level by BKPM and contributed to tracking of licensing process, synchronous processing of data and information, and on-site licensing process.

(3) Flexible Approach to Provision of Visa for Non-resident Foreign Nationals

The visa for non-resident foreign nationals in supervisory, technical or advisory positions as well as investors, their spouses and unmarried children shall be provided.

¹⁷ According to Government Regulation No. 40/1996, legal entities which are established according to the Law of Indonesia and domiciled in Indonesia can hold the right of land such as (a) Right to Cultivate (HGU) for agriculture and livestock sector for 35 years with the maximum extension for another 25 years; (b) Right to Build (HGB) for 35 years with the maximum extension for another 25 years; and (c) Right to Use (HP) up to 25 years with the maximum extension for another 20 years.

(4) Land Premium

Significantly reduced land prices or rental fees should be employed if the land is publicly owned. This incentive, in combination with the exemption from or reduction of land and building tax, will be more attractive for investors.

(5) Competitive Utility Tariffs

Regional governments or public agencies should provide competitive tariffs for utilities such as water supply and garbage collection to investors.

(6) Simplified Import-export Procedures

Establishment of simplified import-export procedures system will be highly expected including electronic import permit system and automated export documentation system.

Since the middle of 2009, the CMEA-JICA Technical Cooperation Project for Capacity Development for Trade-related Administration has tackled the following: (i) regulatory review on trade-related laws and regulations, (ii) improvement of export and import-related procedures, (iii) improvement of legal system for trade promotion, and (iv) improvement of dialogue mechanism between government and private sector.

III.4 Responsible Agencies on Provision of Incentives

Responsible agencies on provision of fiscal and non-fiscal incentives are summarized in the table below. As for offering of fiscal incentives, the Ministry of Finance is the key agency. For non-fiscal incentives, several agencies including BKPM are involved.

Table III.4.1: Responsible Agencies on Provision of Incentives

Incentive	Lead and Responsible Agencies	Remarks
1. Fiscal incentives	- Ministry of Finance - Regional Governments	Article 30 of Law No. 39/2009 on SEZ states that provisions on income tax incentives shall be stipulated in a government regulation. Government Regulation No. 94/ 2010 on tax holiday gives discretion to Minister of Finance to be able to provide a tax holiday incentive to new investors in certain industries and locations.
2. Non-fiscal incentives		
(1) One-stop services unit	- BKPM - Regional governments	-
(2) SPIPISE	- BKPM	Articles 36-38 of Law No. 39/ 2009 on SEZ states the provisions on non-fiscal incentives such as land, license and immigration, although they are not specific and concrete.
(3) Flexible approach to visa for foreign nationals	- Immigration Office, Ministry of Justice and Human Rights	
(4) Land premium	- Regional governments	
(5) Competitive utility tariff	- Regional governments - Public agencies	-
(6) Simplified import-export procedures system	- Ministry of Finance - CMEA	-

Source: JICA Survey Team

III.5 Legal Arrangement

III.5.1 Establishment of Effective Legal Scheme on SEZ Development

(1) Composition of SEZ Law and Its Relation to Other Laws and Regulations by Article

A variety of laws and regulations are relevant to SEZ Law. As shown in Table III.5.1, several articles in SEZ Law stipulate the need of formulating new government regulations or reference to the existing laws and regulations.

Table III.5.1: Composition of the Law on Special Economic Zone (No. 39/2009) and Its Relation to Other Laws and Regulations by Article

Chapter in the Law	Provision in the Law	Relation to other laws and regulations
Chapter I: General Provision	Article 1 (Definition)	NA
Chapter II: Function, Form, and Criteria	Article 2 (Function)	NA
	Article 3 (Form)	NA
	Article 4 (Criteria)	SEZ shall correspond to the spatial planning based on Spatial Planning Act (Government Regulation on Spatial Planning: No. 26/2008) and others.
Chapter III: Establishment of Special Economic Zone	Article 5 (Participants to Proposal)	NA
	Article 6 (Criteria and Required Document of the Proposal)	NA
	Article 7 (Approval or Rejection of the Proposal)	NA.
	Article 8 (Determination of the SEZ without the Proposal Process)	NA
	Article 9 (Further Procedures)	Further procedures are stipulated in Government Regulation No. 2/2011 regarding implementation of SEZ.
	Article 10 (Determination of a Company to establish SEZ)	NA
	Article 11 (Case of a Proposer Company)	NA
	Article 12 (Ready for Operation)	NA
	Article 13 (Funding for Construction and Maintenance of Infrastructure in SEZ)	NA
Chapter IV: Institution	Article 14 (National Council and Regional Council)	NA
	Article 15 (Position of the National Council)	The National Council shall be established based on a presidential decree, i.e., Presidential Decree concerning National Council of SEZ: No.8/2010
	Article 16 (Organization of the National Council)	Provisions on membership, work procedures and secretariat of the National Council were stipulated in Presidential Regulation No. 33/2010 regarding National Council and Regional Council for SEZ.
	Article 17 (Tasks of the National Council)	NA
	Article 18 (Relationship between the National Council and Others)	NA
	Article 19 (Position of the Regional Council)	The Regional Council shall be proposed by the National Council. The details were stipulated in Presidential Regulation No. 33/2010 regarding National Council and Regional Council for SEZ.

Chapter in the Law	Provision in the Law	Relation to other laws and regulations
	Article 20 (Organization of the Regional Council)	Provisions on membership, work procedures and secretariat of the Regional Council were stipulated in Presidential Regulation No. 33/2010 regarding National Council and Regional Council for SEZ.
	Article 21 (Tasks of the Regional Council)	NA
	Article 22 (Relationship between the Regional Council and Others, One-stop Services)	SEZ regional Council and administrators shall establish PTSD in accordance with the Presidential Regulation on one-stop services (PTSP): No. 27/2009
	Article 23 (Tasks of SEZ Administrator)	NA
	Article 24 (Relationship between the SEZ Administrator and Others)	NA
	Article 25 (Funding of the National Council, Regional Council, and SEZ Administrator)	Further provisions on funding shall be stipulated in a government regulation.
	Article 26 (Administrator Company)	NA
Chapter V: Goods Traffic, Quarantine, and Foreign Exchange	Article 27 (Goods Traffic to and from SEZ)	Relevant laws and regulations shall apply to goods traffic to and from SEZ.
	Article 28 (Quarantine)	NA
	Article 29 (Foreign Exchange)	NA
Chapter VI: Facility and Facilitation	Article 30 (Income Tax Facility)	The details on incentives shall be stipulated in a government regulation.
	Article 31 (Deduction of Land and Building Tax)	Tax facilities shall be provided in the form of land and building tax in accordance with the laws and regulations.
	Article 32 (Customs)	The details on incentives shall be stipulated in a government regulation.
	Article 33 (Import Regulations)	NA
	Article 34 (Export Regulations)	NA
	Article 35 (Regional Tax and Retribution)	Incentives on regional taxes shall be provided in accordance with laws and regulations.
	Article 36 (Right over Land)	Incentives on land right are provided in accordance with laws and regulations.
	Article 37 (Entitlement of Right over Land to a Company)	NA
	Article 38 (Business License)	Incentives on business license are provided in accordance with laws and regulations.
	Article 39 (Business to be opened for Investment)	NA
	Article 40 (Other Facility and Facilitation)	NA
	Article 41 (License to Employ Foreign Workers)	NA
	Article 42 (Preferred Indonesian Citizens)	NA
	Article 43 (Special Tripartite Partnership Body)	Labor Law: No. 13/2003
	Article 44 (Wage Board)	Labor Law: No. 13/2003
	Article 45 (Minimum Wage)	Labor Law: No. 13/2003
	Article 46 (Labor Union Forum)	Labor Law: No. 13/2003
Article 47 (Collective Employment Agreement)	NA	
Chapter VII: Closing Provision	Article 48 (Free Trade and Free Port Zones)	FTZ such as Batam, which has been established through Government Regulation No. 1/2000 and other acts, may be transformed into SEZ.
	Article 49 (Revoked Laws and Regulations related to Free Trade and Free Port Zones)	NA
	Article 50 (Effectiveness)	NA

Source: JICA Survey Team

(2) Clarification and Review of the Legal Scheme on SEZ Development

In order to clarify the legal scheme including offer of incentives for development of SEZ, it is important (i) to formulate new regulations to complement SEZ Law, (ii) to review the relationship between SEZ Law and the existing laws and regulations and (iii) to amend them if needed.

Table III.5.2 shows the list of major laws and regulations, which are relevant to SEZ Law and the development of SEZ.

Table III.5.2: List of Major Laws and Regulations Relevant to SEZ Law (No. 39/2009) and the Development of SEZ

Category	Laws and Regulations	Remarks
Special Economic Zone (SEZ)	(1) Government Regulation No. 2/2011 regarding Implementation of SEZ (2) Presidential Decree No. 8/2010 regarding National Council of SEZ (3) Presidential Regulation No. 33/2010 regarding National Council and Regional Council for SEZ	Several government regulations are promulgated to complement and strengthen SEZ Law.
Investment Promotion	(1) Law No. 25/2007 on Investment (2) Presidential Regulation No. 76/2007 regarding the Criteria and Establishment of Closed Business Line and Open Business with Conditions in respect of Capital Investment (3) Presidential Regulation No. 36/2010 regarding List of Investment Sectors	Investment law is a basis for investment promotion scheme in the country.
Income Tax	(1) Law No. 36/2008 on Fourth Amendment of Law No. 7/1983 (2) Government Regulation No. 1/2007 regarding Income Tax Facilities for Investment (3) Government Regulation No. 62/2008 regarding Amendment of Government Regulation No. 1/2007 (4) Government Regulation No. 94/2010 regarding Calculation of Non-Taxable Income and Payment of Income Tax in the Current Year (5) Ministerial Regulation No. 130/PMK.011/2011 on Provision of Exemption or Reduction of Corporate Income Tax by MOF	Several amendments have been done in terms of investment.
Customs/ Import Tariff	(1) Law No. 17/2006 on Customs Procedures (2) Ministerial Regulation No. 176 / PMK.011/2009 by MOF	
One-Stop Services (PTSP)	Presidential Regulation No. 27/2009 on One-Stop Services (PTSP)	
Land Administration/ Land Right	(1) Government Regulation No. 40/1996 regarding Right to Cultivate, Right to Build and Right to Use over Land (2) Government Regulation No. 24/1997 regarding Land Ownership/ Tenure	
Spatial Planning	(1) Law No. 24/1992 on Spatial Planning (2) Law No. 26/2007 on Spatial Planning (3) Government Regulation No. 26/2008 on Spatial Planning (4) Government Regulation No. 15/2010 on Implementation of Spatial Planning	
Industrial Zone	(1) Law No. 5/1984 on Industry Zone (Article 20) (2) Government Regulation No. 24/2009 on Industrial Area (3) Ministerial Regulation No. 147/M-IND/PER/10/2009 (4) Ministerial Regulation No. 16/M-IND/PER/2/2010	Definition of industrial zone is clarified.
Company Law	Law No. 40/2007 regarding Limited Liability Company:	
Local Taxes	(1) Law No. 34/2000 on Regional Tax (2) Government Regulation No. 65/2001 regarding Regional Tax (3) Government Regulation No. 45/2008 regarding Guidelines for Incentives Provision in the Region (4) Law No. 28/2009 on Regional Tax and Retributions	

Category	Laws and Regulations	Remarks
Labor Law (Manpower)	(1) Law No. 13/2003 on Labor (2) Ministerial Regulation No. M.06-IL.01.10 of 2006 concerning Determination of Special Facilitation in Immigration on SEZ by the Ministry of Law and Human Right (3) Ministerial Regulation No. M-01-IL.01.10 of 2007 concerning Amendment of the Ministerial Regulation No. M.06-IL.01.10 by the Ministry of Law and Human Right (4) Directorate General of Immigration Circular No. IMI-KU.02.02-115 of 2010 concerning "Collection and Deposit for Non Tax Revenue of Visa on Arrival in SEZ": (5) Ministerial Decree of Labor and Transmigration No. 27/2010 concerning wage	

Source: JICA Survey Team based on the information of BKPM

Note: Laws and regulations on environment are not included.

III.5.2 Some Points to be Amended or Modified in Law No. 39/2009 on SEZ and Government Regulation No. 2/2011 on Implementation of SEZ

(1) Incentives on Import Duty

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.

(2) Type or Business Fields Open to Investment for SEZ

Article 39 of the law stipulates that in SEZ, the regulation¹⁸ 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.

(3) Avoidance of Duplication of Incentives

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."

¹⁸ Presidential Regulation No. 36/2010 on the list of business fields closed or opened with conditions to investment

(4) SEZ Proposal

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 “

(5) Termination of Contract

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.

(6) Handover of Assets/Infrastructure

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.

(7) Transfer of Land

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.

(8) Authority of Administrator of SEZ

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.”

III.6 Environmental Consideration

III.6.1 Strategic Environmental Assessment (SEA)

(1) Basic Approaches of SEA

SEA is conducted as an environmental consideration of SEZ master plan to evaluate environmental impacts of the development alternatives. The potential negative impacts and issues are selected based on existing general data which can be evaluated at the provincial level.

(2) Methodology of SEA

1) Development Alternatives and Basic Condition

The following development alternatives of SEZ master plan will be assessed and evaluated:

Alternative 1: Aggressive plan

Alternative 2: Medium plan

Alternative 3: Moderate plan

The assessment and evaluation will be conducted mainly by development land area since the scale of the area will directly affect the environmental impacts. Conditions to estimate the SEZ development land area for each alternative are the following:

- i) Industrial land use of SEZ+, ECSEZ, CaSEZ is assumed as 400 ha per site.
- ii) Logistics/trade SEZ, R&D (ICT) SEZ, and Tourism SEZ area are excluded in counting because they are non-manufacturing site.
- iii) One SEZ construction in one potential area is assumed.
- iv) CaSEZ development in first priority potential area is assumed in all alternatives.

Result of the estimated land area is shown in Table III.6.1.

Table III.6.1(2): Estimated Development Land Area by Type of SEZ, and by Province

No. Province	Type of SEZ	Gross Area (ha)			Number of SEZ			Gross Area (ha)			Total of Gross Area (ha)		
		AI1	AI2	AI3	AI1	AI2	AI3	AI1	AI2	AI3	AI1	AI2	AI3
19 Nusa Tenggara Timur	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
20 Kalimantan Barat	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
21 Kalimantan Tengah	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
22 Kalimantan Selatan	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
23 Kalimantan Timur	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
24 Sulawesi Utara	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
25 Sulawesi Tengah	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
26 Sulawesi Selatan	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
27 Sulawesi Tenggara	SEZ	400	0	0	1	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	1	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	1	0	0	400	0	0	400	0	0
Total	SEZ	400	0	0	4	0	0	400	0	0	400	0	0
	ECSEZ	400	0	0	4	0	0	400	0	0	400	0	0
	CASEZ-1	400	0	0	4	0	0	400	0	0	400	0	0
	CASEZ-2	400	0	0	4	0	0	400	0	0	400	0	0
	CASEZ-3	400	0	0	4	0	0	400	0	0	400	0	0

Source: IST

2) Environmental Evaluation Parameters

Social and biological impacts, which are indicated by Regulation No.8/2006 as the environmental components, are considered important to the SEA study. Moreover, greenhouse gas impact is added as a component of environmental evaluation since climate change due to global warming is a big issue in the world. The evaluation parameters of environmental component of SEA are shown in Table III.6.2.

Table III.6.2: Environmental Evaluation Parameters

Environmental Component	Evaluation Parameter
Social Impact	Population density
Biological Impact	Vegetated land area
Global Warming Impact	Development land area and Vegetated land area

(3) Evaluation Procedure

1) Criteria for Development Land Area

Generally, environmental effects will be related to the SEZ development scale (land area). The criteria of the SEZ development land area will be defined based on the development land area estimated before, as shown in Table III.6.3. The criteria with less negative environmental impacts will be given a higher score.

Table III.6.3: Criteria for SEZ Development Land Area

Gross Area of SEZ in Province (ha)	Development Land Area Criteria (C _D)
0	4
400	3
800	2
1,200	1

2) Social Impact

There is a possibility of land acquisition, resettlement and compensation required during the SEZ development. Generally, land acquisition issue is a major problem during selection of the project location, in which number of resettlement is the most serious problem. Therefore, the social potential impact criteria will be defined based on population density, as shown in Table III.6.4.

Table III.6.4: Social Criteria for SEZ Development

Classification		Population Density (person/km ²)	Social Criteria (C _s)
Without Development		n. a.	3
With Development	Province with population density below the national average (124 person/km ²)	8 - 123	2
	Province with the national average population density (124 person/km ²) and above	124 - 14,440	1

Source: Statistical Year Book of Indonesia 2010

Social impact score (Score_(Social)) for each province was estimated using the following formula:

$$\text{Score}_{(Social), i} = C_{D, i} \times C_{S, i} / \text{Ave. of } (C_D \times C_S)$$

C_D = Development Area Criteria shown in Table 3.6.1.3
 C_S = Social Criteria shown in Table 3.6.1.4
 i = 1~33, Province serial number

3) Biological Impact

The weight of impact to natural environment will be defined by the scale of deforestation since SEZ development will demolish existing land condition. Therefore, the biological potential impact criteria will be defined based on percentage of vegetated land area, as shown in Table III.6.5.

Table III.6.5: Biological Criteria for SEZ Development

Classification		Percentage of Vegetated Land Area (%)	Biological Criteria (C_B)
Without Development		n. a.	3
With Development	Province with percentage of vegetated land area below the national average (60.6%)	7.5 – 60.5	2
	Province with the national average percentage of vegetated land area (60.6%) and above	60.6 - 90.3	1

Source: State of Environment Report in Indonesia 2009 (Ministry of Environment of Republic of Indonesia)

Biological impact score (Score_(Biological)) for each province was estimated using the following formula:

$$\text{Score}_{(Biological), i} = C_{D, i} \times C_{B, i} / \text{Ave. of } (C_D \times C_B)$$

C_D = Development Area Criteria shown in Table 3.6.1.3
 C_B = Biological Criteria shown in Table 3.6.1.5
 i = 1~33, Province serial number

4) Global Warming Impact

One of the main greenhouse gases is carbon dioxide (CO₂). Absorptive function of CO₂ from the atmosphere is decreased mainly by deforestation. Also, industrial activities contribute to the occurrence of CO₂. The impact of greenhouse gas is estimated by impact on vegetated land area and development land area since actual industrial activities cannot be defined at this stage. Therefore, the global warming impact score (Score_(Global Warming)) for each province was estimated using the following formula:

$$\text{Score}_{(Global Warming), i} = (\text{Score}_{(Biological), i} + \text{Score}_{(Development), i}) / 2$$

$\text{Score}_{(Development), i} = C_{D, i} / \text{Ave. of } (C_D)$
 C_D = Development Scale Criteria shown in Table 3.6.1.3
 i = 1~33, Province serial number

5) Total Environmental Impact Evaluation

Total environmental impact evaluation will be estimated from the total score of the impacts described above. The formula is shown below.

$$\text{Score}_{(\text{Total})} = \text{Score}_{(\text{Social})} + \text{Score}_{(\text{Biological})} + \text{Score}_{(\text{Global Warming})}$$

(4) Conclusion of SEA

1) Result of Estimation

Summary of the estimation results is shown in Table III.6.6. Both Alternative 2 and Alternative 3 obtain the lowest environmental impact (highest score) among the three development alternative options. The detailed results of evaluation of environmental impact are shown in Table III.6.7.

Table III.6.6: Summary of Evaluation of Environmental Impact on SEA

	Score _(Social)	Score _(Biological)	Score _(Global Warming)	Score _(Total)
Alternative 1	22.2	21.9	24.1	68.2
Alternative 2	38.0	38.3	36.7	113.0
Alternative 3	38.0	38.3	36.7	113.0

The potential impacts in each province are shown in Figure III.6.1 and Figure III.6.2.

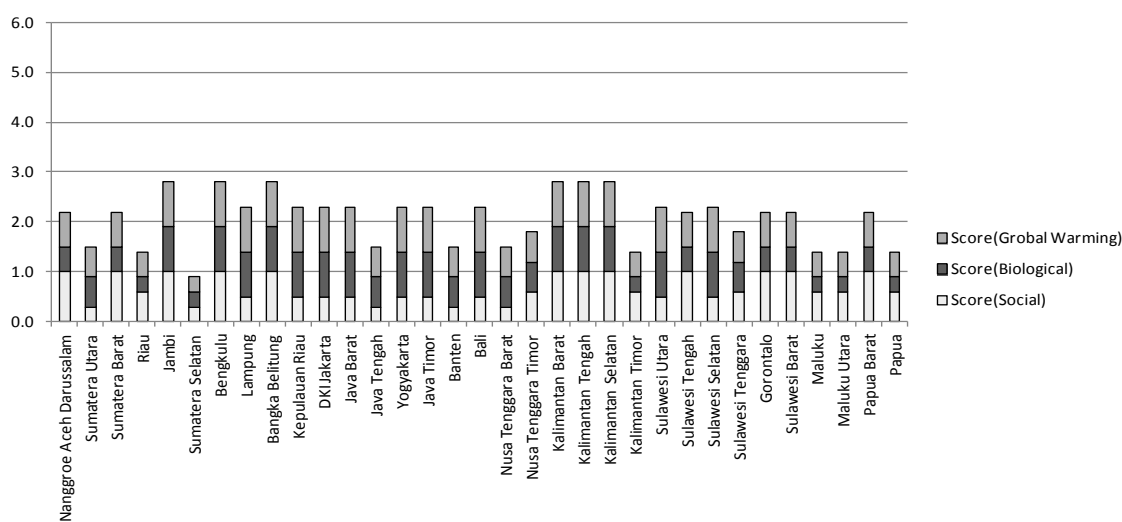


Figure III.6.1: Province-wise Evaluation of Environmental Impact on SEA in Alternative 1

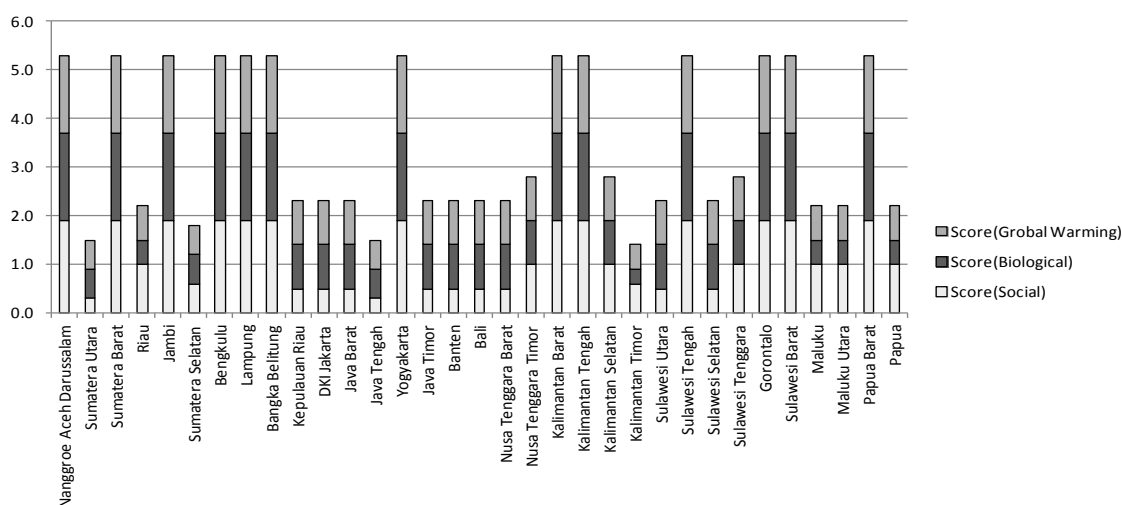


Figure III.6.2: Province-wise Evaluation of Environmental Impact on SEA in Alternative 2/Alternative 3

(Alternative 1)

- SEZ developments in Sumatera Utara, Sumatera Selatan, Java Tengah, Banten and Nusa Tenggara Barat will include the highest potential social impact (lowest score) in Alternative 1.
- SEZ developments in Riau, Sumatera Selatan, Kalimantan Timor, Maluku, Maluku Utara and Papua will include the highest potential biological impact (lowest score) in Alternative 1.
- SEZ developments in Sumatera Selatan and Kalimantan Timor will include the highest potential global warming impact (lowest score) in Alternative 1.
- SEZ development in Sumatera Selatan should pay particular attention to environmental impact because it has the highest (lowest score) in each of the environmental impact.

(Alternative 2/Alternative 3)

- SEZ developments in Sumatera Utara and Java Tengah will include the highest potential social impact (lowest score) in Alternative 2/ Alternative 3.
- SEZ development in Kalimantan Timor will include the highest potential biological/ global warming impact (lowest score) in Alternative 2/ Alternative 3.

2) Conclusion

In conclusion, Alternative 2 or Alternative 3 is selected as the best solution. Alternative 2 or Alternative 3 is approximately two times the evaluated score of Alternative 1. Alternative 2 and Alternative 3 have the same level of potential environmental impact.

Table III.6.7: Evaluation of Environmental Impact on SEA

no.	Province	Gross Area of SEZ						Social Impact						Biological Impact						Global Warning Impact		Total																	
		Data 1			Data 2			Cs	Co x Cs	Score(Social) Cp x Cs / Ave. of (Co x Cs)	Data3	Ch	Co x Ch	Score(Biological) Cp x Ch / Ave. of (Co x Ch)	Score(Global)			Score(Social) +Score(Biologi) +Score(Global)																					
		Development Area Criteria	Score(Ave.)		Population Density (person/km ²)	Social Centrior	Vegetated Percentage								Biological Criteria				A1	A2	A3																		
			A1	A2				A3	A1	A2	A3	A1	A2	A3																									
1	Nanggroe Aceh Darussalam	400	800	800	1,200	400	800	800	1,200	77	2	3	6	12	12	10	1,9	1,9	68,7%	1	3	3	3,0	12,0	12,0	0,5	1,8	1,8	0,7	1,6	1,6	2,2	5,3	5,3					
2	Sumatera Utara	400	800	800	1,200	400	800	800	1,200	178	1	1	2	4	4	0,3	0,3	30,9%	2	2	2	4,0	4,0	4,0	0,6	0,6	0,6	0,6	1,5	1,5	0,5	1,5	1,5	2,2	5,3	5,3			
3	Sumatera Barat	400	800	800	1,200	400	800	800	1,200	115	2	3	6	12	12	1,0	1,9	48,4%	1	3	3	3,0	12,0	12,0	0,5	1,8	1,8	0,7	1,6	1,6	2,2	5,3	5,3						
4	Riau	400	800	800	1,200	400	800	800	1,200	64	2	2	4	6	6	0,6	1,0	64,2%	1	1	1	2,0	3,0	3,0	0,3	0,5	0,5	0,5	0,7	0,7	1,4	2,2	2,2	2,2	2,2	2,2			
5	Jambi	400	800	800	1,200	400	800	800	1,200	62	2	3	6	12	12	1,0	1,9	48,4%	2	3	3	6,0	12,0	12,0	0,9	1,8	1,8	0,9	1,6	1,6	2,8	5,3	5,3						
6	Sumatera Selatan	400	800	800	1,200	400	800	800	1,200	81	2	2	4	6	6	0,6	1,0	42,4%	2	2	2	2,0	4,0	4,0	0,3	0,6	0,6	0,3	0,6	0,6	0,9	1,8	1,8	0,7	1,6	1,6	2,2	5,3	5,3
7	Bengkulu	400	800	800	1,200	400	800	800	1,200	86	2	3	6	12	12	1,0	1,9	49,1%	2	3	3	6,0	12,0	12,0	0,9	1,8	1,8	0,9	1,6	1,6	2,8	5,3	5,3						
8	Lampung	400	800	800	1,200	400	800	800	1,200	219	1	3	3	6	6	1,2	0,5	47,9%	2	3	3	6,0	12,0	12,0	0,9	1,8	1,8	0,9	1,6	1,6	2,8	5,3	5,3						
9	Bangka Belitung	400	800	800	1,200	400	800	800	1,200	74	2	3	6	12	12	1,0	1,9	17,5%	2	3	3	6,0	12,0	12,0	0,9	1,8	1,8	0,9	1,6	1,6	2,8	5,3	5,3						
10	Kepulauan Riau	400	800	800	1,200	400	800	800	1,200	206	1	1	3	3	3	0,5	0,5	37,0%	2	2	2	6,0	6,0	6,0	0,9	0,9	0,9	0,9	0,9	0,9	2,3	2,3	2,3	2,3	2,3				
11	DKI Jakarta	400	800	800	1,200	400	800	800	1,200	14.440	1	1	3	3	3	0,5	0,5	7,5%	2	2	2	6,0	6,0	6,0	0,9	0,9	0,9	0,9	0,9	0,9	2,3	2,3	2,3	2,3	2,3				
12	Jawa Barat	400	800	800	1,200	400	800	800	1,200	1.216	1	1	3	3	3	0,5	0,5	45,1%	2	2	2	6,0	6,0	6,0	0,9	0,9	0,9	0,9	0,9	0,9	2,3	2,3	2,3	2,3	2,3				
13	Jawa Tengah	400	800	800	1,200	400	800	800	1,200	987	1	1	2	2	2	0,3	0,3	52,0%	2	2	2	4,0	4,0	4,0	0,6	0,6	0,6	0,6	0,6	1,5	1,5	1,5	1,5	1,5	1,5				
14	Yogyakarta	400	800	800	1,200	400	800	800	1,200	1.102	1	3	3	6	6	1,2	0,5	20,9%	2	3	3	6,0	12,0	12,0	0,9	1,8	1,8	0,9	1,6	1,6	2,3	2,3	2,3	2,3	2,3				
15	Jawa Timur	400	800	800	1,200	400	800	800	1,200	784	1	1	3	3	3	0,5	0,5	51,7%	2	2	2	6,0	6,0	6,0	0,9	0,9	0,9	0,9	0,9	0,9	2,3	2,3	2,3	2,3	2,3				
16	Banten	400	800	800	1,200	400	800	800	1,200	242	1	1	3	3	3	0,3	0,3	44,9%	2	2	2	4,0	4,0	4,0	0,6	0,6	0,6	0,6	0,6	1,5	1,5	1,5	1,5	1,5	1,5				
17	Bali	400	800	800	1,200	400	800	800	1,200	673	1	1	3	3	3	0,5	0,5	53,6%	2	2	2	6,0	6,0	6,0	0,9	0,9	0,9	0,9	0,9	2,3	2,3	2,3	2,3	2,3	2,3				
18	Nusa Tenggara Barat	400	800	800	1,200	400	800	800	1,200	242	1	1	3	3	3	0,3	0,3	54,0%	2	2	2	4,0	4,0	4,0	0,6	0,6	0,6	0,6	0,6	1,5	1,5	1,5	1,5	1,5	1,5				
19	Nusa Tenggara Timur	400	800	800	1,200	400	800	800	1,200	96	2	2	4	6	6	0,6	1,0	19,1%	2	2	2	4,0	4,0	4,0	0,6	0,6	0,6	0,6	0,6	1,5	1,5	1,5	1,5	1,5	1,5				
20	Kalimantan Barat	400	800	800	1,200	400	800	800	1,200	30	2	3	6	12	12	1,0	1,9	41,6%	2	3	3	6,0	12,0	12,0	0,9	1,8	1,8	0,9	1,6	1,6	2,8	5,3	5,3	5,3	5,3				
21	Kalimantan Tengah	400	800	800	1,200	400	800	800	1,200	14	2	3	6	12	12	1,0	1,9	52,0%	2	3	3	6,0	12,0	12,0	0,9	1,8	1,8	0,9	1,6	1,6	2,8	5,3	5,3	5,3	5,3				
22	Kalimantan Selatan	400	800	800	1,200	400	800	800	1,200	94	2	2	6	6	6	1,0	1,0	50,8%	2	2	2	6,0	6,0	6,0	0,9	0,9	0,9	0,9	0,9	2,8	2,8	2,8	2,8	2,8	2,8				
23	Kalimantan Timur	400	800	800	1,200	400	800	800	1,200	17	2	2	4	4	4	0,6	0,6	71,5%	1	1	1	2,0	2,0	2,0	0,3	0,3	0,3	0,3	0,3	0,5	0,5	0,5	0,5	0,5	0,5	0,5			
24	Sulawesi Utara	400	800	800	1,200	400	800	800	1,200	164	1	1	3	3	3	0,5	0,5	48,8%	2	2	2	6,0	6,0	6,0	0,9	0,9	0,9	0,9	0,9	2,3	2,3	2,3	2,3	2,3	2,3				
25	Sulawesi Tengah	400	800	800	1,200	400	800	800	1,200	43	2	3	6	12	12	1,0	1,9	72,1%	1	3	3	3,0	12,0	12,0	0,5	1,8	1,8	0,7	1,6	1,6	2,2	5,3	5,3	5,3	5,3				
26	Sulawesi Selatan	400	800	800	1,200	400	800	800	1,200	172	1	1	3	3	3	0,5	0,5	45,4%	2	2	2	6,0	6,0	6,0	0,9	0,9	0,9	0,9	0,9	2,3	2,3	2,3	2,3	2,3	2,3				
27	Sulawesi Tenggara	400	800	800	1,200	400	800	800	1,200	59	2	2	4	6	6	0,6	1,0	58,1%	2	2	2	4,0	4,0	4,0	0,6	0,6	0,6	0,6	0,6	1,5	1,5	1,5	1,5	1,5	1,5				
28	Gorontalo	400	800	800	1,200	400	800	800	1,200	92	2	3	6	12	12	1,0	1,9	68,5%	1	3	3	3,0	12,0	12,0	0,5	1,8	1,8	0,7	1,6	1,6	2,2	5,3	5,3	5,3	5,3				
29	Sulawesi Barat	400	800	800	1,200	400	800	800	1,200	69	2	3	6	12	12	1,0	1,9	65,7%	1	3	3	3,0	12,0	12,0	0,5	1,8	1,8	0,7	1,6	1,6	2,2	5,3	5,3	5,3	5,3				
30	Maluku	400	800	800	1,200	400	800	800	1,200	33	2	2	4	6	6	0,6	1,0	75,6%	1	1	1	2,0	3,0	3,0	0,3	0,5	0,5	0,5	0,7	0,7	1,4	2,2	2,2	2,2	2,2	2,2			
31	Maluku Utara	400	800	800	1,200	400	800	800	1,200	32	2	2	4	6	6	0,6	1,0	69,1%	1	1	1	2,0	3,0	3,0	0,3	0,5	0,5	0,5	0,7	0,7	1,4	2,2	2,2	2,2	2,2	2,2			
32	Papua Barat	400	800	800	1,200	400	800	800	1,200	8	2	3	6	12	12	1,0	1,9	90,3%	1	3	3	3,0	12,0	12,0	0,5	1,8	1,8	0,7	1,6	1,6	2,2	5,3	5,3	5,3	5,3				
33	Papua	400	800	800	1,200	400	800	800	1,200	9	2	2	4	6	6	0,6	1,0	78,7%	1	1	1	2,0	3,0	3,0	0,3	0,5	0,5	0,5	0,7	0,7	1,4	2,2	2,2	2,2	2,2	2,2			
Average		515	1,200	1,200	1,200	400	800	800	1,200	124	1,9	1,9	6,2	6,2	6,2	0,7	1,2	60,6%	2,1	1,1	1,1	2,0	6,6	6,6	0,7	1,2	1,2	0,7	1,1	1,1	1,1	1,1	1,1	1,1	1,1				
Max		1,200	1,200	1,200	1,200	400	800	800	1,200	14.440						1,0	1,9	90,3%																					
Min		400	800	800	1,200	400	800	800	1,200	8						0,3	0,3	7,5%																					
Total		18,400	9,600	9,600	18,400	4,000	8,000	8,000	18,400	55	68	137	257	257	257	222	380	380		55	74	74	144	254	254	219	383	383	241	367	367	367	367	367					

Source: Data I/JST Data 2/Statistical year book of Indonesia 2010 (Badan Pusat Statistik) Data 3/State of Environment Report In Indonesia 2009 (Ministry of Environment of Republic of Indonesia)

III.6.2 Proposed Mitigation and Consideration Measures for Potential Main Negative Impacts in SEZ

Potential negative impacts in SEZ and the proposed mitigation and consideration measures during planning, construction and operation stages are listed in Table III.6.8.

Table III.6.8: Proposed Mitigation and Consideration Measures in SEZ

Potential Negative Impact	Project Stage	Proposed Mitigation and Consideration Measure	Responsibility
Involuntary Resettlement and Land Acquisition	Planning	- Setting the post to smoothly conduct the land acquisition and resettlement action plan (LARAP) for SEZ development	Developer
		- Supporting the procedure of LARAP conducted by the developer	Local government
Hazards and Risk	Planning	- Preventive structure/ facilities for disaster shall be planned based on the data of the frequency/ scale of disaster (e.g., heavy rainfall, earthquake, and tsunami) - Disaster prevention manual or hazard response manual including escape route and emergency procedure shall be prepared	Developer
	Operation	- Safety management implementation system adapted to manuals prepared during planning stage shall be established	Administrator/ Tenants
Deforestation / Greenhouse gas (GHG) emissions	Planning	- Consideration on how to minimize deforestation - Tree planting shall be conducted as much as possible for landscape, comfortable environment as well as absorptive function of CO ₂	Developer
	Construction	- Trees shall be transplanted from the development area into the non-development area/ green area as much as possible, before being cut down by development	Developer
Waste generation	Construction	- Cut down trees shall be reused and recycled as much as possible	Developer
	Operation	- Periodical / irregular inspections on solid waste management and wastewater treatment in the SEZ area as well as monitoring of the wastewater quality from factories	Administrator/ Tenants

Note: Developer can contract with Consultant / Constructor to conduct above proposed mitigations during planning /construction stage. Developer will supervise the activities of the Consultant/ Constructor.

Source: JICA Survey Team

CHAPTER IV: IMPLEMENTATION PLAN

IV.1 Road Map to 2019/2020

Based on political decision, two SEZs shall be approved by 2011/2012 and additional three SEZs by 2014/2015 as fast track projects. This may be as a countermeasure of AFTA, the free trade agreement among ASEAN countries and some others which will start to be implemented by 2015. Moreover, to reach the mid- and long-term development targets, it is required to create 524,000 jobs as direct employment of SEZs by 2019/2020 and 1,300,000 jobs by 2025, which are estimated to be accommodated by 4,100 ha and 11,100 ha of industrial-based SEZ, respectively. The summary of the road map is shown in Figure IV.1.1.

However, incentives for SEZ have not yet been determined up to now and several issues suffocating SEZ business exist in the current law. Achievement of incentives and amendment of current law are mandatory to attract investors.

Since the SEZ will be approved by the President, the best incentive among similar schemes will be recommended. Moreover, procedure to acquire SEZ approval is more complicated compared with similar schemes such as IZ and KB, which just require approval from the line ministry and do not need to get recommendation from various local government authorities. This procedure expresses how SEZ is important for national economic development, and thus in order to bring the applicants, it is necessary for SEZ to offer the most attractive incentive.

There are some regulations necessary to be amended in the current Governmental Law No. 2 year 2011 regarding SEZ development because of common activities of SEZ especially for industrial-based sectors, i.e., restriction on handing over land right, handing over infrastructure, and limitation to give incentives.

Application and evaluation for the first track projects will be implemented in parallel with the achievement of incentives and amendment of the current law. Without fixed incentives and amendment of the current law, it is difficult to attract the private sector. Therefore, the proposal and/or application may be from public sector and local government, or only to SEZ with sectors which are less affected by the current law and which are not given much incentive in the current scheme, such as tourism. Furthermore, considering the time period for SEZ development, the location with sufficient public infrastructure may be more attractive for applicants.

For the ordinary track projects, after giving fixed incentives and law amendment, those in the disadvantaged areas with strong local government supports can attract attention from investors. To realize the project in disadvantaged area without delay, it is necessary to start preparation of sufficient public infrastructure from now on.

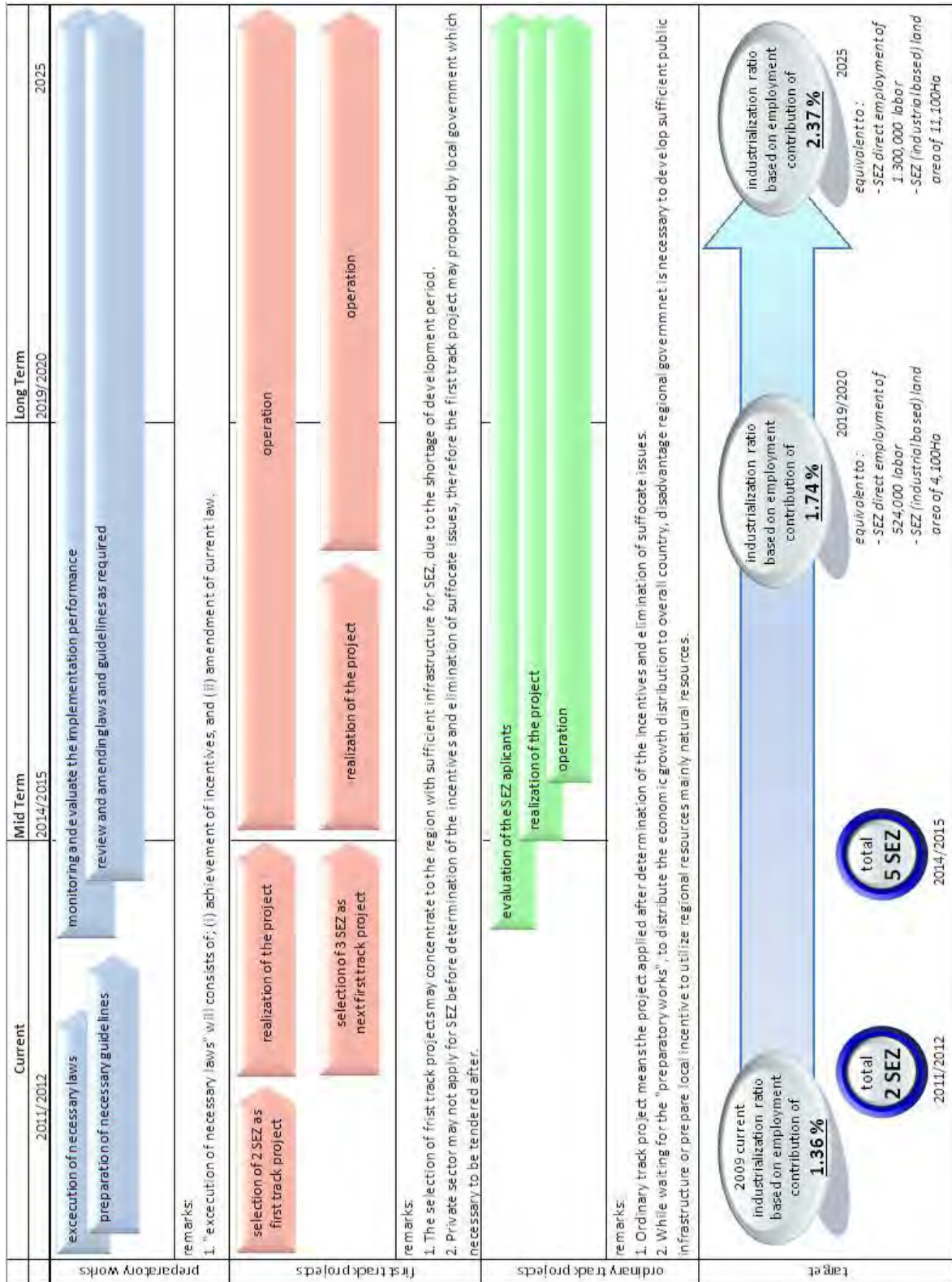


Figure IV.1.1 Road Map 2019/2020

IV.2 Implementation Plan

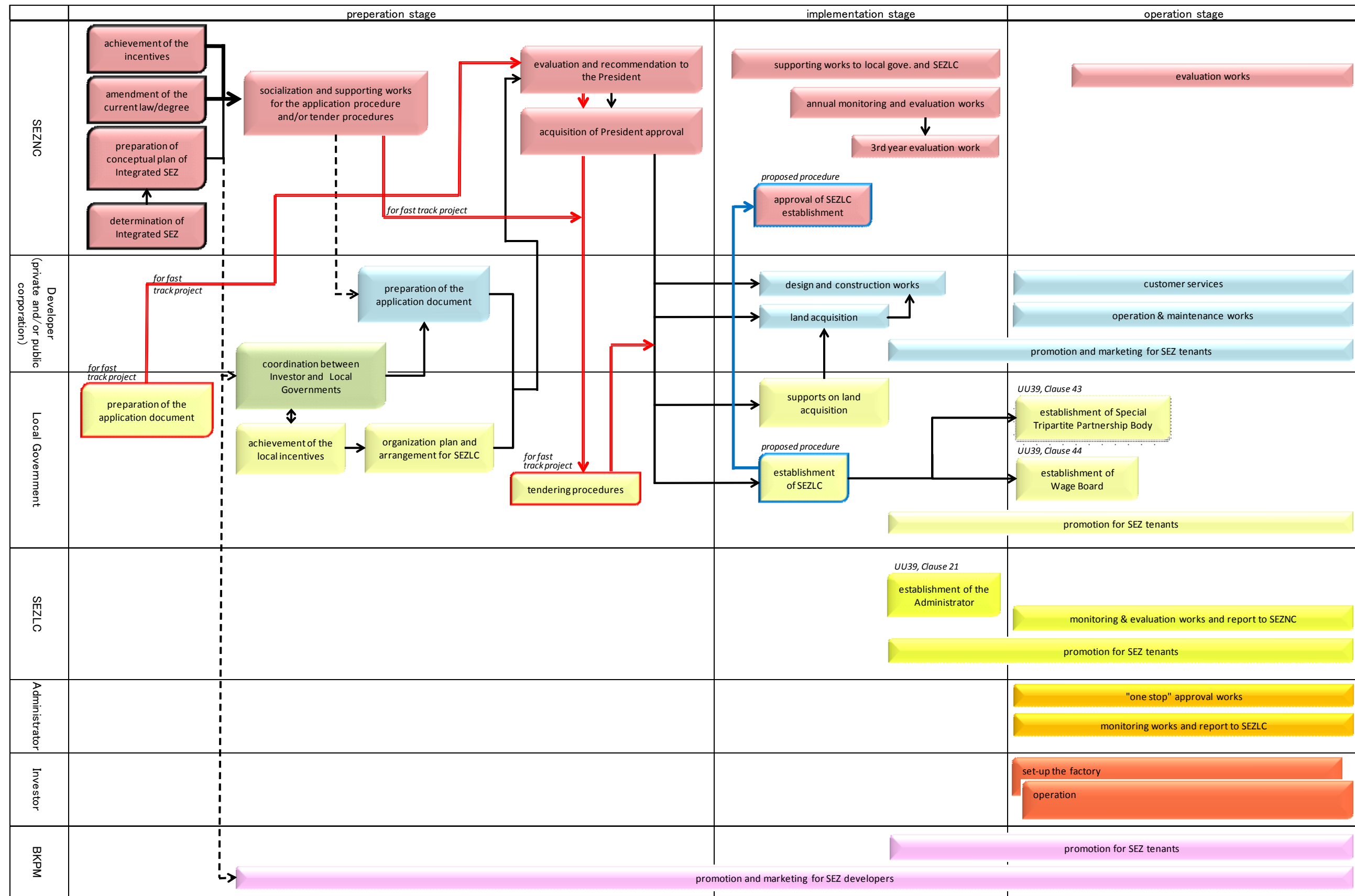
Implementation of SEZ will be realized mainly through private sector (private and/or public corporation) fund, including projects proposed/applied by local government to be put out to tender for private companies later. Therefore, simplification and shortening of the implementation procedure is recommended because of the required operational inauguration within three years after the SEZ approval and in order not to miss the market opportunity.

Detailed procedure will be different by applicants, who are: (i) SEZ National Council, (ii) private and/or public corporation, (iii) local government, (iv) SEZ Local Council, (v) Administrator, (vi) investors, and (vii) BKPM. However, the major procedures are undertaken by the private sector as developer and local government. The process flow in the implementation plan is summarized and recommended as shown in Figure 4.2.1.

The main point is that the developer can start immediately after achievement of incentives and amendment of the current law due to financial reason except in some sectors, which have less effect as mentioned above.

To shorten this time-consuming process, it is recommended to simplify the procedure to establish SEZ Local Council, which currently requires the following: (i) proposal from local government to SEZ National Council, (ii) consultation and approval from SEZ National Council, (iii) recommendation from SEZ National Council to President, and (iv) President's approval. The whole process generally requires several months. Without establishment of the SEZ Local Council, the project will not be implemented and will be delayed.

To take advantage of business opportunities, there is a possibility for developers to apply for SEZ together with similar scheme such as IZ or KB since the developers cannot wait much for the time-consuming approval procedure. In case that the approval procedure takes longer time compared with the other scheme, the developer will start construction for works with license that are approved immediately, before SEZ application is approved. It is recommended to allow this kind of development if they apply for the SEZ from the start of the project, and implementation has been following SEZ-related regulations.

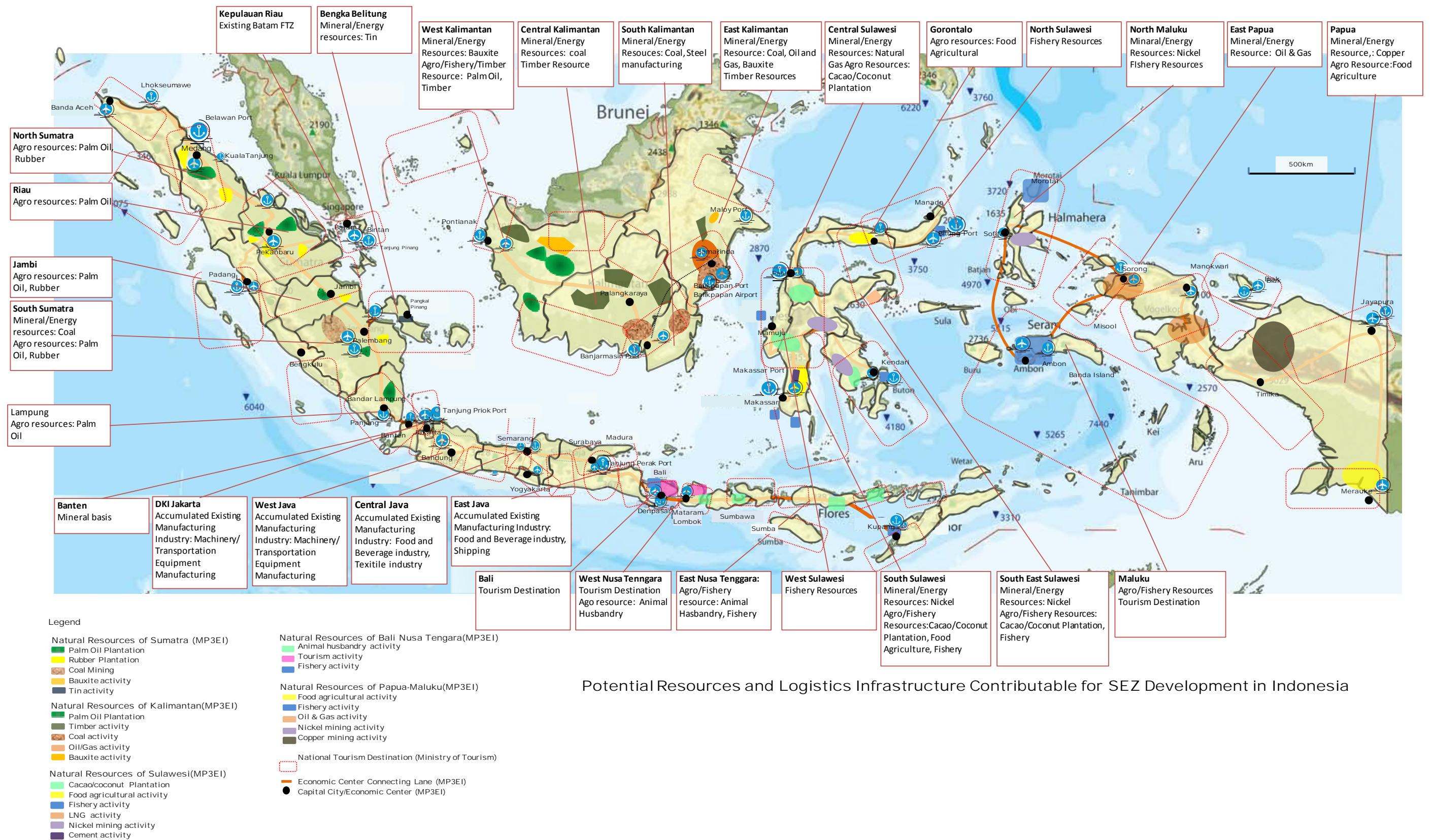


Source: JICA Survey Team

Figure IV.2.1: Implementation Plan

Appendixes A

Appendix A.1: Potential Resources and Logistics Infrastructure Contributable for SEZ Development in Indonesia



Potential Resources and Logistics Infrastructure Contributable for SEZ Development in Indonesia

Figure A.1.1: Potential Resource and Logistics Infrastructure Contributable for SEZ Development in Indonesia

Appendix A.2: Potential Analysis Results of Characterized SEZ Development by Province

Table A.2.1: Evaluation on Province for Mineral/Energy Resources SEZ

no.	Province	Major city	Development Potential				Sup. Facility				Score				Evaluation Result			
			Natural Resources		Mining		Int' Sea Support	Int' Sea Logistics	GDP per capita	Unemployment Ratio	Total Score for SEZ Investment Possibility	Total Evaluation	Province	Major city	no.			
			Current production	Availability of resources	Primary Por number of located in1	Along the sea line of communication in1 (S,EO and ALK)4										Current production	Availability of resources	
1	Nanggroe Aceh Darussalam	Banda Aceh	2,691	1	1	8.60	16,216	3	3	12	III	Nanggroe Aceh Darussalam	Banda Aceh	1				
2	Sumatra Utara	Medan	1,323	1	1	8.01	17,840	5	5	16	II	Sumatra Utara	Medan	2				
3	Sumatra Barat	Padang	1,125	1	0	7.15	15,873	3	3	9	III	Sumatra Barat	Padang	3				
4	Riau	Pekanbaru, Dumai	4,688	2	1	7.21	60,211	3	3	19	II	Riau	Pekanbaru, Dumai	4				
5	Jambi	Jambi	1,865	1	1	4.45	15,107	3	3	9	III	Jambi	Jambi	5				
6	Sumatra Selatan	Palembang	13,857	1	1	6.55	18,907	4	5	27	I	Sumatra Selatan	Palembang	6				
7	Bengkulu	Bengkulu	2,651	0	0	4.06	9,318	3	3	3	III	Bengkulu	Bengkulu	7				
8	Lampung	Bandar Lampung	738	1	1	5.95	11,789	3	3	9	III	Lampung	Bandar Lampung	8				
9	Bangka Belitung	Pangkal Pinang	1,466	0	1	4.24	19,869	5	3	16	II	Bangka Belitung	Pangkal Pinang	9				
10	Kepulauan Riau	Batam	2,083	2	1	7.21	42,166	3	3	9	III	Kepulauan Riau	Batam	10				
11	DKI Jakarta	DKI Jakarta	900	1	1	11.31	82,089	5	3	13	III	DKI Jakarta	DKI Jakarta	11				
12	Jawa Barat	Bandung	7,424	0	0	10.57	15,711	3	3	6	III	Jawa Barat	Bandung	12				
13	Jawa Tengah	Semarang, Solo	1,953	1	0	6.86	11,958	3	3	6	I	Jawa Tengah	Semarang, Solo	13				
14	Yogyakarta	Yogyakarta	149	0	0	6.07	11,830	2	3	3	III	Yogyakarta	Yogyakarta	14				
15	Jawa Timur	Surabaya, Malang	7,054	1	0	4.91	18,551	5	3	8	II	Jawa Timur	Surabaya, Malang	15				
16	Banten	Serang	90	1	1	14.13	13,598	3	3	14	I	Banten	Serang	16				
17	Bali	Denpasar	150	1	0	3.57	16,215	3	3	6	III	Bali	Denpasar	17				
18	Nusa Tenggara Barat	Mataram	4,293	1	1	5.78	12,471	3	3	9	III	Nusa Tenggara Barat	Mataram	18				
19	Nusa Tenggara Timur	Kupang	154	0	1	3.49	17,367	3	3	6	III	Nusa Tenggara Timur	Kupang	19				
20	Kalimantan Barat	Pontianak	416	1	1	5.50	14,638	5	3	19	II	Kalimantan Barat	Pontianak	20				
21	Kalimantan Tengah	Palangka Raya	1,587	0	0	3.88	88,972	5	3	10	III	Kalimantan Tengah	Palangka Raya	21				
22	Kalimantan Selatan	Banjarmasin	6,206	1	1	5.89	14,579	5	3	19	II	Kalimantan Selatan	Banjarmasin	22				
23	Kalimantan Timur	Samarinda	42,861	2	1	10.45	12,112	5	3	32	I	Kalimantan Timur	Samarinda	23				
24	Sulawesi Utara	Manado	872	1	1	10.48	12,623	3	3	14	II	Sulawesi Utara	Manado	24				
25	Sulawesi Tengah	Palu	596	0	1	4.89	12,925	5	3	16	II	Sulawesi Tengah	Palu	25				
26	Sulawesi Selatan	Makassar	3,853	1	1	7.99	7,198	3	3	22	II	Sulawesi Selatan	Makassar	26				
27	Sulawesi Tenggara	Kendari	551	0	0	4.71	8,277	5	3	13	III	Sulawesi Tenggara	Kendari	27				
28	Gorontalo	Gorontalo	30	0	0	5.05	9,424	3	3	3	III	Gorontalo	Gorontalo	28				
29	Sulawesi Barat	Mamuju	33	0	1	4.10	5,225	3	3	6	III	Sulawesi Barat	Mamuju	29				
30	Maluku	Ambon	28	1	1	9.13	5,277	3	3	12	III	Maluku	Ambon	30				
31	Maluku Utara	Sofifi	114	0	1	6.03	4,808	3	3	12	III	Maluku Utara	Sofifi	31				
32	Papua Barat	Sorong, Manokwari	1,094	2	0	7.77	19,557	3	3	15	II	Papua Barat	Sorong, Manokwari	32				
33	Papua	Jayapura, Merauke, Timika	11,527	2	0	4.08	31,777	4	3	20	II	Papua	Jayapura, Merauke, Timika	33				
	minimum		28	0	0=n.a.	3.49	4,808			3								
	maximum		46,887	2	2=available	14.13	88,920			32								
	range		46,859	2	n.a.	10.64	84,112			29								
	L (low range)		15,648	1	0	7.04	32,845			13								
	M (mid range)		31,267	1	n.a.	10.58	60,885			22								
	H (high range)		46,887	2	1	14.13	88,920			32								

/1 GRDP at 2000 Constant Market Prices (Billion Rupiahs), Year 2009, BPS
/2 Mineral resources based downstream related industry in Papua is less expectable.
/3 Primary score is given because prospective mineral/energy related IP SEZs are planned.
/4 Based on MP-3E1

Table A.2.2: Evaluation on Province for Agricultural Resources SEZ

no.	Province	Major city	Development Potential				Supporting Facility			Development Needs			Score				Evaluation Result		
			Food Crops		Natural Resources		Int'l Support	Int'l Sea Logistics	Unemployment Ratio	GDP per capita	Total Score for SEZ Investment Possibility	Total Evaluation	Province	Major city	no.				
			Current production / resources/1	Availability of resources/2	Current production / resources/1	Availability of resources/2										Int'l Sea Logistics	Int'l Sea Logistics	Unemployment Ratio	GDP per capita
1	Nanggroe Aceh Darussalam	Bandar Aceh	3,4081	1,6951	1	1	1	1	8,66	16,216	III	Nanggroe Aceh Darussalam	Bandar Aceh	1					
2	Sumatra Utara	Medan	8,753	10,811	1	1	1	1	8,01	17,840	III	Sumatra Utara	Medan	2					
3	Sumatra Barat	Padang	4,431	2,171	1	1	1	1	7,57	15,803	III	Sumatra Barat	Padang	3					
4	Riau	Pekanbaru, Dumai	1,8841	6,440	2	1	1	1	7,21	6,22	I	Riau	Pekanbaru, Dumai	4					
5	Jambi	Jambi	1,861	2,552	1	1	1	1	4,45	15,107	II	Jambi	Jambi	5					
6	Sumatra Selatan	Palembang	2,894	5,574	1	1	1	1	6,55	18,907	I	Sumatra Selatan	Palembang	6					
7	Bengkulu	Bengkulu	1,3291	1,034	0	0	0	0	4,06	9,318	III	Bengkulu	Bengkulu	7					
8	Lampung	Bandar Lampung	6,903	3,702	1	1	1	1	5,95	11,789	III	Lampung	Bandar Lampung	8					
9	Bangka Belitung	Pangkalpinang	2,791	1,257	0	0	0	0	4,24	9,869	III	Bangka Belitung	Pangkalpinang	9					
10	Kepulauan Riau	Batam	983	871	2	1	1	1	7,21	42,166	III	Kepulauan Riau	Batam	10					
11	DKI Jakarta	DKI Jakarta	130	491	1	1	1	1	11,33	82,089	III	DKI Jakarta	DKI Jakarta	11					
12	Jawa Barat	Bandung	3,113	2,259	0	0	0	0	10,57	15,711	II	Jawa Barat	Bandung	12					
13	Jawa Tengah	Semarang, Sob	3,091	3,530	0	0	0	0	6,86	11,958	II	Jawa Tengah	Semarang, Sob	13					
14	Yogyakarta	Yogyakarta	2,774	34	0	0	0	0	6,02	1,830	II	Yogyakarta	Yogyakarta	14					
15	Jawa Timur	Surabaya, Malang	3,014	1,931	1	1	1	1	4,91	16,351	III	Jawa Timur	Surabaya, Malang	15					
16	Banten	Serang	3,4251	428	1	1	1	1	14,13	13,598	III	Banten	Serang	16					
17	Bali	Depasur	2,593	264	1	1	1	1	3,57	16,215	III	Bali	Depasur	17					
18	Nusa Tenggara Barat	Mataram	2,651	524	1	1	1	1	5,78	12,471	III	Nusa Tenggara Barat	Mataram	18					
19	Nusa Tenggara Timur	Kupang	2,971	523	0	1	1	1	3,49	17,367	III	Nusa Tenggara Timur	Kupang	19					
20	Kalimantan Barat	Pontianak	2,091	2,701	1	1	1	1	5,80	14,638	III	Kalimantan Barat	Pontianak	20					
21	Kalimantan Tengah	Palangkaraya	949	2,687	0	0	0	0	3,88	8,929	III	Kalimantan Tengah	Palangkaraya	21					
22	Kalimantan Selatan	Baritamasin	3,371	1,769	1	1	1	1	5,89	14,379	III	Kalimantan Selatan	Baritamasin	22					
23	Kalimantan Timur	Samarinda	1,463	1,118	2	1	1	1	10,45	12,112	III	Kalimantan Timur	Samarinda	23					
24	Subawesi Utara	Manado	984	1,126	1	1	1	1	10,48	12,653	III	Subawesi Utara	Manado	24					
25	Subawesi Tengah	Pulu	2,062	2,433	0	1	1	1	4,89	12,925	III	Subawesi Tengah	Pulu	25					
26	Subawesi Selatan	Makassar	6,653	2,894	1	1	1	1	7,09	7,198	I	Subawesi Selatan	Makassar	26					
27	Subawesi Tenggara	Kendari	651	1,140	0	0	0	0	4,77	8,272	III	Subawesi Tenggara	Kendari	27					
28	Gorontalo	Gorontalo	374	1,88	0	0	0	0	5,05	9,424	III	Gorontalo	Gorontalo	28					
29	Subawesi Barat	Mamuju	715	859	0	1	1	1	4,10	5,225	III	Subawesi Barat	Mamuju	29					
30	Maluku	Amboin	306	271	1	1	1	1	9,13	5,277	III	Maluku	Amboin	30					
31	Maluku Utara	Sofifi	269	512	0	1	1	1	6,65	4,808	III	Maluku Utara	Sofifi	31					
32	Papua Barat	Sorong, Mappakwari	341	1,90	0	0	0	0	7,77	19,557	III	Papua Barat	Sorong, Mappakwari	32					
33	Papua	Jayapura, Mimika, Timika	1,781	1,72	2	0	0	0	4,08	31,778	I	Papua	Jayapura, Mimika, Timika	33					
			93	49	0	0	0	0	3,49	4,808	0			0					
			31,137	10,814	2	1	1	1	14,13	88,920	36			36					
			31,044	10,765	2	1	1	1	10,64	84,112	range			range					
			10,441	3,637	1	0	0	0	7,04	32,845	L (low range)			L (low range)					
			20,789	7,226	1	n.a.	n.a.	n.a.	10,58	60,883	M (mid range)			M (mid range)					
			31,137	10,814	2	1	1	1	14,13	88,920	H (high range)			H (high range)					

1/ GRDP at 2000 Constant Market Prices (Billion Rupiahs), Year 2009, BPS
2/ Based on MP3EI
3/ In case resources is unavailable, total evaluation should be the lowest.

Table A.2.3: Evaluation on Province for Fishery Resources SEZ

no.	Province	Major city	Development Potential		Supporting Facility		Development Needs		Total Score for SEZ Investment Possibility	Total Evaluation	Score			Evaluation Result			no.
			Natural Resources	Fishery	Fishery port/3	Labor force	Unemployment Ratio (%)	GDP per capita			Sup. Facility	Unemployment Ratio	GDP per capita	Dev. Needs	Province	Major city	
			Current production / 1 resources/2	Availability of resources/2		Availability of resources/2	Fishery port/3	Unemployment Ratio (%)	GDP per capita	Sup. Facility	Unemployment Ratio	GDP per capita	Fishery port	Unemployment Ratio	GDP per capita	Province	Major city
1	Nangroe Aceh Darussalam	Banda Aceh	1,423	8,60	16,216	3	8.60	16,216	3	3	3	3	3	3	3	Nangroe Aceh Darussalam	Banda Aceh
2	Sumatra Utara	Medan	2,769	8,01	17,840	3	8.01	17,840	3	3	3	3	3	3	3	Sumatra Utara	Medan
3	Sumatra Barat	Padang	990	7,57	15,803	3	7.57	15,803	3	3	3	3	3	3	3	Sumatra Barat	Padang
4	Riau	Pekalongan, Dumai	1,625	7,21	60,211	3	7.21	60,211	3	3	3	3	3	3	3	Riau	Pekalongan
5	Jambi	Jambi	201	4,45	15,107	3	4.45	15,107	3	3	3	3	3	3	3	Jambi	Jambi
6	Sumatra Selatan	Palembang	1,657	6,55	18,907	3	6.55	18,907	3	3	3	3	3	3	3	Sumatra Selatan	Palembang
7	Bengkulu	Bengkulu	304	4,16	9,318	3	4.16	9,318	3	3	3	3	3	3	3	Bengkulu	Bengkulu
8	Lampung	Bandar Lampung	2,301	5,95	11,789	3	5.95	11,789	3	3	3	3	3	3	3	Lampung	Bandar Lampung
9	Bangka Belitung	Pangkalpinang	696	4,24	19,869	3	4.24	19,869	3	3	3	3	3	3	3	Bangka Belitung	Pangkalpinang
10	Kepulauan Riau	Batam	1,247	7,21	42,166	3	7.21	42,166	3	3	3	3	3	3	3	Kepulauan Riau	Batam
11	DKI Jakarta	DKI Jakarta	103	11,32	82,080	3	11.32	82,080	3	3	5	3	3	3	3	DKI Jakarta	DKI Jakarta
12	Jawa Barat	Bandung	2,038	10,57	15,711	3	10.57	15,711	3	3	3	3	3	3	3	Jawa Barat	Bandung
13	Jawa Tengah	Semarang, Solo	1,950	6,86	11,958	3	6.86	11,958	3	3	3	3	3	3	3	Jawa Tengah	Semarang, Solo
14	Yogyakarta	Yogyakarta	84	6,02	11,830	3	6.02	11,830	3	3	3	3	3	3	3	Yogyakarta	Yogyakarta
15	Jawa Timur	Surabaya, Malang	5,261	4,91	18,351	3	4.91	18,351	3	3	3	3	3	3	3	Jawa Timur	Surabaya, Malang
16	Banten	Serang	679	14,13	13,598	3	14.13	13,598	3	3	5	3	3	3	3	Banten	Serang
17	Bali	Denpasar	1,029	3,57	16,215	3	3.57	16,215	3	3	3	3	3	3	3	Bali	Denpasar
18	Nusa Tenggara Barat	Mataram	599	5,78	12,471	3	5.78	12,471	3	3	3	3	3	3	3	Nusa Tenggara Barat	Mataram
19	Nusa Tenggara Timur	Kupang	454	3,49	17,367	3	3.49	17,367	3	3	3	3	3	3	3	Nusa Tenggara Timur	Kupang
20	Kalimantan Barat	Pontianak	615	5,50	14,638	3	5.50	14,638	3	3	3	3	3	3	3	Kalimantan Barat	Pontianak
21	Kalimantan Tengah	Pangkalanraya	1,054	3,88	88,920	3	3.88	88,920	3	3	3	3	3	3	3	Kalimantan Tengah	Pangkalanraya
22	Kalimantan Selatan	Banjarmasin	1,184	5,89	14,379	3	5.89	14,379	3	3	3	3	3	3	3	Kalimantan Selatan	Banjarmasin
23	Kalimantan Timur	Samarinda	1,553	10,45	12,112	3	10.45	12,112	3	3	3	3	3	3	3	Kalimantan Timur	Samarinda
24	Sulawesi Utara	Manado	718	10,48	12,633	3	10.48	12,633	3	3	3	3	3	3	3	Sulawesi Utara	Manado
25	Sulawesi Tengah	Palu	993	4,89	12,925	3	4.89	12,925	3	3	3	3	3	3	3	Sulawesi Tengah	Palu
26	Sulawesi Selatan	Makassar	3,337	7,99	7,198	3	7.99	7,198	3	3	3	3	3	3	3	Sulawesi Selatan	Makassar
27	Sulawesi Tenggara	Kendari	1,101	4,71	8,277	3	4.71	8,277	3	3	3	3	3	3	3	Sulawesi Tenggara	Kendari
28	Gorontalo	Gorontalo	121	5,06	9,424	3	5.06	9,424	3	3	3	3	3	3	3	Gorontalo	Gorontalo
29	Sulawesi Barat	Mamuju	272	4,10	3,225	3	4.10	3,225	3	3	3	3	3	3	3	Sulawesi Barat	Mamuju
30	Maluku	Ambon	584	9,13	5,277	3	9.13	5,277	3	3	3	3	3	3	3	Maluku	Ambon
31	Maluku Utara	Sofifi	124	6,03	4,808	3	6.03	4,808	3	3	3	3	3	3	3	Maluku Utara	Sofifi
32	Papua Barat	Sorong, Manokwari	720	7,71	19,557	3	7.71	19,557	3	3	3	3	3	3	3	Papua Barat	Sorong, Manokwari
33	Papua	Jayapura, Merauke, Timika	887	4,08	31,777	3	4.08	31,777	3	3	3	3	3	3	3	Papua	Jayapura, Merauke, Timika

minimum 84
maximum 5,260
range 5,176
L (low range) 1,809
M (mid range) 3,535
H (high range) 5,260

minimum 0
maximum 14.13
range 0
L (low range) 0
M (mid range) 10.58
H (high range) 14.13

minimum 3
maximum 21
range 18
L (low range) 9
M (mid range) 15
H (high range) 21

/1 GRDP at 2000 Constant Market Prices (Billion Rupiahs), Year 2009, BPS
/2 Based on MP3EI
/3 All province has fishery port.

Table A.2.4: Evaluation on Province for Timber Resources SEZ

no.	Province	Major city	Development Potential		Supporting Facility		Development Needs		Total Score for SEZ Investment Possibility	Total Evaluation	Province	Major city	no.				
			Natural Resources	Timber	Int' Sea Logistics	Int' Sea Logistics	Labor force	Unemployment Ratio						Sea port	Sea port	Dev. Needs	Unemployment Ratio
			Current production	Availability of resources ¹	Primary Port number of located in seaport/2	Along the sea lane of communication (SALC) and ALKI	Unemployment Ratio (%)	2009 GRDP per capita (overhead) (Thousand Rp)									
1	Nanggroe Aceh Darussalam	Bandar Aceh	507	1	1	1	8.60	16,216	3	3	3	3	12	III	Nanggroe Aceh Darussalam	Bandar Aceh	1
2	Sumatra Utara	Medan	1,466	1	1	1	8.01	17,840	5	5	3	3	16	II	Sumatra Utara	Medan	2
3	Sumatra Barat	Padang	471	0	0	0	7.57	15,803	3	3	3	3	9	III	Sumatra Barat	Padang	3
4	Riau	Pekalongan, Dumai	529	2	1	1	7.21	60,211	3	3	3	3	19	II	Riau	Pekalongan, Dumai	4
5	Jambi	Jambi	264	1	1	1	4.45	15,107	3	3	3	3	9	III	Jambi	Jambi	5
6	Sumatra Selatan	Palembang	895	1	1	1	6.55	18,907	3	3	3	3	9	III	Sumatra Selatan	Palembang	6
7	Bengkulu	Bengkulu	100	0	0	0	4.06	9,318	3	3	3	3	3	III	Bengkulu	Bengkulu	7
8	Lampung	Bandar Lampung	153	1	1	1	5.95	11,789	3	3	3	3	6	III	Lampung	Bandar Lampung	8
9	Bangka Belitung	Pangkal Pinang	521	0	1	1	4.24	19,869	3	3	3	3	6	III	Bangka Belitung	Pangkal Pinang	9
10	Kepulauan Riau	Batam	21	2	1	1	7.21	42,166	3	3	3	3	9	III	Kepulauan Riau	Batam	10
11	DKI Jakarta	DKI Jakarta	0	1	1	1	11.32	82,080	3	3	3	3	13	III	DKI Jakarta	DKI Jakarta	11
12	Jawa Barat	Bandung	360	0	0	0	10.57	15,711	3	3	3	3	6	III	Jawa Barat	Bandung	12
13	Jawa Tengah	Semarang, Solo	579	1	1	1	6.86	11,958	3	3	3	3	3	III	Jawa Tengah	Semarang, Solo	13
14	Yogyakarta	Yogyakarta	190	0	0	0	6.02	11,830	3	3	3	3	3	III	Yogyakarta	Yogyakarta	14
15	Jawa Timur	Surabaya, Malang	635	0	0	0	4.91	18,351	5	5	3	3	8	III	Jawa Timur	Surabaya, Malang	15
16	Banten	Serang	30	1	1	1	14.13	13,598	3	3	3	3	14	III	Banten	Serang	16
17	Bali	Denpasar	1	1	1	1	3.57	16,215	3	3	3	3	6	III	Bali	Denpasar	17
18	Nusa Tenggara Barat	Mataran	131	1	1	1	5.78	12,471	3	3	3	3	6	III	Nusa Tenggara Barat	Mataran	18
19	Nusa Tenggara Timur	Kupang	30	0	1	1	3.49	17,367	3	3	3	3	6	III	Nusa Tenggara Timur	Kupang	19
20	Kalimantan Barat	Pontianak	366	1	1	1	5.50	14,638	3	3	3	3	19	II	Kalimantan Barat	Pontianak	20
21	Kalimantan Tengah	Palangkaraya	371	0	0	0	3.88	88,216	3	3	3	3	16	II	Kalimantan Tengah	Palangkaraya	21
22	Kalimantan Selatan	Banjarmasin	326	0	0	0	5.89	14,379	3	3	3	3	15	II	Kalimantan Selatan	Banjarmasin	22
23	Kalimantan Timur	Samarinda	1,899	2	1	1	10.45	12,112	3	3	3	3	28	I	Kalimantan Timur	Samarinda	23
24	Sulawesi Utara	Manado	481	1	1	1	10.48	12,633	3	3	3	3	14	III	Sulawesi Utara	Manado	24
25	Sulawesi Tengah	Palu	629	0	1	1	4.89	12,925	3	3	3	3	6	III	Sulawesi Tengah	Palu	25
26	Sulawesi Selatan	Makassar	571	0	1	1	7.93	7,198	5	5	3	3	16	II	Sulawesi Selatan	Makassar	26
27	Sulawesi Tenggara	Kendari	1,211	0	0	0	4.77	8,277	3	3	3	3	6	III	Sulawesi Tenggara	Kendari	27
28	Gorontalo	Gorontalo	26	0	0	0	5.05	9,424	3	3	3	3	3	III	Gorontalo	Gorontalo	28
29	Sulawesi Barat	Mamuju	31	0	1	1	4.10	5,225	3	3	3	3	3	III	Sulawesi Barat	Mamuju	29
30	Maluku	Ambon	551	1	1	1	9.13	5,277	3	3	3	3	12	III	Maluku	Ambon	30
31	Maluku Utara	Sofifi	56	0	1	1	6.03	4,808	3	3	3	3	6	III	Maluku Utara	Sofifi	31
32	Papua Barat	Sorong, Manokwari	515	2	0	0	7.71	19,557	3	3	3	3	9	III	Papua Barat	Sorong, Manokwari	32
33	Papua	Jayapura, Merauke, Timika	481	2	1	1	4.081	31,777	3	3	3	3	6	III	Papua	Jayapura, Merauke, Timika	33
			0	3	0=n.a.	0	3.49	4,808					3	minimum			
			5,294	14	1=available	14	14.13	88,920					28	maximum			
			5,294	11	n.a.	11	10.64	84,112					25	range			
			1,765	7	0	7	7.04	32,845					11	L (low range)			
			3,529	11	n.a.	11	10.58	60,883					20	M (mid range)			
			5,294	14	1	14	14.13	88,920					28	H (high range)			

¹ GRDP at 2000 Constant Market Prices (Billion Rupiahs), Year 2009. BPS

² Based on MP3EI

Table A.2.5: Evaluation on Province for Animal Husbandry Resources SEZ

no.	Province	Major city	Development Potential		Development Needs		Total Score for SEZ Investment Possibility	Total Evaluation	Province	Major city	no.
			Natural Resources Animal Husbandry Current production / Availability of resources/1	Availability of resources/2	Labor force Unemployment Ratio (%) /1	GDP per capita / (Thousand of Rp)					
1	Nanggroe Aceh Darussalam	Banda Aceh	1,443	16,216	8.60	82,080	6	III	Nanggroe Aceh Darussalam	Banda Aceh	1
2	Sumatra Utara	Medan	2,731	178,40	8.01	178,40	3	III	Sumatra Utara	Medan	2
3	Sumatra Barat	Padang	692	15,803	7.57	15,803	3	III	Sumatra Barat	Padang	3
4	Riau	Pekanbaru, Dumai	866	60,211	7.21	60,211	3	III	Riau	Pekanbaru, Dumai	4
5	Jambi	Jambi	318	15,107	4.45	15,107	3	III	Jambi	Jambi	5
6	Sumatra Selatan	Palembang	907	18,907	6.55	18,907	3	III	Sumatra Selatan	Palembang	6
7	Bengkulu	Bengkulu	233	9,318	4.06	9,318	3	III	Bengkulu	Bengkulu	7
8	Bandar Lampung	Bandar Lampung	1,622	117,89	5.95	117,89	3	III	Bandar Lampung	Bandar Lampung	8
9	Bangka Belitung	Pangkal Pinang	72	19,860	4.24	19,860	3	III	Bangka Belitung	Pangkal Pinang	9
10	Kepulauan Riau	Batam	279	42,166	7.21	42,166	3	III	Kepulauan Riau	Batam	10
11	DKI Jakarta	DKI Jakarta	20	82,080	11.32	82,080	5	III	DKI Jakarta	DKI Jakarta	11
12	Java Barat	Bandung	5,458	157,11	10.57	157,11	12	I	Java Barat	Bandung	12
13	Java Tengah	Semarang, Solo	4,663	119,88	6.86	119,88	9	I	Java Tengah	Semarang, Solo	13
14	Yogyakarta	Yogyakarta	489	118,30	6.02	118,30	3	III	Yogyakarta	Yogyakarta	14
15	Java Timur	Surabaya, Malang	8,509	182,51	4.91	182,51	13	I	Java Timur	Surabaya, Malang	15
16	Banten	Serang	1,080	13,598	14.13	13,598	3	III	Banten	Serang	16
17	Bali	Denpasar	1,320	162,15	3.57	162,15	3	III	Bali	Denpasar	17
18	Nusa Tenggara Barat	Mataram	670	12,471	5.78	12,471	13	I	Nusa Tenggara Barat	Mataram	18
19	Nusa Tenggara Timur	Kupang	1,310	17,367	3.49	17,367	3	I	Nusa Tenggara Timur	Kupang	19
20	Kalimantan Barat	Pontianak	789	14,638	5.50	14,638	3	III	Kalimantan Barat	Pontianak	20
21	Kalimantan Tengah	Palangkaraya	632	3,88	3.88	88,920	0	III	Kalimantan Tengah	Palangkaraya	21
22	Kalimantan Selatan	Banjarmasin	471	14,379	5.89	14,379	3	III	Kalimantan Selatan	Banjarmasin	22
23	Kalimantan Timur	Samarinda	810	12,112	10.45	12,112	6	III	Kalimantan Timur	Samarinda	23
24	Sulawesi Utara	Manado	336	12,633	10.48	12,633	6	III	Sulawesi Utara	Manado	24
25	Sulawesi Tengah	Palu	378	129,25	4.89	129,25	3	III	Sulawesi Tengah	Palu	25
26	Sulawesi Selatan	Makassar	576	7,198	7.99	7,198	6	III	Sulawesi Selatan	Makassar	26
27	Sulawesi Tenggara	Kendari	547	8,277	4.77	8,277	3	III	Sulawesi Tenggara	Kendari	27
28	Gorontalo	Gorontalo	122	9,424	5.05	9,424	3	III	Gorontalo	Gorontalo	28
29	Sulawesi Barat	Mamuju	96	5,225	4.10	5,225	3	III	Sulawesi Barat	Mamuju	29
30	Mahlu	Ambon	43	5,277	9.13	5,277	6	III	Mahlu	Ambon	30
31	Mahlu Utara	Sofifi	35	4,808	6.03	4,808	3	III	Mahlu Utara	Sofifi	31
32	Papua Barat	Sorong, Manokwari	113	19,557	7.77	19,557	6	III	Papua Barat	Sorong, Manokwari	32
33	Papua	Jayapura, Merauke, Timika	245	31,777	4.08	31,777	3	III	Papua	Jayapura, Merauke, Timika	33
	minimum		20		3.49	4,808	0		minimum		
	maximum		8,502		14.13	88,920	13		maximum		
	range		8,482		10.64	84,112	13		range		
	L (low range)		2,847		7.04	32,845	4		L (low range)		
	M (mid range)		5,675		10.58	60,883	9		M (mid range)		
	H (high range)		8,502		14.13	88,920	13		H (high range)		

/1 GRDP at 2000 Constant Market Prices (Billion Rupiahs), Year 2009, BPS

/2 Based on MP3EI

Table A.2.6: Evaluation on Province for Tourism SEZ

no.	Province	Major city	Development Potential			Score			Evaluation Result				
			Hotel & restaurant current production	Tourism dev. plans 2	Magnitude of tourism resource 3	Sup. Facility Airport	Int' Airport	Unemployment Ratio	GDP per capita	Total Score for SEZ Investment Possibility	Province	Major city	no.
1	Nanggroe Aceh Darussalam	Banda Aceh	216	1	1	8,60	16,216	12	II	Nanggroe Aceh Darussalam	Banda Aceh	1	
2	Sumatra Utara	Medan	2,318	3	3	8,01	17,840	4	I	Sumatra Utara	Medan	2	
3	Sumatra Barat	Padang	224	4	4	7,57	15,803	2	II	Sumatra Barat	Padang	3	
4	Riau	Pekanbaru, Dumai	271	1	1	7,21	60,211	9	II	Riau 7	Pekanbaru, Dumai	4	
5	Jambi	Jambi	236	2	2	4,451	15,107	6	III	Jambi	Jambi	5	
6	Sumatra Selatan	Palembang	65	3	3	6,57	18,907	5	II	Sumatra Selatan	Palembang	6	
7	Bengkulu	Bengkulu	100	2	2	4,06	9,318	6	III	Bengkulu 7	Bengkulu	7	
8	Lampung	Bandar Lampung	489	3	3	5,95	11,789	6	III	Lampung	Bandar Lampung	8	
9	Bangka Belitung	Pangkalpinang	124	1	1	4,24	19,869	6	III	Bangka Belitung	Pangkalpinang	9	
10	Kepulauan Riau	Batam	1,478	3	3	7,21	42,166	14	I	Kepulauan Riau	Batam	10	
11	DKI Jakarta	DKI Jakarta	18,564	4	4	11,37	82,080	18	I	DKI Jakarta	DKI Jakarta	11	
12	Jawa Barat	Bandung	7,812	1	1	10,57	15,211	15	I	Jawa Barat	Bandung	12	
13	Jawa Tengah	Semarang, Solo	6,136	1	1	6,86	11,958	6	III	Jawa Tengah	Semarang, Solo	13	
14	Yogyakarta	Yogyakarta	2,407	1	1	6,02	11,830	14	I	Yogyakarta	Yogyakarta	14	
15	Jawa Timur	Surabaya, Malang	19,029	3	3	4,91	18,351	16	I	Jawa Timur	Surabaya, Malang	15	
16	Banten	Srang	2,241	2	2	4,13	13,598	11	I	Banten 6	Srang	16	
17	Bali	Denpasar	5,362	1	1	3,571	16,215	18	I	Bali	Denpasar	17	
18	Nusa Tenggara Barat	Mataran	360	1	1	5,78	12,471	9	I	Nusa Tenggara Barat 7	Mataran	18	
19	Nusa Tenggara Timur	Kupang	57	1	1	3,49	17,367	3	II	Nusa Tenggara Timur	Kupang	19	
20	Kalimantan Barat	Pontianak	203	1	1	5,40	14,638	5	II	Kalimantan Barat	Pontianak	20	
21	Kalimantan Tengah	Palangkaraya	2651	2	2	3,88	88,920	3	III	Kalimantan Tengah	Palangkaraya	21	
22	Kalimantan Selatan	Banjarmasin	538	1	1	5,89	14,379	6	III	Kalimantan Selatan	Banjarmasin	22	
23	Kalimantan Timur	Samarinda	957	3	3	10,45	12,112	12	II	Kalimantan Timur	Samarinda	23	
24	Sukawesi Utara	Manado	589	3	3	10,48	12,633	12	I	Sukawesi Utara 7	Manado	24	
25	Sukawesi Tengah	Pulu	116	1	1	4,89	12,925	3	III	Sukawesi Tengah	Pulu	25	
26	Sukawesi Selatan	Makassar	740	1	1	7,99	7,198	3	III	Sukawesi Selatan	Makassar	26	
27	Sukawesi Tenggara	Kendari	49	1	1	4,77	8,277	6	III	Sukawesi Tenggara	Kendari	27	
28	Gorontalo	Gorontalo	66	2	2	5,05	9,424	3	III	Gorontalo	Gorontalo	28	
29	Sukawesi Barat	Mamuju	211	1	1	4,10	5,225	3	III	Sukawesi Barat	Mamuju	29	
30	Maluku	Ambon	463	1	1	9,13	5,277	3	I	Maluku 7	Ambon	30	
31	Maluku Utara	Sofifi	17	1	1	6,03	4,808	6	III	Maluku Utara	Sofifi	31	
32	Papua Barat	Sorong, Manokwari	69	2	2	7,77	19,577	9	II	Papua Barat	Sorong, Manokwari	32	
33	Papua	Papua	172	3	3	4,08	31,777	9	II	Papua	Papua	33	
minimum			12	1	0	3,49	4,808	3					
maximum			19,029	11	3	14,13	88,920	18					
range			19,017	10	3	10,64	84,112	15					
L (low range)			6,351	4	1	7,04	32,845	8					
M (mid range)			12,690	8	2	10,58	60,883	13					
H (high range)			19,029	11	3	14,13	88,920	18					

/1 GRDP at 2000 Constant Market Prices (Billion Rupiahs), Year 2009, BPS
 /2 Number of National Strategic Tourism Area (KSPN), Strategic Development Plan of Ministry of Tourism
 /3 Information of web-site of tourism destination
 /4 Airport: Master Plan Study on the Strategic Policy of the Air Transportation Sector
 /5 Based on MP3EI
 /6 Banten (No. 16) is evaluated as 1st Group because of the presence of tourism SEZ development project although score is insufficient.
 /7 Potential tourism project is prospective

Table A.2.7: Evaluation on Province for Logistics/Trade SEZ

no.	Province	Major city	Score											Evaluation Result						
			Potential				Supporting Facility			Dev. Needs				Total Score for SEZ Investment Possibility	Province	Major city	no.			
			Industrial Accumulation (mm of IP) ¹	Urban accumulation (mm of IP) ²	Int' Airport	Int' Seaport	Int' Sea Logistics	Road Network	Unemployment Ratio	GDP per capita	Total	Investment	Possibility							
1	Nanggroe Aceh Darussalam	Banda Aceh												3	3	3	3	3	3	3
2	Sumatra Utara	Medan	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Sumatra Utara	Medan	2
3	Sumatra Barat	Padang	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Sumatra Barat	Padang	3
4	Riau	Palembang Dumai	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Riau	Palembang Dumai	4
5	Jambi	Jambi	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Jambi	Jambi	5
6	Sumatra Selatan	Palembang	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Sumatra Selatan	Palembang	6
7	Bengkulu	Bengkulu	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Bengkulu	Bengkulu	7
8	Lampung	Bandar Lampung	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Lampung	Bandar Lampung	8
9	Bangka Belitung	Pangkal Pinang	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Bangka Belitung	Pangkal Pinang	9
10	Kepulauan Riau	Batam	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Kepulauan Riau	Batam	10
11	DKI Jakarta	DKI Jakarta	5	5	5	5	5	5	5	5	5	5	5	5	5	28	I	DKI Jakarta	DKI Jakarta	11
12	Jawa Barat	Bandung	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Jawa Barat	Bandung	12
13	Sunda Garuda	Surabaya, Sido	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Sunda Garuda	Surabaya, Sido	13
14	Jawa Tengah	Cogekerto	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Jawa Tengah	Cogekerto	14
15	Jawa Timur	Surabaya, Malang	3	3	3	3	3	3	3	3	3	3	3	3	3	3	I	Jawa Timur	Surabaya, Malang	15
16	Banten	Serang	3	3	3	3	3	3	3	3	3	3	3	3	3	3	I	Banten	Serang	16
17	Bali	Denpasar	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Bali	Denpasar	17
18	Nusa Tenggara Barat	Mataram	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Nusa Tenggara Barat	Mataram	18
19	Nusa Tenggara Timur	Kupang	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Nusa Tenggara Timur	Kupang	19
20	Kalimantan Barat	Pontianak	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Kalimantan Barat	Pontianak	20
21	Kalimantan Tengah	Pangkalanjaya	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Kalimantan Tengah	Pangkalanjaya	21
22	Kalimantan Selatan	Bandarmanah	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Kalimantan Selatan	Bandarmanah	22
23	Kalimantan Timur	Samarinda	3	3	3	3	3	3	3	3	3	3	3	3	3	3	II	Kalimantan Timur	Samarinda	23
24	Sulawesi Utara	Manado	3	3	3	3	3	3	3	3	3	3	3	3	3	3	I	Sulawesi Utara	Manado	24
25	Sulawesi Tengah	Palu	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Sulawesi Tengah	Palu	25
26	Sulawesi Selatan	Makassar	3	3	3	3	3	3	3	3	3	3	3	3	3	3	I	Sulawesi Selatan	Makassar	26
27	Sulawesi Tenggara	Kendari	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Sulawesi Tenggara	Kendari	27
28	Gerantolo	Gerantolo	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Gerantolo	Gerantolo	28
29	Sulawesi Barat	Marau	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Sulawesi Barat	Marau	29
30	Maluku	Ambon	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Maluku	Ambon	30
31	Maluku Utara	Sofifi	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Maluku Utara	Sofifi	31
32	Papua Barat	Sorong, Manokwari	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Papua Barat	Sorong, Manokwari	32
33	Papua	Papua, Merauke, Timika	3	3	3	3	3	3	3	3	3	3	3	3	3	3	III	Papua	Papua, Merauke, Timika	33
	minimum		3	3	3	3	3	3	3	3	3	3	3	3	3	3	0			
	maximum		5	5	5	5	5	5	5	5	5	5	5	5	5	5	29			
	range		2	2	2	2	2	2	2	2	2	2	2	2	2	2	29			
	L (low range)		4	4	4	4	4	4	4	4	4	4	4	4	4	4	10			
	M (mid range)		4	4	4	4	4	4	4	4	4	4	4	4	4	4	19			
	H (high range)		5	5	5	5	5	5	5	5	5	5	5	5	5	29				

/1 ASEAN-Japan Center web site
/2 Airport Master Plan Study on the Strategic Policy of the Air Transportation Sector
/3 Based on MPSEI
/4 Information of PUBAHAN RAPATIMENTERI PEKERJAAN UMUMPADA SIDANG KABINET PARIPURNA TANGGAL 26 MEI 2011
/5 Primary score is given because a prospective SEZ is informative.
/6 More than 500,000 population major cities based on information of The World Gazetteer web-site

Table A.2.8: Evaluation on Province for R&D, ICT SEZ

no.	Province	Major city	Potential		Supporting Facility		Score			Total Score for SEZ Investment Possibility	Total Evaluation	Evaluation Result		
			High Education (Num. of university/institute)/1	University Rank (Number of Top 10 Univ.)/2	SAIDI (hours/customer)/3	Int' Airport Primary airport/number of located int'l airports/4	University Rank (Number of Top 10 Univ.)/2	SAIDI (hours/customer)	Int' Airport			High Education (Num. of university/institute)	University Rank (Number of Top 10 Univ.)	Province
1	Nanggroe Aceh Darussalam	Bandar Aceh	41	1	5	1	3	III	6	III	Nanggroe Aceh Darussalam	Bandar Aceh	1	
2	Sumatra Utara	Medan	41	3	126	0	5	III	5	III	Sumatra Utara	Medan	2	
3	Sumatra Barat	Padang	4	1	18	1	3	III	6	III	Sumatra Barat	Padang	3	
4	Riau	Pekanbaru, Dumai	2	1	3	1	3	III	6	III	Riau	Pekanbaru, Dumai	4	
5	Jambi	Jambi	11	0	5.03	0	3	III	3	III	Jambi	Jambi	5	
6	Sumatra Selatan	Palembang	5	1	5.04	0	3	II	6	II	Sumatra Selatan	Palembang	6	
7	Bengkulu	Bengkulu	3	0	5.03	0	3	III	3	III	Bengkulu	Bengkulu	7	
8	Lampung	Bandar Lampung	3	0	4	0	3	III	3	III	Lampung	Bandar Lampung	8	
9	Bangka Belitung	Pangkal Pinang	1	0	2.75	0	3	III	3	III	Bangka Belitung	Pangkal Pinang	9	
10	Kepulauan Riau	Batam	11	0	0.76	2	5	II	8	II	Kepulauan Riau	Batam	10	
11	DKI Jakarta	DKI Jakarta	41	1	17.1	1	3	I	13	I	DKI Jakarta	DKI Jakarta	11	
12	Java Barat	Bandung	15	3	6.02	1	3	I	14	I	Java Barat	Bandung	12	
13	Java Tengah	Semarang, Solo	11	1	18.53	0	3	III	3	III	Java Tengah	Semarang, Solo	13	
14	Yogyakarta	Yogyakarta	17	1	18.53	1	3	II	9	II	Yogyakarta	Yogyakarta	14	
15	Java Timur	Surabaya, Malang	16	5	1.99	1	5	I	16	I	Java Timur	Surabaya, Malang	15	
16	Banten	Serang	2	0	6.02	0	3	III	3	III	Banten	Serang	16	
17	Bali	Denpasar	21	1	1.04	1	5	II	8	II	Bali	Denpasar	17	
18	Nusa Tenggara Barat	Mataram	1	1	2.48	1	3	III	6	III	Nusa Tenggara Barat	Mataram	18	
19	Nusa Tenggara Timur	Kupang	1	1	4.92	1	3	III	6	III	Nusa Tenggara Timur	Kupang	19	
20	Kalimantan Barat	Pontianak	2	1	24.65	1	3	III	6	III	Kalimantan Barat	Pontianak	20	
21	Kalimantan Tengah	Palangkaraya	1	0	3.86	0	3	III	3	III	Kalimantan Tengah	Palangkaraya	21	
22	Kalimantan Selatan	Banjarmasin	1	0	3.86	0	3	III	3	III	Kalimantan Selatan	Banjarmasin	22	
23	Kalimantan Timur	Samarinda	2	2	77.78	2	3	III	3	III	Kalimantan Timur	Samarinda	23	
24	Sulawesi Utara	Manado	4	1	4.47	1	3	III	6	III	Sulawesi Utara	Manado	24	
25	Sulawesi Tengah	Palu	1	0	4.47	0	3	III	3	III	Sulawesi Tengah	Palu	25	
26	Sulawesi Selatan	Makassar	71	1	3.08	1	3	III	6	III	Sulawesi Selatan	Makassar	26	
27	Sulawesi Tenggara	Kendari	1	0	3.08	0	3	III	3	III	Sulawesi Tenggara	Kendari	27	
28	Gorontalo	Gorontalo	1	0	4.47	0	3	III	3	III	Gorontalo	Gorontalo	28	
29	Sulawesi Barat	Mamuju	1	0	3.08	0	3	III	3	III	Sulawesi Barat	Mamuju	29	
30	Maluku	Ambon	1	0	5.76	1	3	III	6	III	Maluku	Ambon	30	
31	Maluku Utara	Sofifi	1	0	5.76	0	3	III	3	III	Maluku Utara	Sofifi	31	
32	Papua Barat	Sorong, Manokwari	1	0	19.57	0	3	III	3	III	Papua Barat	Sorong, Manokwari	32	
33	Papua	Jayapura, Merauke, Timika	1	3	19.35	3	3	III	6	III	Papua	Jayapura, Merauke, Timika	33	
minimum													3	minimum
maximum													16	maximum
range													13	range
L (low range)													7	L (low range)
M (mid range)													12	M (mid range)
H (high range)													16	H (high range)

/1 Num. of university. Information of MoE
/2 University Rank: Webometrics January 2010
/3 SAIDI (system average interruption duration) and Waiting List Data from PLN Statistics 2009
/4 Airport: Master Plan Study on the Strategic Policy of the Air Transportation Sector

Table A.2.9: Potential Province for Characterized SEZ Development (1)

no.	Province	Major city	Characterized SEZ										Ref.			
			Mineral/ Energy resources SEZ	Agricultural resources SEZ	Animal husbandry resources SEZ	Fish resources SEZ	Timber resources SEZ	Tourism SEZ	R&D, ICT SEZ	Logistics SEZ	SEZ+	ECSEZ				
1	Nanggroe Aceh Darussalam	Banda Aceh														
2	Sumatera Utara	Medan	✓	✓											✓	✓
3	Sumatera Barat	Padang													✓	✓
4	Riau	Pekanbaru, Dumai	✓	✓											✓	✓
5	Jambi	Jambi	✓	✓											✓	✓
6	Sumatera Selatan	Palembang	✓	✓											✓	✓
7	Bengkulu	Bengkulu														
8	Lampung	Bandar Lampung		✓												
9	Bangka Belitung	Pangkal Pinang	✓													
10	Kepulauan Riau	Batam													✓	✓
11	DKI Jakarta	DKI Jakarta													✓	✓
12	Java Barat	Bandung		✓											✓	✓
13	Java Tengah	Semarang, Solo	✓	✓											✓	✓
14	Yogyakarta	Yogyakarta	✓	✓											✓	✓
15	Java Timur	Surabaya, Malang	✓	✓											✓	✓
16	Banten	Serang	✓	✓											✓	✓
17	Bali	Denpasar													✓	✓
18	Nusa Tenggara Barat	Mataram														
19	Nusa Tenggara Timur	Kupang														
20	Kalimantan Barat	Pontianak														
21	Kalimantan Tengah	Palangkaraya	✓	✓												
22	Kalimantan Selatan	Banjarmasin	✓	✓											✓	✓
23	Kalimantan Timur	Samarinda	✓	✓											✓	✓
24	Sumatra Utara	Manado														
25	Sumatra Tengah	Palu		✓												
26	Sumatra Selatan	Makassar		✓												
27	Sumatra Tenggara	Kenari		✓												
28	Gorontalo	Gorontalo		✓												
29	Sumatra Barat	Manuju		✓												
30	Maluku	Ambon		✓											✓	
31	Maluku Utara	Sofifi		✓												
32	Papua Barat	Sorong, Manokwari													✓	✓
33	Papua	Jayapura, Merauke, Timika	✓	✓											✓	✓

Legend
 ✓: first priority potential area targeting for 2019
 ✓: second priority potential area targeting for 2025
 Source: JST

Table A.2.10: Potential Province for Characterized SEZ Development (2)

no.	Province	Major city	Characterized SEZ (CaSEZ)					SEZ+	ECSEZ
			Mineral/ Energy resources SEZ	Agro/ fishery/ timber/ resource SEZ	Tourism SEZ	R&D, ICT SEZ	Logistics SEZ		
1	Nanggroe Aceh Darussalam	Banda Aceh			✓		✓		
2	Sumatera Utara	Medan	✓	✓✓	✓✓		✓✓	✓✓	
3	Sumatera Barat	Padang			✓		✓		
4	Riau	Pekanbaru, Dumai	✓	✓✓	✓		✓		
5	Jambi	Jambi		✓					
6	Sumatera Selatan	Palembang	✓✓	✓✓			✓		
7	Bengkulu	Bengkulu			✓				
8	Lampung	Bandar Lampung		✓					
9	Bangka Belitung	Pangkal Pinang	✓						
10	Kepulauan Riau	Batam			✓✓	✓	✓✓		✓✓
11	DKI Jakarta	DKI Jakarta			✓✓	✓✓	✓✓	✓✓	
12	Java Barat	Bandung		✓✓	✓✓	✓✓	✓		✓✓
13	Java Tengah	Semarang, Solo	✓✓	✓✓			✓		✓✓
14	Yogyakarta	Yogyakarta			✓✓	✓			
15	Java Timur	Surabaya, Malang		✓✓	✓✓	✓✓	✓✓	✓✓	
16	Banten	Serang	✓✓	✓	✓✓	✓✓	✓✓		
17	Bali	Denpasar			✓✓	✓	✓		✓✓
18	Nusa Tenggara Barat	Mataram		✓✓	✓✓		✓		
19	Nusa Tenggara Timur	Kupang		✓✓	✓				
20	Kalimantan Barat	Pontianak	✓	✓	✓		✓		
21	Kalimantan Tengah	Palangkaraya		✓					
22	Kalimantan Selatan	Banjarmasin	✓				✓✓		✓✓
23	Kalimantan Timur	Samarinda	✓✓	✓✓	✓		✓		✓✓
24	Sulawesi Utara	Manado	✓	✓✓	✓✓		✓✓		✓✓
25	Sulawesi Tengah	Palu	✓	✓					
26	Sulawesi Selatan	Makassar	✓	✓✓	✓		✓✓		✓✓
27	Sulawesi Tenggara	Kendari	✓	✓✓					
28	Gorontalo	Gorontalo		✓					
29	Sulawesi Barat	Mamuju		✓					
30	Maluku	Ambon		✓✓	✓✓		✓		
31	Maluku Utara	Sofifi		✓✓					
32	Papua Barat	Sorong, Manokwari	✓		✓				
33	Papua	Jayapura, Merauke, Timika	✓	✓✓	✓				

Legend

- ✓✓: first priority potential area
- ✓: second priority potential area

Source: JICA Survey Team

Appendix A.3: Draft List of Business fields open to Investment in SEZ

Sector	No.	Business fields	Industrial Classification of Indonesia (KBLI) as of the end of 2009							
Agriculture	17	Product processing plantation business industry (similar capacity or exceeding a certain capacity, according to Regulation of Minister of Agriculture Number 26 of 2007 and/or its amendment):								
		- Crude Oil Industry (edible oil) from Vegetable and Animal	10411							
		- Copra, Fiber, Coconut Charcoal, Dust, Nata de coco industry	10421							
		- Coconut Oil Industry	10423							
		- Palm Oil Industry	10432							
		- Peeling, Cleaning and Sorting Coffee Industry	10612							
		- Peeling, Cleaning and Drying Cocoa Industry	10613							
		- Peeling and Cleaning Seeds other than Coffee and Cacao Industry	10614							
		- Sugar, sugar cane and sugar cane residue Industry	10721							
		- Black Tea / Green Tea Industry	10762							
		- Dry Tobacco Leaves Industry	12091							
		- Raw Castor Oil Industry	20294							
		- Fiber and Seed Cotton Industry	01630	10490						
		- Rubber to be sheet, thick latex, crumb rubber Industry	22121	22122	22123					
		- Cashew to be dry seed cashew and Cashew Nut Shell Liquid (CNSL) Industry	10614							
		- Peppercorn pepper and industry to be dry white and black pepper	10614							
		- Dry Clove Flower Industry	00000							
	18	Plantation business for 25 Ha area of land or more, integrated to the processing unit by the same capacity or exceeding a certain capacity according to Regulation of Minister of Agriculture Number 26 of 2007 and/or its amendment):								
		- Cashew Plantation and dry cashew seed industry and Cashew Nut Shell Liquid (CNSL)	01252	10614						
		- Peppercorn plantation and dry white peppercorn and dry black peppercorn industry	01281	10614						
		- Jatropha Plantation and Jatropha curcas oil industry	01118	20294						
		- Sugar Cane Plantation, Sugar Industry, Sugar Cane, and Sugar Cane Residue.	01140	10721						
		- Tobacco Plantation and Dry Tobacco Leaves Industry	01150	12091						
		- Cotton Plantation and Cotton Fiber and Seed Industry	01160	00000						
		- Coconut Plantation and Coconut Oil Industry	01261	10423						
		- Coconut Plantation and Copra, Fiber, Coconut Charcoal, Dust, Nata De Coco Industry	01261	10421	10773					
		- Palm Plantation and Palm Oil Industry (CPO)	01262	10432						
		- Cacao Plantation and Peeling, Cleaning and Drying Industry	01270	10613						
		- Tea Plantation and Black/Green Tea Industry	01270	10762						
		- Clove Plantation and Dry Flower Clove Industry	01282	00000						
		- Essential Oil Crop Plantation and Essential Oil Industry	01284	20294						
		- Rubber Plantation and Sheet Thick Latex Industry and Crumb Rubber Industry	01291	22121	22122	22123				

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Sector	No.	Business fields	Industrial Classification of Indonesia (KBLI) as of the end of 2009							
		-Seeds Plantation other than Coffee and Cacao and Seeds other than Coffee and Cacao Peeling and Cleaning Industry	00000	10614						
Forestry	21	Nature Tourism Business such as Facility, Activity and Ecotourism Business in Forest Areas:								
		-Water Tourism	93241	93242	93243	93249				
		-Nature Adventure Tourism	93223							
		-Cave Tourism	93222							
			-Other interests tourism	93229						
	23	Development of Technology use on plant and wildlife genetics	02409							
	26	Saw mill industry with production capacity above 2000M3/year	16101							
	27	Veneer industry	16214							
	28	Plywood industry	16211							
	29	Laminated veneer lumber (LVL) Industry	16212							
30	Wood chip industry	16299								
31	Wood pellet industry	16295								
33	Supplying and distributing forest plant's seed and seeding (forest plant's seed and seeding export and import)	02139								
Maritime and Fishery Sector	3	Rearing of Marine Fish	03211							
	4	Marine Fish Hatchery	03212							
	5	Rearing of Brackish Water Fish	03213							
	6	Brackish Water Fish Hatchery	03214							
	7	Rearing of Fresh Water Fish	03231							
	8	Fresh Water Fish Hatchery	03236							
	9	Fishery Processing Business -Salt/Fish Drying and Other Water Biota Industry -Smoke Fish and Other Water Biota Industry	10211	10212						
	10	Fishery Processing (UPI) Business, Fermentation, Reduction/Chemical Process, Surimi and Jelly Fish Process	10219							
11	Fish product marketing, distribution: Wholesale Fish Products & Export trade of Fish Product	46206								
12	Fish Catching Business using catching ship of a size of 100 GT and/or over in ZEEI catching territory	03111								
Energy and Mineral Resources	3	Operation and Maintenance Service of Geothermal Facility	06202							
	4	Geothermal Drilling Service	06202							
	5	Geothermal Power Plant	06202							
	9	Power Plant Maintenance Operation Installation Service	35104							
	10	Power Plant (> 10 MW)	35101							
12	Power Plant Transmission	35102								
Industry	16	Sweetening and saline fruits and vegetable industry	10311							
	17	Processed Food from seeds and roots, sago, Gnetum gnemon nut and copra industry:								
		-Copra industry	10421							
		-Soya sauce industry	10771							
		-Soy made food and peanuts other than soya sauce, tempe, tofu industry	10793							
		-Cracker, chip, peanut cracker and the like	10794							
	18	Milk powder process and condensed milk industry	10510							
	19	Tobacco drying and processing industry	12091							
20	Printed batik industry	13134								
21	Rattan processing industry and rattan, bamboo and the like, preserving industry	16104	16103							

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Sector	No.	Business fields	Industrial Classification of Indonesia (KBLI) as of the end of 2009								
	22	Mangrove wood industry: -Moulding and Construction material Component Industry -Carving handy craft made of wood industry except furniture -Kitchen ware industry	16221	16293	16294						
	23	Essential oil industry	20294								
	24	Construction material made from clay industry, goods made from lime industry and goods made from cement industry:									
		-Brick and Clay/Ceramic Industry	23921								
		-Other goods made of clay/ceramic industry	23939								
		-Lime Industry,	23942								
		-Goods made from cement industry	23951								
		-Goods made from lime industry, -Other goods made from Cement and Lime industry	23952 23959								
	25	Nail, nuts and bolts industry, Component and spare parts to start up motor industry, pump and compressor industry, components and two and three wheels vehicles accessories industry, bike and becak accessories industry	25952	28113	28120	30912	30922				
	26	Agricultural machinery industry using medium technology such as rice peeler, corn peeler and hand tractor	28210								
	27	Maritime tourism, wooden ship and fish catching industry including its tools and equipment	30111	30113							
	28	Silver jewelry industry:									
		-Made of gold, valuable goods jewelry for personal use	32112								
		-Made of gold, valuable goods jewelry not for personal use	32113								
	29	Other hand craft industries									
		-Jewelry goods not for personal use and not made of gold industry	32120								
		-Gem stone industry	32111								
		-Handy craft industry that is not classified in other locations	32903								
		-Other processing industries that are not classified in other locations	32909								
	30	Non metal recycle goods	38302								
	32	Cigarette industry:									
		- Clove cigarette industry	12011								
		- Regular cigarette industry	12012								
		- Other cigarette industries	12019								
	33	Pulp industry (from wood)	17011								
	34	Valuable paper industry such as Bank Note Paper, Cheque Paper, Watermark Paper	17013								
	35	Special Printing Industry/Security Documents such as stamp, stamp duty, valuable paper, passport, demography documents and holograms	18112								
	37	Cyclamate and saccharin industry	20119								
	38	Special Ink Industry	20293								
	39	Crumb rubber Industry	22123								
	40	Lead smelting Industry	24202								
	41	Sugar Industry (white crystal sugar, refined crystal sugar and raw crystal sugar)	10721								
Culture and Tourism	5	Art Gallery	47781	47782	47783	47784	47785	47789			
	6	Film Technique Service	59122								
		-Film Taking Studio	59122								
		-Film Processing Laboratory	59122								
		-Fill Dubbing Facility	59122								
		-Film Printing and/or Duplication	59122								

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Sector	No.	Business fields	Industrial Classification of Indonesia (KBLI) as of the end of 2009						
		-Film taking facility	59122						
	7	Art Performance Building	91025						
	8	Film Making	59112						
	11	Recording Studio (Cassette, VCD, DVD, etc)	59201						
Culture and Tourism (cont'd)	23	Recreational and Entertainment Business (recreational park, swimming facility, natural bathing place, fishing pool, game area, bowling facility, billiard parlor, night club, discotheque, massage parlor, spa parlor):							
		-Billiards	93111						
		-Bowling	93113						
		-Swimming	93114						
		-Soccer	93115						
		-Tennis	93116						
		-Fitness	93117						
		-Sports Center	93118						
	-Other Sports Activities -Golf (CPC 96413)	93119	93112						
	25	Dexterity	93293						
26	SPA	96122							
27	Natural tourism object business outside Conservation Areas	91034							
Transportation	1	Container Transportation	49431						
	2	General Cargo Transportation	49431						
	3	Dangerous Cargo Transportation	49432						
	4	Special Cargo Transportation	49432						
	5	Heavy Equipment Transportation	49432						
	6	Sea Transportation:							
		-Domestic	50111	50112	50113	50131	50132	50133	50134
		-Overseas	50121	50122	50123	50141	50142	50143	
		-Overseas Sea Transportation for Passengers (CPC 7211)	50121	50122	50123				
		-Overseas Sea Transportation for Cargo (CPC 7212)	50141	50142	50143				
	7	Ferry:							
		-General Ferry Inter Provincial	50214						
		-Pioneer Ferry Inter Provincial	50215						
		-General Ferry Inter Regency/City	50216						
		-Pioneer Ferry Inter Regency/City	50217						
		-General Ferry inside a Regency/City	50218						
	9	Providing port facility (pier, building, container delay terminal, liquid bulk terminal, dry bulk terminal and Ro-Ro terminal)	52221	52222	52223				
	12	Terminal Supporting business	52211						
	13	Airport Service	52230						
	14	Air Transportation Supporting Service (reservation system via computer, ground handling for passenger and cargo and aircraft leasing)	51102	51202	52240	77304			
	16	Services Related to Airport	52230						
	17	Unloading/loading Cargo (CPC 7412)	52240						
18	Transportation Arrangement Service	52291							
19	Airplane Cargo Service	52294							
20	General Selling Agent (GSA) of Foreign air transport company	79112							
21	Provision and Business for Crossing Harbor	52223							
22	Provision and Business for river and lake harbor	52223							
25	Commercial Air Transportation:								
	-Scheduled Commercial Air Transportation; Domestic and Overseas Schedule Commercial Air Transport	51101	51102	51103					
	-Unscheduled Commercial Air Transport	51104	51105						

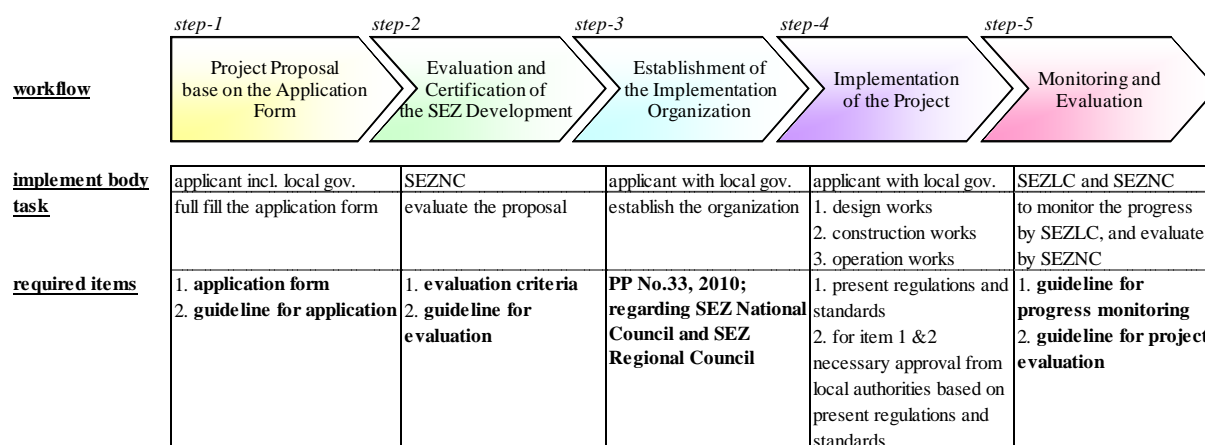
Sector	No.	Business fields	Industrial Classification of Indonesia (KBLI) as of the end of 2009						
Health	1	Pharmaceutical Industrial Business:							
		-Raw Material Medicine Industry	21011						
		-Patent Medicine Industry	21012						
	3	Calibration Testing, Health Equipment Maintenance and Repair Service	71204						
	5	Supporting Health Service (Assistance Service in Health Assistance Evacuation and Patient Evacuation in Emergency situations)	86903						
	8	Traditional Medicine Process	21022						
	9	Traditional Medicine Business Industry	21022						
	14	Health Research Center/Station	72102						
16	General Hospital/Public Healthcare Clinic	86104							

*Number below is responded to those of the list attached in the Presidential Regulation No.36/2010

Part B: Recommendation for SEZ Development Guidelines

CHAPTER I: INTRODUCTION

There are five necessary steps in carrying out SEZ development and each implementing body is tasked important roles to perform based on these steps. The workflow, procedures and required items for the realization of SEZ development are summarized in Figure I.1.1.



Source: JICA Survey Team

Figure I.1.1: Procedure for the SEZ Realization

Considering the required items above, the forms and guidelines below are required to guide SEZ development by the SEZ National Council:

- (1) Application Form and Evaluation Criteria
- (2) Guidelines for Financial and Economic Analysis
- (3) Monitoring and Evaluation Criteria

In addition to the abovementioned guidelines, it is also recommended to have guidelines that will require the SEZ developer to follow the existing technical standards, in order to ensure the quality of the infrastructure and facilities in the SEZ.

- (4) Infrastructure Implementation Standard

The Application Form (including guidelines for filling-out the forms) and the Infrastructure Implementation Standard have already been prepared by the SEZ National Council with support from JST and distributed to the interested agencies. In this report, recommendations for the improvement of the existing guidelines and ideas for the new required guidelines will be discussed.

CHAPTER II: 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. English translation of the application form prepared by JST is attached as Appendix B-1.

Furthermore, the general guidelines for evaluating work on SEZ development was released as Ministerial Regulation No. PER-08/M.EKON/10/2011.

II.1 Recommendation on the Evaluation Criteria

The guidelines for the evaluation criteria consisting of the proposed three steps is shown in Figure 2.1.1.



Source: JICA Survey Team

Figure II.1.1: Evaluation Procedures

(1) Document Evaluation

Evaluation will be conducted based on the application form together with the required supporting document submitted by the applicant. The document criteria should 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.

It is recommended to make an evaluation based on the “must condition” for the issues which will [fail] when one requirement is not passed/clarified, and on the “required condition” for the issues which will [fail] when several requirements are not passed/clarified.

(2) Field Confirmation

Field confirmation work will be conducted only for those applicants who have passed the document evaluation. Field confirmation aims to verify the contents stated in the document with the actual conditions, with the use of interview surveys and site visits.

(3) Final Decision

Based on the result of the abovementioned evaluation works, the final decision will be made by the SEZ National Council. Then, it will be submitted to the President for recommendation of the necessary approval.

II.2 Evaluation Criteria for the Items in the Application Form

The criteria's purpose is to evaluate the application from the viewpoint of the prerequisite conditions and to verify its enforcement. An applicant whose application was rejected can revise and resubmit their application with the improvements suggested on the evaluation report. The evaluation criteria for each item on the application form (see Appendix B-1: English Application Form) are listed as follows:

Item of Application Form	Evaluation Criteria
Chapter 1: General	
1.1 Applicant Identify 1) Applicant 2) Type of Organization 3) Applicant Representatives	Not evaluated Not evaluated Not evaluated
1..2 Business Type and Location 1) Business Type 2) Project Location [a.] – [e.] f. Economic Activity Center inside the 60-km radius	See item 1.2 2) f. Not evaluated Firstly, check “1) Business Type” above. If any economic activity center which competes against the applied business type exists within the 60-km radius zone, the application will be declared ‘not eligible’, this is to avoid possible conflict and competition with existing businesses. It will be eligible if supported by adequate explanation was submitted, stating that the proposed SEZ will not affect the existing business activities.
Chapter 2: Government Support	
2.1 Budget commitment	Applicant must have a budgetary plan for infrastructure development. If the applicant is a business entity, it must have an additional budgetary plan for its administration. Otherwise, the application will be declared ‘not eligible’.
2.2 Incentive	If the applicant is a regional, provincial, or ministerial/non-ministerial government, it must provide local incentives to attract tender for the SEZ development by improving the current business condition. Otherwise, the application is not eligible.
Chapter 3: Strategic Location	
3.1 Market Access	Not evaluated
3.2 Infrastructure Availability Power Supply Availability: Water Supply Availability: Soil Transportation to Landfill: Natural Gas Supply Availability:	If the applicant chooses “Not yet”, see “5.1 (7) Power Supply System Plan” If the applicant chooses “Underground raw water” and/or “Surface raw water” Confirm that the applicant is able to secure the expected water usage from an intake water source, by following the regulations by the local government. If the applicant chooses “PDAM” If the applicant chooses “PDAM” and has not yet acquired a guarantee letter from PDAM for the supply of water to the proposed SEZ area, see “5.1 (5) Water Supply System Plan” and confirm the applicant’s own development plan for a water purification plant that meets the estimated demand. Not Evaluated Not Evaluated
3.3 Availability of Natural/Superior Resources for Utilization	If the applicant has “not yet determined” the availability of the necessary resources, the application is not eligible.
Chapter 4: Spatial Plan	
4.1 Land Owner Status	Not Evaluated
4.2 Conformity with Regional/City Spatial Plan of the Regional Government 1) Conformity with the Existing Spatial Plan	The proposed SEZ must conform with the existing spatial plan. If “not conformed but spatial plan will be revised” was chosen, then refer to the “4.2 3) Current Status of the Existing Spatial Plan”.

Item of Application Form	Evaluation Criteria
2) Land Allotment Status in the Existing Spatial Plan	Not evaluated. However, if “Protected Area” was selected, ensure that the business type will not badly impact the environment, by referring to the submitted spatial plan below. - Required Document No. 9 “Spatial Plan in the SEZ location under land use regulation”.
3) Current Status of the Existing Spatial Plan	If “not conformed but spatial plan will be revised” was chosen in item 4.2 1) and “Will not be revised in the coming 1 year” was chosen in this question, the application is not eligible.
4.3 Location Status	
1) Zoning Permit for the Business Entity Applicant / Determination of the Location for the Regional Government/Ministerial Applicant	The ‘Zoning Permit’ and/or ‘Determination of the Location’ must be acquired. Confirm also if the following required documents have been submitted accordingly. - No. 14 “Land development permission” - No. 15 “Stipulation of the location and evidence of land rights”
Chapter 5: SEZ Development Plan	
5.1 Development Plan for Infrastructure and Supporting Facility	
1) Land Use Plan	Total of road area, Free Area or Green Area, and Other Infrastructure Areas must occupy more than 30% of the all total area. Or the land for the proposed activities including supporting functions shall more than 70% of the total land area. Otherwise, the application is not eligible.
2) Road Network Plan	Not evaluated
3) Transportation Facility Plan	Not evaluated
4) Drainage System Pllan	The drainage system should be designed for a rainfall return period of at least 25 years. Otherwise, the application is not eligible.
5) Water Supply System Plan	If “PDAM” and/or “Not yet” was chosen under “Water Supply Availability” in item 3.2 “Infrastructure Availability”, confirm if the estimated demand is less than the total supply amount shown in the following: 1) guarantee letter by PDAM, and 2) supply from their water purification plant. If not, then the application is not eligible.
6) Sewerage System Plan	Check if their estimated discharge volume of wastewater is less than the capacity of the sewerage treatment plant. If not, then the application is not eligible.
7) Power Supply System Plan	If “Not yet” was chosen for “Power Supply Availability” under item 3.2 “Infrastructure Availability”, confirm if the estimated demand is less than the total supply amount shown in the following: 1) guarantee letter by PLN, and 2) supply from their sub-station and/or power plant. If not, then the application is not eligible.
8) Telecommunication System Plan	Not evaluated
5.2 Employment Plan	Not evaluated
5.3 Business Plan	
1) Market demand	Not evaluated
2) Strength	Not evaluated
3) Weaknesses	Not evaluated
4) Competitiveness	Not evaluated
5) Project Financing Plan	Not evaluated
6) Project Financing Schedule	Not evaluated
5.4 Financial Feasibility (FIRR and NPV)	The Financial Internal Rate of Return (FIRR) of a proposed project has to exceed the Weighted Average Cost of Capital (WACC) of the project. In addition, the Economic Internal Rate of Return (EIRR) of the project has to exceed the Economic Opportunity Cost of Capital (EOCC) of 12%. In other words, the requirement is for the economic and financial present values of the project to be positive when applying the economic and financial discount rates, which is equal to the WACC and 12%, respectively.

Item of Application Form	Evaluation Criteria
5.5 Economic Feasibility (EIRR and NPV)	Follow the instructions in item 5.4 above.
5.6 SEZ Development Period	Estimated SEZ development period up to the start of SEZ operation should be less than three years. Otherwise, the application is not eligible.
5.7 Environmental Impact 1) Possible Negative Impact on the Environment 2) Possible Negative Impact on the Society 3) Result from the Environmental Impact Analysis	Not evaluated. It will follow the Environmental Impact Assessment (EIA) result. Not evaluated. It will follow the EIA result. Not evaluated. It will follow the EIA result.
Chapter 6: Potential Investor	
6.1 Experiences in the Development and Management of Similar Projects 1) For Business Entity Applicant 2) For Regional/Provincial/ Ministerial Government or Public Corporation	Not evaluated Not evaluated. However, if the applicant does not have experience on similar projects, then the applicant must impose the condition that the bidders must have experiences on similar projects in tendering.
6.2 SEZ Financial Source 1) For Business Entity Applicant 2) For Regional/Provincial/ Ministerial Government or Public Corporation	Not evaluated Not evaluated
6.3 Expected Performance of Management Entity 1) For Business Entity Applicant 2) For Regional/Provincial/ Ministerial Government or Public Corporation 3) Capacity Development Plan 4) SEZ Marketing Plan	Not evaluated Not evaluated If “There is no plan for a while” was chosen, the application is not eligible. If “There is no plan for a while” was chosen, the application is not eligible.

Evaluation Criteria for the Required Documents for SEZ Application

Note: "Requisite" means the applicant is not eligible without the document.

No	Document	Business Entity	Regional/City Government	Provincial Government	Municipal/ Public Corp
1	SEZ application form	Requisite			
2	Power of attorney letter from the authority (if the applicant is a consortium)	Requisite			
3	Agreement for establishment of business entity	Requisite			
4	Audited financial profile for the last three years	Requisite			
5	Approval from the regional/city government for the proposed SEZ location	Requisite		Requisite	
6	Statement of the equity value of at least 30% of the investment value of the proposed SEZ	Requisite (The equity value must be more than 30% of the investment value of the proposed SEZ)			
7	Development plan of proposed SEZ	Requisite			
8	Detailed map of the development location and area of proposed SEZ	Requisite			
9	Spatial plan in the SEZ location with land use regulation	Requisite (The proposed SEZ area and plan must follow the existing spatial plan.)			
10	Economic and financial feasibility study	Requisite (FIRR of a proposed project has to exceed the WACC of the project. In addition, EIRR of the project has to exceed the economic opportunity cost of capital of 12%. In other words, the economic and financial present values of the project have to be positive when applying the economic and financial discount rates, which are equal to WACC and 12%, respectively.)			
11	Financial plan and resources				Requisite
12	EIA in accordance with the regulations	Requisite (Check EIA. If the project has considerable impact on the environment, confirm if they have an appropriate mitigation plan. If not, the application is not eligible)			
13	Strategy and implementation plan of SEZ development	Requisite			
14	Land development permission	Requisite			
15	Stipulation of the location and evidence of land rights		Requisite		
16	Recommendation from management authorities for supporting infrastructure	Requisite			
17	Statement of willingness to establish and manage SEZ	Requisite			
18	Commitment of regional/city government for incentives and facilitation plan		Requisite		

II.3 Guidelines for the Financial and Economic Analysis of the SEZ Development

Financial and economic analyses are required to be submitted by the SEZ applicant as a part of the application form. Both analyses aim for the same objective of evaluating whether the proposed investment for the project is viable or not. The concept of financial viability is not the same as economic viability. The financial analysis of a project examines the adequacy of returns to the project-operating entity and to the project participants, whereas economic analysis measures the impact of the project on the national economy, as a whole.

This section defines the general guidelines for the financial and economic analyses that are required to be adopted for the feasibility study of an SEZ development project.

II.3.1 Financial Analysis

The main purpose of the financial analysis is to use the project cash flow forecasts to calculate the financial profitability of the project. In this section, particular emphasis is placed on these two financial indicators: the Financial Net Present Value (FNPV) and the FIRR.

This section consists of two sections, namely “II.3.1 (1) Basic Premises of Financial Analysis”, and “II.3.1 (2) Methodology of Financial Analysis”. The sub-section II.3.1 (1) clarifies the purpose and basic premises of the financial analysis while sub-section II.3.1 (2) describes the approach on the preparation of the financial analysis, which involves the following five steps:



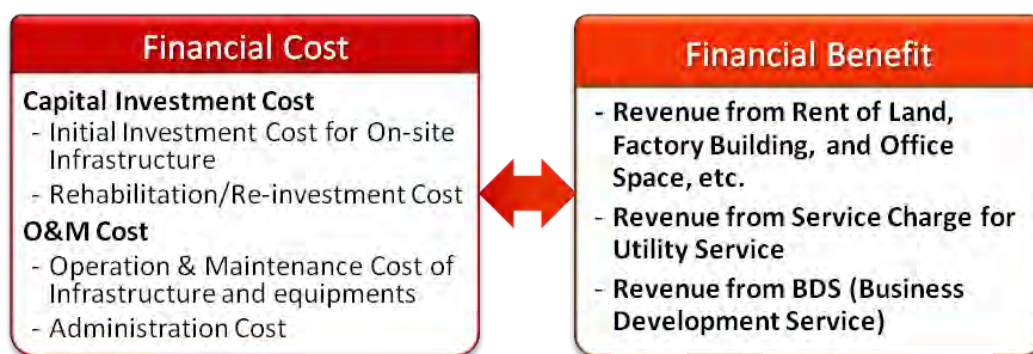
Source: JICA Survey Team

Figure II.3.1 Five Steps of the Financial Analysis

(1) Basic of Premises of Financial Analysis

Financial analysis compares cash inflow and outflow associated with a project activity. In case of a typical SEZ development project, the cash outflow (financial cost) and cash inflow (financial benefit) used for the financial analysis are defined as shown in Figure II.3.2.

Items of costs and benefits needed to be added or deducted from the items are shown in the figure below, taking the specific features of the proposed project into consideration.



Source: JICA Survey Team

Figure II.3.2: Financial Cost and Benefits of a Typical SEZ Development Project

The different definitions of net cash flows for the calculation of the project must not be confused with 'free cash flow' under other accounting conventions, particularly those used in standard company accounts.

As in the international practice for project appraisal, the methodology used in this guide for the determination of the financial return is the discounted cash flow (DCF) approach. This implies some assumptions as follows:

- only cash inflows and outflows are considered (depreciation, reserves and other accounting items which do not correspond to actual flows are disregarded);
- the determination of the project cash flows should be based on the incremental approach, i.e., on the basis of the differences in the costs and benefits between the scenario with the project and the scenario without the project; and
- the sum of cash flows occurring during different years requires the adoption of an appropriate financial discount rate in order to calculate the present value of the future cash flows.

Currency used for the analysis is shown in Indonesian Rupiah (Rp). Foreign currency costs and revenues have to be converted into Rupiah using the prevailing exchange rate. The project schedule must be consistent with the economic life of the main assets. Economic life of SEZ development project is tentatively determined as 20 years. The appropriate residual value must be included in the accounts at the 'end' year.

In the project analysis, it is customary to use constant prices, i.e., prices are fixed at a base-year. When the analysis is carried out at constant prices, the financial discount rate is to be expressed in real terms.

The formula for the calculation of the real discount rate is:

$$r = (n-i)/(1+i)$$

where; n = nominal rate
r = real rate
i = inflation rate

General inflation and relative price changes must be treated in a consistent manner.

(2) Methodology of Financial Analysis

Step 1: Determination of Discount Rate (WACC)



The net cash flows during the lifetime of the project (20 years) are discounted at the financial opportunity cost of capital (FOCC) to show the project's worth. The FIRR calculated from the net cash flows shows the project's profitability. The WACC is typically used in lieu of the FOCC to assess the financial viability of the projects.

The WACC represents the cost incurred by the private/public entity in raising the capital necessary for the implementation of the project. Since most projects use several financial sources to raise the capital and each source may seek a different return, the WACC represents the weighted average of the different returns paid to these sources.

Under the DCF approach, FIRR and WACC should be measured in real terms on after-income tax bases. The following formula is used in the calculation of the WACC.

$$\text{WACC} = (1-t) \{E/(D+E)\} * C_e + \{D/(D+E)\} * C_d$$

where;

t = amount of tax applicable

E = value of equity in the project

D = value of debt in the project

C_e = cost of equity/minimum return expected by equity investors

C_d = cost of debt/minimum return expected by debt investors

The project's Internal Rate of Return (IRR) must at least be equal to the WACC for the project to be called commercially viable. The value of WACC would be directly related to the risk perceived in the project by the investors.

Step 2: Estimating Cost of the Project



Capital Cost

The important step in the financial analysis is the estimate of the capital investment cost. The capital expenditures can be planned for the initial years of SEZ development and for some replacement or re-investment costs in more distant years. Forecasts regarding the future of the project should be formulated over duration appropriate to its economically useful life (20 years in the case of SEZ development).

Capital expenditure required to develop SEZ includes, but not limited to, the construction cost of

administration building, parking space, water and electricity supply systems, waste disposal and/or collection system, communications system, firefighting equipment, road and public spaces, which may include parks, green areas and recreational spaces. The initial capital expenditures and the necessary replacement cost and timing have to be clarified.

Operations and Maintenance Cost

The operations and maintenance (O&M) cost comprises all the data on the disbursements foreseen for the purchase of goods and services necessary for SEZ operation during the 20-year evaluation period, which are not of investment nature since these are consumed within each accounting period. The O&M cost of SEZ typically consists of the following:

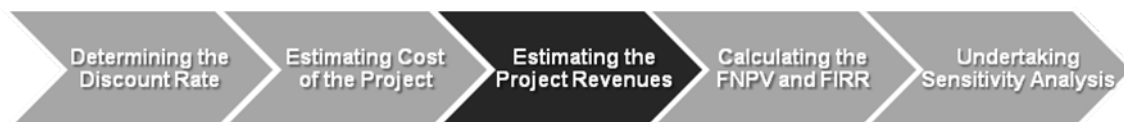
- Direct production costs (consumption of materials and services, personnel, maintenance of infrastructure, and general production costs);
- Administrative and general expenditures (including marketing expenditure); and
- Sales and distribution expenditures.

In the calculation of operating costs, all items that do not give rise to an effective monetary expenditure must be excluded, even if these items are normally included in the company's accounting documents (balance sheet and net income statement). In particular, reserve, contingency, depreciation, etc. are to be excluded from the cash flow as they are not coherent with the DCF method.

Interest payments follow a different course according to the type of subsequent analysis (they are not included in the calculation of the performance of the investment "FIRR", but are included in the table for the analysis of the return on capital "Equity IRR". The latter is not discussed in this report).

Moreover, capital, income or other direct taxes are included only in the financial sustainability table and not considered for the calculation of FIRR, which should be calculated before deductions. The reason for this is to avoid the complexity and variability across time and countries of capital income tax rules.

Step 3: Estimating Revenues Generated from the Project



SEZ development projects would generate their own revenues from the lease of land plot¹ and provision of various services to their tenants. This revenue will be determined by the forecasts of the land areas lent/services provided and by their prices.

Value added tax (VAT) or other indirect taxes charged by the firm to the consumer are usually not included in the calculation of future revenues, because these are normally paid back to the fiscal

¹ Under the current regulation SEZ (Government Regulation No. 2/2011, Article 49), while operators of SEZ are allowed to lease land to their tenants, the law does not allow SEZ operator to sell land.

administration.

In accordance with the land use plan of SEZ, the plot areas for lease have to be clarified as a first step. In addition, the lease rates of open factory areas, land with standard factory buildings (SFB) and office spaces are assumed based on its comparison with other industrial estates. Moreover, revenues from service charges are determined based on the prevailing tariffs and the cost of services. Service charges applied to utility services may include water supply, sewerage and electricity tariff for common facilities, security and other O&M costs on common facilities (such as green areas, administration building, park, and fire-fighting facilities).

In estimating the revenues generated from the SEZ project, estimation of occupancy rates of land areas is an important and difficult task. Occupancy scenarios can be determined from envisaged specific-sector's GDP growth, occupancy rates of other industrial estates/SEZ located in surrounding area, and domestic as well as international market conditions. Even careful consideration is made to estimate the occupancy ratio, the actual occupancy ratio of the SEZ is, frequently, different from the forecast. Accordingly, in order to confirm the financial robustness of the project, it is necessary to undertake sensitivity analysis using more pessimistic scenario than base case scenario.

Step 4: Calculating the Financial Net Present Value (FNPV) and Financial Internal Rate of Return (FIRR)



After estimating the data on investment costs, operating costs and revenues, the next step in the financial analysis is the evaluation of the financial return on investment. The indicators needed for testing the project's financial performance are the following: 1) FNPV, and 2) FIRR.

The financial net present value is defined as the sum that results when the discounted value of investment and operating costs of the project are deducted from the discounted value of the expected revenues:

$$FNPV = \sum_{t=1}^n a_t S_t = \frac{S_1}{(1+i)^1} + \frac{S_2}{(1+i)^2} + \frac{S_3}{(1+i)^3} + \dots + \frac{S_n}{(1+i)^n}$$

Where S_t is the balance of cash flow at year t and a_t is the financial discount factor chosen for discounting at year t . The FNPV is the sum of $S_1 \dots S_n$ weighted by the discount factor a_t , defined as: $[a_t = 1 / (1+i)^t]$ where t is the year between 1 and n (n is project evaluation period of 20 years for a SEZ project) and i is the discount rate (= WACC).

On the other hand, the FIRR is defined as the discount rate that produces a zero FNPV as calculated from the formula below:

$$FNPV = \sum_{t=1}^n \left\{ \frac{S_t}{(1 + FIRR)^t} \right\} = 0$$

The FNPV and the FIRR, in terms of the total investment cost, measure the performance of the investment independent of the sources or methods of financing. The FNPV is expressed in money terms and depends on the scale of the project. The second indicator is a pure number, and is scale-invariant.

The viability of the project is evaluated based on the comparison of its FIRR with the WACC. Alternatively, the project is considered to be viable when the FNPV is positive, using the WACC as the discount rate.

Step 5: Undertaking Sensitivity Analysis



Financial analysis is made based on forecasts of quantifiable variables such as demand, costs, and revenues. The values of these variables are estimated based on the most probable forecasts. However, since the forecasts covers a long period of time, these variables are influenced by a great number of factors, and the actual values may differ considerably from the forecasted values depending on various factors external to the project. It is therefore useful to consider the effects of likely changes in the key variables on the financial viability of a project through sensitivity analysis. Sensitivity analyses focus on analyzing the effects of changes in key variables on the project's FIRR and/or FNPV, which are the two most widely used measures of project worth.

Typically, only the negative changes for financial viability are considered in the sensitivity analysis. In executing the sensitivity analysis, the following four steps are necessary: 1) identify the key variables to which the project decision may be sensitive, 2) calculate the effect of likely changes in these variables on the base-case FIRR/FNPV, and calculate a sensitivity indicator and switching value, 3) consider possible combinations of variables that may happen simultaneously, and 4) analyze the direction and scale of likely changes for the key variables identified, involving identification of the sources of change.

Sensitivity analysis for the SEZ development project needs to include the following adverse scenarios:

- Increase in capital cost: +10%, +20% and +30%
- Delay in project completion: 1 year, 3 years and 5 years
- Increase in O&M cost: +10%, +20% and +30%
- Decrease in occupancy scenario: -10%, -20% and -30%
- Decrease in lease fee: -10%, -20% and -30%
- Combination of the above scenarios

II.3.2 Economic Analysis

This section clarifies the methodology for calculating the two economic indicators on economic analysis as follows: the Economic Net Present Value (ENPV) and the EIRR. This section consists of two sections, which are “II.3.2 (1) Basic Premises of Economic Analysis”, and “II.3.2 (2) Methodology of Economic Analysis”. Sub-section II.3.2 (1) clarifies the purpose and basic premises of economic analysis while sub-section II.3.2 (2) describes the approach on the preparation of the economic analysis, which involves the following four steps:



Source: JICA Survey Team

Figure II.3.3: Five Steps of the Economic Analysis

1) Basic Premises of Economic Analysis

Financial and economic analyses have similar features. Both estimate the net benefits of an investment project based on the difference between the with-project and the without-project situations. However, the concept of economic analysis is not the same as financial analysis. While financial analysis provides a measure of the commercial (financial) viability of the project from the view point of the project-operating entity, the economic analysis tries to clarify the real worth of a project to the country.

The basic difference between the two analyses is that the financial analysis compares benefits and costs in terms of the financial prices, while the economic analysis compares the benefits and costs measured in economic prices. Financial prices are market prices of goods and services that include the effects of government intervention and distortions in the market structure. On the other hand, economic prices reflect the true cost and value to the economy of the rendered goods and services after adjustment for the effects of government intervention and distortions in the market structure are made through shadow pricing of the financial prices. As similar to financial analysis, depreciation charges, sunk costs and forecasted price inflation should not be included.

Currency used for the analysis needs to be shown in Indonesian Rupiah (Rp). Foreign currency costs and revenue have to be converted into Rupiah using the prevailing exchange rate. The time horizon must be consistent with the economic life of the main assets.

Economic life of the SEZ development project is determined as 20 years, which is the same period adopted for the financial analysis. The appropriate residual value must be included in the accounts at the ‘end’ year.

The discount rate to be used is the EOCC taken as 12%, which is the commonly used value for economic analysis in the country.

2) Methodology of Economic Analysis

Step 1: Converting Financial Cost into Economic Cost



As mentioned, the financial value used for financial analysis and economic value used for economic analysis are different. Under financial analysis, financial costs and benefits are valued at the prices that the project entity is expected to pay and receive. Usually these are prices set by the market, although in some cases they may be controlled by the government. However, these prices do not necessarily reflect economic costs to the society. The economic values of both inputs and outputs may differ from their financial values because of market distortions created by either the government or the private sector. Tariffs, export taxes and subsidies, excise and sales taxes, production subsidies, and quantitative restrictions are common distortions created by the government. Moreover, monopolies, oligopolies and bid riggings are other kinds of distortions that can be created by either the private or public sector actions.

Economic evaluation requires that the analyst compensate for the said price distortions by using “shadow” prices that reflect more closely the opportunity costs and benefits of the project, instead of market prices. Although, in principle, all prices should be adjusted to reflect opportunity costs, these calculations would be extremely time-consuming and difficult to execute. Accordingly, in practice and in many cases, only the standard conversion factor (SCF) is applied to convert financial costs into economic costs. A conversion factor is the ratio of an item’s economic price to its financial price. SCF is applied only on tradable goods and services. SCF used for the SEZ development project is defined to be 0.9, which is a widely applied value for economic evaluation in Indonesia.

Step 2: Estimating Economic Benefits of the Project



The forecasts of economic benefits of the SEZ development project are generally more difficult to quantify than the financial benefits of the project. In case of the SEZ development project, part of the value-added generated inside the SEZ can be regarded as direct economic benefit of the project.

Manufacturing industries located inside the SEZ purchase intermediate goods and services outside the SEZ, processes them using their own equipment and labor, and then sell their products outside. Value of output produced inside the SEZ is divided into “added value” and “intermediate consumption”. Of which, added value (= value added) refers to the additional value created at a particular stage of production. Value added can be divided into operating surplus, payment of taxes, and worker’s compensation (wage and salary). These value added resulting from the economic

activities of locators in the SEZ is considered as direct economic benefit of the project.

In estimating such direct economic benefits, the analyst has to forecast value of output generated inside the SEZ for each industry type, based on land areas available for lease, occupancy rates of land areas and type of industries located within the SEZ. Then the direct economic benefit could be estimated using following formula;

$$EB = \sum_{i=1}^{10} \{VO_i \times (TAX_i + OS_i \times (1 - \phi_i) + WS_i \times \varepsilon)\}$$

where;

EB = economic benefit

i = type of industries as shown in the below table (i= 1~10), please refer to Table II.3.1

VO_i = value of output of industrial sector “i” (needs to be estimated by the analyst)

TAX_i = percentage of tax payment in value of output of industrial sector “i”, please refer to Table II.3.1

OS_i = percentage of operating surplus in value of output of industrial sector “i”, please refer to Table II.3.1

φ_i = percentage of surplus that goes to foreign shareholder of industrial sector “i” (needs to be estimated by the analyst)

WS_i = percentage of wage and salary paid to employees (=worker’s compensation) in value of output of industrial sector “i”, please refer to Table II.3.1

ε = shadow wage rate: SWR (0.75)²

Table II.3.1: Percentage in Value of Output by Industrial Sector Used for the Economic Analysis

I	Type of Industry	WS _i : Wage and Salary Ratio	OS _i : Operating Surplus Ratio	TAX _i : Tax Ratio
1	Mining and quarrying	0.116	0.607	0.033
2	Manufacture of food, beverages and tobacco	0.084	0.172	0.056
3	Other manufacturing	0.112	0.184	0.015
4	Petroleum refinery	0.150	0.592	0.005
5	Electricity, gas and water supply	0.254	0.394	0.044
6	Construction	0.135	0.182	0.013
7	Trade	0.151	0.322	0.020
8	Restaurant and hotel	0.159	0.221	0.020
9	Transport and communication	0.162	0.185	0.008
10	Financial intermediaries, real estate and business service	0.151	0.467	0.014

Source: Input-output Table 2009, BPS, Indonesia

Step 3: Calculating the Economic Net Present Value (ENPV) and Economic Internal Rate of Return (EIRR)



After estimating the data on economic costs and benefits, the next step in the economic analysis is the evaluation of the economic return on investment activities. The indicators needed for testing the

² SWR used for ADB Study in Indonesia in Dec. 2002, Source: ERD Technical Note 11. Shadow Exchange Rate for Project Economic Analysis, Feb. 2004, ADB

project's economic performance are the ENPV and the EIRR.

The ENPV is defined as the sum that results when the discounted value of economic costs of the project are deducted from the discounted value of the expected benefits as shown below.

$$ENPV = \sum_{t=1}^n a_t S_t = \frac{S_1}{(1+i)^1} + \frac{S_2}{(1+i)^2} + \frac{S_3}{(1+i)^3} + \dots + \frac{S_n}{(1+i)^n}$$

Where S_t is the balance of cash flow at year t and a_t is the economic discount factor chosen for discounting at year t . The ENPV is the sum of $S_1 \dots S_n$ weighted by the discount factor a_t , defined as: $[a_t = 1 / (1+i)^t]$ where t is the year between 1 and n (n is project life of 20 years for a SEZ project) and i is the economic opportunity cost of capital (=12%).

The EIRR is defined as the discount rate that produces a zero ENPV as calculated from the formula below.

$$ENPV = \sum_{n=0}^{20} \left\{ \frac{S_t}{(1+EIRR)^t} \right\} = 0$$

The economic viability of projects is evaluated based on a comparison of its EIRR with the economic opportunity cost of 12%. Alternatively, the project is considered to be viable when the FNPV is positive, using the 12% as discount rate.

Step 4: Undertaking Sensitivity Analysis



Similar to the financial analysis, it is useful to consider the effects of likely changes in the key variables on the economic viability of a project through sensitivity analysis. Sensitivity and risk analyses focus on analyzing the effects of changes in key variables on the project's EIRR or ENPV.

Under the sensitivity analysis, typically, only negative changes for economic viability are considered in the analysis. Sensitivity analysis for the SEZ development project needs to include the following adverse scenarios (same as financial analysis):

- Increase in capital cost: +10%, +20% and +30%
- Delay in project completion: 1 year, 3 years and 5 years
- Increase in O&M Cost: +10%, +20% and +30%
- Decrease in occupancy scenario: -10%, -20% and -30%
- Decrease in lease fee: -10%, -20% and -30%
- Combination of the above scenarios

CHAPTER III: 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 remain and guide the SEZ applicant and/or SEZ developer to prepare sufficient hardware. English translation of the Infrastructure Implementation Standard done by JST is attached as Appendix B-2. Several items recommended to be added to the existing Infrastructure Implementation Standard are described hereinafter.

III.1 Recommendation on the Spatial Planning Approach in the SEZ

According to the Law No. 39/2010, SEZ can have multiple zones of economic activity. With an aim to widen the viewpoint of the applicant regarding the SEZ, the terms and understanding of economic activity in the SEZ is recommended to include the items below to the table stated in Chapter II.1 of the prepared Infrastructure Implementation Standard.

Table III.1.1: Recommended Additional Items

Zone Type in the SEZ	Economic Activities in the Zones of SEZ
Tourism Zones	Villas, condominiums, recreational theme park, sport complex including golf course, commercial shopping center, craft and art center
Other Zones	International standard university, highly educational facilities, international level hospital and/or health care facility, convention hall, business center, and commercial shopping center

III.2 Recommendation on Common Facility Implementation Standard

Several common facilities for public service will be necessary in order to keep the high standard of living and firmly support the sustainability of SEZ development. Therefore, in addition to essential infrastructures implementation standard described in Chapter III of the prepared Infrastructure Implementation Standard, it is recommended to add “Standard for Facilities of Social Services” as Chapter III.11.

Major common facilities and their minimum technical requirements described in SNI (Indonesian National Standard) are shown in Table III.2.1.

Table III.2.1: Recommended Facilities and Related Standards

Name of Facilities	SNI Number
Education and Learning Facilities	SNI 03-1733-2004 on Urban Residential Area Planning, p24-p28
Health Care	SNI 03-1733-2004 on Urban Residential Area Planning, p28-p29
Public and Governmental Facilities	SNI 03-1733-2004 on Urban Residential Area Planning, p22-p24
Religious Facilities	SNI 03-1733-2004 on Urban Residential Area Planning, p29-p31
Trade and Commerce Facilities	SNI 03-1733-2004 on Urban Residential Area Planning, p31-p33
Cultural and Recreational Facilities	SNI 03-1733-2004 on Urban Residential Area Planning, p33-p34

CHAPTER IV: 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 months. Considering the sequence and simplification of the evaluation work, it is proposed to conduct monitoring works based on the; (1) application form, and (2) action plan.

IV.1 Monitoring Work based on the Application Form

Monitoring is necessary to be conducted for the items in the application form, in case those items were selected or answered as shown below.

Chapter 2: GOVERNMENT SUPPORT

2.1 Budget Commitment

1) Budgetary Plan for the Administration (*choose one*)

Exists Does not exist

2) Budgetary Plan for Infrastructure Development (*choose one*)

Exists Does not exist

3) Other Budgetary Plan (*choose one*)

Exists Does not exist

Necessary to be existed at least one of budgeting plan by the 1st monitoring period (within 6 months after SEZ authorization).

Chapter 4: SPATIAL PLAN

4.1 Land Owner Status

1) Authorization Status (*choose one*)

100% Authorized

Partially Authorized for: _____ %

Number of remaining household to be resettled: _____ household

Not yet authorized

Number of household to be resettled: _____ household

Necessary to be confirmed the authorization plan, if not 100% authorized.

2) Dispute Status (*choose one*)

There is no dispute

Part (_____ %) of land is still in dispute with other parties

Whole area is still in dispute with other parties

Necessary to be confirmed the plan, if still dispute with other parties.

4.2 Conformity with the Regional/City Spatial Plan by Regional Government

1) Conformity with the Existing Spatial Plan (*choose one*)

Conformed

Not conformed but spatial plan will be revised

Shall be "conformed" by the 2nd monitoring period (within 1 year after SEZ authorization).

4.3 Location Status

1) Zoning Permit for the Business Entity Applicant (*choose one*)

Acquired

Not yet

2) Determination of the Location for the Regional Government/Ministerial Applicant
(choose one)

Acquired

Not yet

Necessary to be "Acquired" by the 2nd monitoring period (within 1 year after SEZ Authorization.)

Chapter 5: SEZ DEVELOPMENT PLAN

5.3 Business Plan

6) Project Financing Schedule

a. First Year, Rp _____

b. Second Year, Rp _____

c. Third Year, Rp _____

Necessary to confirm the disbursement based on the planned amount

5.6 SEZ Development Period

2) Activity schedule of SEZ development

a. Formulation of organization for SEZ, for: _____ months

b. Land acquisition and relocation, for: _____ months

c. Designing works, for: _____ months

d. Construction, for: _____ months

Necessary to confirm the implementation based on the planned period

Chapter 6: INVESTOR CAPABILITY

6.2 SEZ Financial Source

2) For Regional Govt./Ministerial/GIND *(may choose more than one)*

National State Revenue and Expenditure:

Is allocated to approved SEZ, Rp _____ billion

Will be allocated for Rp _____ billion

Regional State Revenue and Expenditure:

Is allocated to approved SEZ, Rp _____ billion

Will be allocated for Rp _____ billion

Necessary to be "Allocated" at last one of revenue and expenditure by the 2nd monitoring period (within 1 year after SEZ authorization.)

IV.2 Monitoring Work based on the Action Plan

Monitoring work also necessary to be conducted by following the action plan for SEZ project implementation drafted by SEZ National Council. The draft action plan dated December 2011, the target period for the necessary work item was described in detailed. However, for the construction of infrastructure, it is recommended to have more flexible view to do not set the fixed target period based on the feasibility study. The target period for the construction shall be determined based on the result of detailed design and contractor procurement works. Proposed monitoring items and those implementation target period are listed below.

Table IV.2.1: Proposed monitoring items and those implementation target period

Item	Monitoring Criteria
1. SEZ Regional Council, including secretariat division	
1) Staff Assignment	Shall be done within 6 months after SEZ authorization.
2) Office Establishment	Shall be done within 6 months after SEZ authorization.
3) Operation Budget Allocation	Shall be done within 6 months after SEZ authorization.
4) Implementation/Work Plan	Shall be done within 6 months after SEZ authorization.
2. SEZ Administrator	
1) Preparation of related law/regulation	Shall be done within 18 months after SEZ authorization.
2) Operation Budget Allocation	Shall be done within 18 months after SEZ authorization.
3) Staff Assignment	Shall be done within 24 months after SEZ authorization.
4) Office Establishment	Shall be done within 24 months after SEZ authorization.
5) Capacity Development Plan	Shall be done within 24 months after SEZ authorization.
6) Implementation of Capacity Development	Shall be done within 36 months after SEZ authorization.
3. SEZ Operator	
1) Preparation of related law/regulation, including the authority	Shall be done within 18 months after SEZ authorization.
2) Appointment of the Operator	Shall be done within 24 months after SEZ authorization.
3) Implementation of Capacity Development	Shall be done within 36 months after SEZ authorization.

Appendix B

APPENDIX B-1: ENGLISH APPLICATION FORM

APPLICATION FORM

SPECIAL ECONOMIC ZONE (SEZ) ESTABLISHMENT

Chapter 1: GENERAL

1.1 Applicant Identity

1) Applicant

Name of Organization: _____

Address: _____

Telephone: _____ Fax: _____

E-mail Address: _____

Website: _____

2) Type of Organization (*choose one*)

- Business Entity: State-owned Enterprise
 Regional-owned Enterprise
 Cooperation
 Private
 Joint Venture

Regional Government

Provincial Government

Ministerial/Non-Ministerial Government Institution

3) Applicant Representatives

Name: _____

Position: _____

Telephone: _____ Fax: _____

E-mail Address : _____

1.2 Business Type and Location

1) Business Type (*may choose more than one*)

- | | | |
|---|---|---|
| <input type="checkbox"/> Industry/Manufacturing | <input type="checkbox"/> Logistics and Storage | <input type="checkbox"/> Art |
| <input type="checkbox"/> Technology Development | <input type="checkbox"/> Mining Industry and
Manufacturing | <input type="checkbox"/> Tourism |
| <input type="checkbox"/> Agro-Industry/Plantation | <input type="checkbox"/> Forestry Industry | <input type="checkbox"/> Fishery Industry |
| <input type="checkbox"/> Energy | <input type="checkbox"/> IT | <input type="checkbox"/> Trade |
| <input type="checkbox"/> Office | | <input type="checkbox"/> Infrastructure |
| <input type="checkbox"/> Others: (<i>specified</i>) _____ | | |

2) Project Location

a. Status of Project Area (*may choose more than one*)

- New Area Expansion Area

b. Land Area: (*total*) _____ Ha; (*first stage development*)
_____ Ha

c. Address: _____

Regional/City: _____

Provincial: _____

d. The Existing Land Use (*may choose more than one*)

- | | |
|--|---|
| <input type="checkbox"/> Agriculture | <input type="checkbox"/> Forestry |
| <input type="checkbox"/> Commercial Area | <input type="checkbox"/> Housing/Resettlement |
| <input type="checkbox"/> Industrial Area | <input type="checkbox"/> Others: (<i>Specified</i>) _____ |

e. Land Condition

i) General topographic condition (*choose one*)

- Flat Hills

ii) General land condition (*choose one*)

- Swamp Rocks
 Sand Others: (*specified*) _____

f. Economic Activity Center in the 60 km radius (*may choose more than one*)

- | | |
|--|---|
| <input type="checkbox"/> Industrial Area | <input type="checkbox"/> Logistic Center |
| <input type="checkbox"/> Business Area | <input type="checkbox"/> Others: (<i>specified</i>) _____ |

Chapter 2: GOVERNMENTAL SUPPORT

2.1 Budget Commitment

1) Budgetary Plan for the Administration (*choose one*)

- Exists Not exist

2) Budgetary Plan for Infrastructure Development (choose one)

- Exists Not exist

3) Other Budgetary Plan (choose one)

- Exist Not exist

2.2 Incentives (may choose more than one)

- Taxation and Retribution, in form of: _____
- Facilitation, in form of: _____
- Others, in form of: _____

Chapter 3: STRATEGIC LOCATION

3.1 Market Access (may choose more than one)

- Distance to the major city: _____ km, Name of the city: _____
Number of Inhabitants: _____ persons as of the year: _____
- Distance to sea ports: _____ km
Status (choose one): Domestic International
Utilization of the sea port (choose one): Frequent Rare Unknown yet
- Distance to airports: _____ km
Status (choose one): Domestic International
Utilization of the airport (choose one): Frequent Rare Unknown yet
- Distance to railway stations: _____ km
Utilization of the station (choose one): Frequent Rare Unknown yet
- Distance to the nearest Artery Road: _____ km, road width: _____ m
Utilization of the road (choose one): Frequent Rare Unknown yet

3.2 Infrastructure Availability (may choose more than one)

- Power Supply Availability
Distance to power supply: _____ km, capacity: _____ MVA
Guarantee letter from PLN to supply power for SEZ (choose one):
 Acquired Not yet
- Water Supply Availability
Distance to water source: _____ km
Type of water source (choose one):
 underground raw water surface raw water PDAM
If the Applicant chooses PDAM water source:
Distance to the PDAM Water Treatment Plant: _____ km, capacity:
_____ m³/day

Guarantee Letter from PDAM to supply water for SEZ (*choose one*):

- Acquired Not yet

Soil Transportation to Landfill

Distance to Borrow pit / Disposal site: ___ km

Guarantee letter from the related authority (*choose one*):

- Acquired Not yet

Natural Gas Supply Availability

Distance to natural gas/terminal: _____ km, capacity: _____ m³

Guarantee Letter from PLNG to supply natural gas for SEZ (*choose one*):

- Acquired Not yet

3.3 Utilized Natural/Superior Resources Availability(*may choose more than one*)

Mining (*choose one*)

- Oil Natral Gas Coals
 Metal Others: (*specified*) _____

Distance to the resources: _____ km

Status (*choose one*): Existing New

Capacity (*choose one*): Sufficient Will be sufficient Not yet determined

Forestry

Distance to the resources: _____ km

Status (*choose one*): Existing New

Capacity (*choose one*): Sufficient Will be sufficient Not yet determined

Food Crop Agriculture

Distance to the resources: _____ km

Status (*choose one*): Existing New

Capacity (*choose one*): Sufficient Will be sufficient Not yet determined

Plantation

Distance to the resources: _____ km

Status (*choose one*): Existing New

Capacity (*choose one*): Sufficient Will be sufficient Not yet determined

Live stock

Distance to the resources: _____ km

Status (*choose one*): Existing New

Capacity (*choose one*): Sufficient Will be sufficiently Not yet determined

Fishery

Distance to resources: _____ km

Status (*choose one*): Existing New

Capacity (*choose one*): Sufficient Will be sufficiently Not yet determined

- Tourism/Natural Beauty
Distance to the resources: _____ km
Capacity (*choose one*): Sufficient Will be sufficient Not yet determined
- Not required or utilizing the natural/superior resources

Chapter 4: SPATIAL PLAN

4.1 Land Owner Status

1) Authorization Status (*choose one*)

- 100% Authorized
- Partially Authorized for: _____ %
Number of remaining household to be resettled: _____ household
- Not yet authorized
Number of household to be resettled: _____ household

2) Dispute Status (*choose one*)

- There is no dispute
- Part (_____%) of land is still in dispute with other parties
- Whole area is still in dispute with other parties

4.2 Conformity with Regional/City Spatial Plan by Regional Government

1) Conformity with the Existing Spatial Plan (*choose one*)

- Comformed
- Not conformed but Spatial Plan will be revised

2) Land Allotment Status in the Existing Spatial Plan (*may choose more than one*)

- Protected Area Commercial Area (Industry, Storage, Service)
- Cultivation Area Others: (*specified*) _____

3) Current Status of the Existing Spatial Plan (*choose one*)

- Will be revised in the coming 1 year
- Will not be revised in the coming 1 year

4.3 Location Status

1) Zoning Permit for the Business Entity Applicant (*choose one*)

- Acquired Not yet

2) Determination of the Location for the Regional Government/Ministerial Applicant (*choose one*)

- Acquired Not yet

Chapter 5: SEZ DEVELOPMENT PLAN

5.1 Infrastructure and Supporting Facility Development Plan

1) Land Use Plan

No.	Land Use	Width (Ha; %)
1	Road	
2	Free Area or Green Area	
3	Other Infrastructure	
4	Management Building , Include for the Marketing Office	
5	Zone-1:	
6	Zone-2:	
	<i>and afterwards</i>	
	Total	

2) Road Network Plan

- SEZ Internal Road (1)

Length: _____m, Width: _____m

Type of pavement (*choose one*): Asphalt Concrete

Lightening: (pole height) _____m, (distance between the poles) _____m

Sidewalk (*may choose more than one*):

Pedestrian: _____m underground utilization: _____m

- SEZ Internal Road (2)

Length: _____m, Width: _____m

Type of pavement (*choose one*): Asphalt Concrete

Lightening: (pole height) _____m, (distance between the poles) _____m

Sidewalk (*may choose more than one*):

Pedestrian: _____m Underground Utilization: _____m

- Access to the nearest National Road outside of SEZ

Length: _____m, Width: _____m

Type of pavement (*choose one*): Asphalt Concrete

Lightening: (pole height) _____m, (distance between the poles) _____m

Sidewalk (*may choose more than one*):

Pedestrian: _____m Underground Utilization: _____m

3) Transportation Facility Plan (*may choose more than one*)

- Special Airports for SEZ Special Sea Ports for SEZ
 Special Dry Ports for SEZ

4) Drainage System Plan (may choose more than one)

- Drainage: _____ m
- Retention Pond (capacity): _____ m³, consist of _____ ponds
- Pumping Station (capacity): _____ m³/sec, consist of _____ pumps
- Return Period of Rainfall: ____ year

5) Water Supply System Plan

- a. Water Quality (choose one):
- Drinking water Clean water Raw water
- b. Estimated Water Requirement: _____ m³/day
- c. Water Supply system (may choose more than one):
- Pipeline distribution: _____ m
- Reservoir (capacity): _____ m³/day
- Water Treatment Plant (WTP) (capacity): _____ m³/day

6) Sewerage System Plan

- a. The estimated waste water capacity: _____ m³/day
- b. Sewerage System (may choose more than one):
- Sewerline: _____ m
- Sewerage Treated Plant (STP) (capacity): _____ m³/day
- c. The treated water quality from STP (choose one):
- Irrigation Department Standard Standard by Pulic Works
- Standard by Ministry of Environment
- d. Final Destination of the discharged water (choose one):
- River Class 1 River Class 2
- River Class 3 River Class 4
- Other: (specified) _____

7) Power Supply System Plan

- a. Estimated Power Needs: _____ MVA
- b. System of Electricity Power Supply (choose and fill out if the applicant will build):
- Distance from SEZ to National Power Grid: _____ m
- Capacity of Power Plant in SEZ: _____ MVA
- Capacity of Sub-station in SEZ: _____ MVA
- Lenght of distribution network in SEZ: _____ m

8) Telecommunication System Plan

- a. Type of Telecommunication System (may choose more than one):
- Broadband Fiber Optic Network Wireless (Wi-Fi/Hot-spot)
- Others: (specified) _____

b. Implementation of Telecommunication (*choose one*):

- Will have a own special system
 Will be provided by a Public Business Entity
 Others: (*specified*) _____

5.2 Employment Plan

- 1) Estimated number of employee who would be hired by the applicant as developers/operators: _____ persons
- 2) Estimated number of employees required/ for the entire activities in the SEZ (beside the developer), as much as _____ persons

5.3 Business Plan

1) Market Demand

- a. Exists: with competitors without competitors
b. Not exist: Potential market Future product would create new market

2) Strength

(fill out with description of accessibility, availability of infrastructure, natural resources, employment availability, etc.)

3) Weakness

(fill out with description of accessibility, availability of infrastructure, natural resources, employment availability, etc.)

4) Competitiveness

(fill out with description of technology, marketing, experiences in the same division, etc.)

5) Project Financing Plan

- a. Land acquisition and relocation, Rp. _____
- b. Planning and construction, Rp. _____
- c. Operational and management in annual average, Rp. _____
- d. Others: (*specified*) _____, Rp. _____
- e. Total of project financing, Rp. _____

6) Project Financing Schedule

- a. First Year, Rp. _____
- b. Second Year, Rp. _____
- c. Third Year, Rp. _____

5.4 Financial Feasibility (FIRR and FNPV)

- 1) Financial Internal Rate of Return (FIRR): _____%
- 2) Financial Net Present Value (FNPV): _____
- 3) Result: Feasible Not Feasible

5.5 Economical Feasibility (EIRR and ENPV)

- 1) Economic Internal Rate of Return (EIRR): _____%
- 2) Economic Net Present Value (ENPV): _____
- 3) Result: Feasible Not Feasible

5.6 SEZ Development Period

- 1) Estimated period up to start the SEZ operation: _____years
- 2) Activity schedule of SEZ development
 - a. Formulation of organization for SEZ, for: _____months
 - b. Land acquisition and relocation, for: _____months
 - c. Designing works, for: _____months
 - d. Construction, for: _____months

5.7 Environmental Impact

1) Possible Negative Impact on Environment (*may choose more than one*)

- Interference to protected flora and fauna
- Deforestation
- Interference to conservation area
- Water pollution Air pollution Noise
- Soil contamination Others: (*specified*) _____

2) Possible Negative Impact on Society (*may choose more than one*)

- Resettlement Community Segmentation Changing livelihood
- Others: (*specified*) _____

3) Result from Environmental Impact Analysis

- There is no serious problem at this time
 There is a serious problem that can be avoided by the mitigation plan

Chapter 6: INVESTOR CAPABILITY

6.1 Experiences of Development and Management in the Similar Projects

1) For Business Entity Applicant

- Applicant has experience of similar project(s).
Location: In Indonesia Other Country
Business Scale: Similar Smaller Bigger
Established on: < 5 Years 5-10 Years > 10 Years
Operational: Still Running End Transfer to other Party
- Applicant doesn't have experience of similar projects

2) For the Regional Government/Ministerial/Public Corporation Applicant

- Applicant has experience of similar project(s).
Inform of: KAPET FTZ Bonded Area Industrial Area
 Others: (mention) _____
- Business Scale: Equals Smaller Bigger
Established on: < 5 Years 5-10 years > 10 years
Operational: Still Running End Transfer to other Party
- Applicant doesn't have experience of similar projects.

6.2 SEZ Financial Source

1) For Business Entity Applicant (may choose more than one)

- Company Capital: Domestic, for Rp. _____ billion
 Foreign, for Rp. _____ billion
- Loan: Domestic Loan, Rp. _____ billion
 Foreign Loan, Rp. _____ billion
- Other Source (specified): _____, Rp. _____ billion
 _____, Rp. _____ billion

2) For Regional Govt./Ministerial/GIND (may choose more than one)

- National State Revenue and Expenditure:
 Is allocated to approved SEZ, Rp. _____ billion
 Will be allocated for Rp. _____ billion

- Regional State Revenue and Expenditure:
- Is allocated to approved SEZ, Rp. _____ billion
 - Will be allocated for Rp. _____ billion
- Private: Domestic, Rp. _____ billion
- Foreign, Rp. _____ billion
- Other (*specified*):
- _____, Rp. _____ billion
 - _____, Rp. _____ billion

6.3 Performance of Management Board

1) For Business Entity Applicant (*choose one*)

- The SEZ will be operated/managed by the applicant.
- Employment: Empowering the Existing Staff
- Planning the additional Expertise
- The SEZ will be managed by other parties.
- Others (*mention*): _____

2) For Regional Government/Ministerial/Public Corporation Applicant (*choose one*)

- The SEZ will be operated/managed by the applicant.
- The SEZ will be operated/manage by Business Entity or State-owned enterprise that appointed by tendering process in accordance with the Government Regulation No. 2 of 2011.
- Others (*specified*): _____

3) Capacity Development Plan (*may choose more than one*)

- There is no plan for a while.
- The Board will visit and review best practices of SEZ or the similar Economic Zones.
- The Board will conduct training/education program.
- others (*specified*): _____

4) SEZ Marketing Plan (*may choose more than one*)

- There is no plan for a while.
- The Board will conduct socialization and tender through the print and electronic media.
- The Board will visit directly to local investors.
- The Board will coordinate with related institutions to visit foreign investors directly.
- others (*specified*): _____

Required Document for SEZ Application

(Put check mark (√) in the box or replace with)

No	Document	Business Entity	Regional/City Government	Provincial Government	Ministerial/Public Corp.
1	SEZ Application Form	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Power of Attorney Letter from the Authority (if the applicant is a consortium)	<input type="checkbox"/>			
3	Agreement for establishment of business entity	<input type="checkbox"/>			
4	Audited Financial Profile for the last 3 (three) years.	<input type="checkbox"/>			
5	Approval from the regional/city government for proposed SEZ location	<input type="checkbox"/>		<input type="checkbox"/>	
6	Statement of the equity value at least 30% from the investment value of proposed SEZ	<input type="checkbox"/>			
7	Development plan of proposed SEZ	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Detailed map of the development location and area of proposed SEZ	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Spatial plan in the SEZ location under land use regulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Economic and Financial Feasibility Study	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Financial Plan and Resources				<input type="checkbox"/>
12	Environmental Impact Analysis (EIA) in accordance with regulation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Strategic and Implementation Plan of SEZ development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Land development permission	<input type="checkbox"/>			
15	Stipulation of the location and evidence of land rights		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	Recommendation from management authorities for supporting infrastructure	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
17	Statement of willingness to establish and manage SEZ	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
18	Commitment of regional/city government for incentives and facilitation plan		<input type="checkbox"/>		

APPENDIX B-2: INFRASTRUCTURE IMPLEMENTATION STANDARD

Chapter I: PRELIMINARY

I.1 Background

The national economic development is an effort that should be conducted continually in order to build a prosperous society. One of the factors which determine the national economy is investment that can encourage the movement of national economy and the creation of jobs.

One of the efforts to attract investment is to prepare areas with superiority of geo-economy and geo-strategy as well as giving certain incentives. This area development is also the embodiment of territorial integrity to reduce economic and social gap among regions, and maintain environmental sustainability. The government through Law No. 26 of 2007 regulates spatial arrangement for the sustainability of regional development and establishes strategic areas such as Special Economic Zone (SEZ).

Referring to Law No. 39 of 2009 concerning Special Economic Zones, SEZ is an area with specific boundaries within the jurisdiction of the unitary Republic of Indonesia determined to implement certain economic functions and acquire certain facilities. This Law is a follow up from Article 31 paragraph (3) of Law No. 25 of 2007 on Investment, which states that the provisions on Special Economic Zones will be regulated by Law. The function of SEZ is to conduct and develop business in the field of trade, services, industry, mining and energy, transport, maritime and fisheries, posts and telecommunication, tourism and others. In accordance with this, SEZ consists of one or several zones, including export processing, logistics, industry, technology development, tourism, energy and other economic zones.

SEZ is developed by preparing areas which have geo-economic and geo-strategy advantages and serve to accommodate industrial activities, exports, imports, and other economic activities which have high economic value and international competitiveness (Article 2 of Law No. 39 Of 2009 concerning Special Economic Zones). In the preparation of Special Economic Zones, it is necessary to conduct development effort to ensure that the areas possess qualified infrastructure and service standards and therefore have high competitiveness. In this regard, there is a need for standards to develop infrastructure.

Standardization of infrastructure and minimum services for SEZ becomes one of the tasks for Special Economic Zones National Council as the SEZ organizer directly authorized by the President. Some policy principles that can be used for SEZ infrastructure development in Indonesia, among others, are:

1. Minimum Regulations

Minimum regulations are determined by central and Regional Government.

2. Environmental Quality, Safety and Integration

Focusing and setting minimum Standards of Environmental quality, safety, and integration with National system.

3. Regional Government Sector

Referring to the existing regulation of every relevant sector from the Central and Regional Government, and afterwards adjusted to SEZ requirements.

4. Commercial Aspects

Minimize regulations for standards in the form of quantity and create better regulations based on the commercial aspects of the SEZ.

5. Infrastructure

World class infrastructure refers to the development concept to increase the international competitiveness of SEZ.

The sustainability (continuity) of infrastructure development in SEZ is also considered in this standard setting. In addition, disaster factors are also considered in these standards. Therefore, buildings and Infrastructures in SEZ are also constructed under the regulation disaster resistant buildings and facilities for disaster mitigation. Thus, it is expected to reduce disaster risk, either natural disasters such as earthquakes and tsunamis, as well as other disasters such as fires.

The existing infrastructure in SEZ is the infrastructure that exclusively serves for the environment. The implementation of SEZ infrastructure standards also require a guideline for spatial planning within SEZ, such as land requirement, land use patterns, and zoning system. In addition, the infrastructure in SEZ is regulated and standards are set in roads, fence, electricity, telecommunication, clean water, drainage, waste water discharge, STP, waste, and fire facilitation. Furthermore, other standards cover ports, airports, railways and building construction standards.

I.2 Relationship between SEZ Infrastructure Standards and Sector Regulations

Infrastructure standards are set by referring to existing sectors and regional regulations, and supported by sector guidelines which also refer to sector regulations and best practices for the implementation of infrastructure standards from other countries. Infrastructure development guidelines address more details.

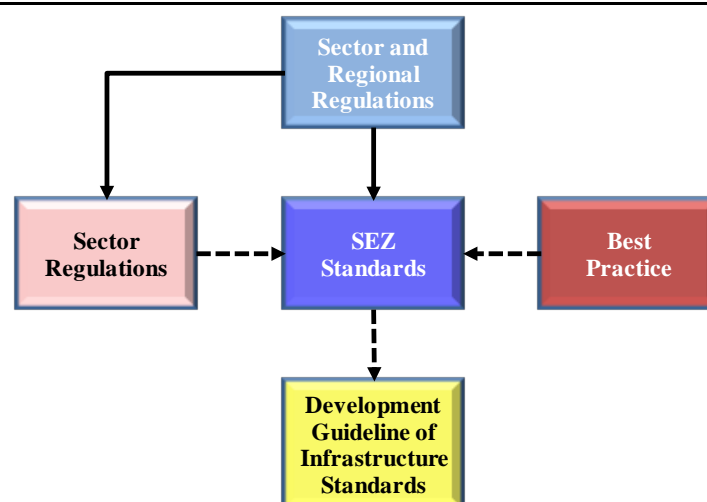


Figure I.2.1: Relationship between SEZ Infrastructure Standards and Sector Regulations

I.3 Regulations Related to Infrastructure Standards

Type of Standards	Relevant Regulations
Road Standards	<ul style="list-style-type: none"> • Law No. 38 of 2004 concerning Road • Law No. 22 of 2009 concerning Traffic and Road Transportation
Fence	<ul style="list-style-type: none"> • Law No 39 of 2009 concerning Special Economic Zones
Electricity	<ul style="list-style-type: none"> • Ministerial Regulation of ESDM No. 4 of 2009 concerning the Arrangement of Electricity Distribution • Ministerial Regulation of Industrial No. 35 of 2010 concerning Technical Guidelines for Industrial Areas
Telecommunication	<ul style="list-style-type: none"> • Ministerial Regulation of Industrial No. 35 of 2010 concerning Technical Guidelines for Industrial Areas
Clean Water	<ul style="list-style-type: none"> • Law No.32 of 2009 concerning Environmental Protection and Management • Govt. Regulation No. 82 of 2001 concerning Water Quality Management and Water Pollution Control • Ministerial Regulation of Health No. 492/MENKES/PER/IV/2010 on Drinking Water
Drainage	<ul style="list-style-type: none"> • To be able to accommodate rain water so that there is no stagnant water with a maximum height of 30 cm for a maximum of 2 hours
Waste water drainage	<ul style="list-style-type: none"> • Law No. 32 of 2009 concerning Environmental Protection and Management • Govt. Reg. No. 82 of 2001 concerning Water Quality Management and Water Pollution Control
STP	<ul style="list-style-type: none"> • Law No. 32 of 2009 concerning Environmental Protection and Management • Ministerial Regulation of Environmental No. 3 of 2010 concerning Waste Water Quality Standards for Industrial Zones
Waste	<ul style="list-style-type: none"> • Law No. 32 of 2009 concerning Environmental Protection and Management • Law No. 18 of 2008 concerning Waste Management • Ministerial Regulation No. 18 of 1999 concerning Management of Hazardous Toxic Wastes
Fire Brigade Facility	<ul style="list-style-type: none"> • Law No. 28 of 2002 concerning Building and Construction • Ministerial Regulation of Industry No. 35 of 2010 concerning Technical Guidelines for Industrial Areas. • Ministerial Regulation of PW No. 11/KPTS/2000 concerning Technical Provisions for Fire Fighting Management in Urban Areas
Ports	<ul style="list-style-type: none"> • Law No. 17 of 2008 concerning Shipping
Airports	<ul style="list-style-type: none"> • Law No. 1 of 2009 concerning Aviation
Railways	<ul style="list-style-type: none"> • Law No. 23 of 2007 concerning Railways
Building and other Constructions	<ul style="list-style-type: none"> • Law No. 28 of 2002 concerning Building Construction • Ministerial Regulation of PW No. 441/KPTS/1998 concerning Technical Requirements of Building Construction. • Ministerial Regulation of PW No. 10/KPTS/2000 concerning technical Requirements of Safety for Fire Hazards in Building Constructions and Environment

Chapter II: SEZ SPATIAL PLAN

II.1 Spatial Planning Approach in SEZ

According to Law No. 39/2010, SEZ can have multiple zones of economic activities. To conduct spatial plan in SEZ, terms and understanding of economic activities in SEZ should be adjusted to the following zones, and sub-zones:

Economic Zone Activities in SEZ	Activities in the zone of SEZ (in others)
Industrial Zone	<ul style="list-style-type: none"> • Metal Industry (iron, steel, etc.) • Chemical Industry (plastic pellets, fertilizer, cement, etc.) • Machinery and transportation equipment Industry • Crops Industry (rubber, leather, etc.) • Small Industry: textile, shoes, wood, etc. • Small Industry: Food and beverages • Small Industry: electronic, instruments, etc. • Shipping Industry • Fishery processing Industry
Logistics Zone	<ul style="list-style-type: none"> • Storage • Goods Terminal
Export Zone	<ul style="list-style-type: none"> • Industrial Zone + Logistics Zone
Tourism Zone	<p>In Trade Service Zones</p> <ul style="list-style-type: none"> • Hotelier, restaurants, malls, entertainment centre • Convention Centre, Theater, etc. <p>In the Office Area</p> <ul style="list-style-type: none"> • old building blocks, museum, etc <p>Others: Free Areas, rural areas, etc.</p>
Technology Development Zone	<p>In office areas or Industrial Zones</p> <ul style="list-style-type: none"> • Research and Development • Information and Technology (IT) • Technical Engineering
Energy Zone	<p>In Industrial Areas:</p> <ul style="list-style-type: none"> • Petrochemical Industrial (refinery, gas, etc.) • Vapor Power Plant (coal, gas, oil, etc.) <p>Special Zones for Renewable Energy</p> <ul style="list-style-type: none"> • Geothermal block • Bio-energy block • Micro-Hydro block
Other Zone	<p>In trade or Office Services Zone</p> <ul style="list-style-type: none"> • Art Centre, Cinema, Creative • Stadium / Sport Building

II.2 Land Use

Legal entities who manage SEZ are obliged to:

- Provide land or space for the activities of government services that consist of;
 - Services related to the affairs of licensing administrate whose authority has been delegated from the Government and Local Government;
 - Customs for SEZ which has high import export activities;
 - Quarantine for SEZ which has high export-import activities for biological products; and
 - Weighbridge for SEZ which has heavy goods transportation.

- Provide land or space for Small and Micro Enterprises (SME) to carry out support activities such as canteen, photo-copy services, etc. Location of space or land to support SME business should be adjacent to the location of government services.
- Land use in SEZ is determined as follows:
 - The entire land for green open space of public and private should be at least 30%, which consists of at least 10% green space in business activity lots;
 - Land for road network and channels should be at least 15%; and
 - Maximum 70% of the land for business, government offices and services lots.
- In order to achieve harmony with the environment outside SEZ, Building and Land Coefficient (KDB) and Setback Building (GSB) shall be in accordance with the applicable provisions issued by local government.

Legal entities who manage SEZ need to consider the principles of zoning based on:

- Amount of waste generation
- Production size that are bulky/heavy
- Air Pollution
- Noise Level
- Vibration Level
- Connectivity between types of industry

Legislation related to spatial planning are as follows:

- Law No. 26 of 2007 concerning Spatial Planning
- Law No. 32 of 2009, concerning Environmental Protection and Management
- Government Regulation No. 26 of 2008 concerning National Spatial Planning

Relevant Regulations	Regulation Number	Important Points
Law	Law No. 26 of 2007 concerning Spatial Planning	The primary function areas, administrative areas, activity areas, and strategic value of the region are classified according to spatial planning system. Classification is based on the system grouped by external and internal systems of urban areas. Spatial planning functions are classified into protected areas and cultivation areas. Spatial planning based on administrative areas is classified based on spatial planning at national, provincial, and district/city levels. The spatial based activities are classified based on spatial planning of urban areas and rural areas. Spatial planning based on strategic value of the region is classified based on spatial management of national and provincial strategic areas.
	Law No. 39 of 2009 on Special Economic Zones	SEZ can consist of one or several zones as follows: <ol style="list-style-type: none"> a. Export processing; b. Logistics; c. Industry; d. Technology development; e. Tourism; f. Energy; and/or g. Others. The supporting facilities and housing for workers can be developed for employees. Locations should also be provided for Micro, Small and Medium Enterprises (MSMEs), and cooperatives both as business actors and as a support for companies operating within SEZ.

Relevant Regulations	Regulation Number	Important Points
Government Regulation	Govt. Reg. No. 15 of 2010	For land use, public green open space should be provided at least 20% and private green area should be at least 10% of the total area. If the vast green space becomes bigger than 30% of the total area, the existence proportion should be maintained. If the public green space did not materialize after the validity of urban spatial plan ends, local governments are liable for sanction in accordance with the laws and regulations.
Government Regulation		For the land use, the intensity must at least consist of maximum land and building coefficient (KDB), maximum building basic coefficient (KLB), maximum building height, and minimum green space coefficient. Other provisions are needed to control the mix land use, informal sector, and the development of skyscrapers. Zoning area is determined in hierarchy: allotted zones are divided into sub zones, which will be further divided into blocks, and finally divided into lots. Regional/city zoning regulations are arranged based on specific regional/city spatial plan, direction for the zoning regulation within the national zoning system, and the direction for the zoning regulation within the provincial zoning system applicable in such regions/cities.
Ministerial Regulation	Ministerial Regulation of Industry No. 35 of 2010 on Technical Guidelines for Industrial Areas	<p>The application of zoning system in block plan applied in Industrial Areas is based on:</p> <ul style="list-style-type: none"> ▪ Amount of waste water generation ▪ Production size that are bulky/heavy ▪ Air Pollution ▪ Noise Level ▪ Vibration Level ▪ Connectivity between Industries <p>In Industrial Areas, spatial plan is conducted by:</p> <ol style="list-style-type: none"> 1. <u>Zoning/lot arrangement</u> Zoning arrangement serves as technical guidance on the provision and implementation of space utilization as well as its control which refers to spatial plan, such as determination of the function, the intensity, the provision of the building layout, infrastructure and facilities, as well as an indication of the development program. Zoning/lot in industrial areas can be categorized in several criteria namely industry, supporting facilities, public and social facilities, and green open space. Industrial zone/lot can be categorized as follows: <ol style="list-style-type: none"> a) Size of land ready for construction: <ul style="list-style-type: none"> • Small size of 300-3,000 m² /lot • Medium size of 3,000-30,000 m² /lot • Large size of ≥ 3 Ha/ lot b) Clean water requirement: <ul style="list-style-type: none"> • Industry with less water requirement • Industry with medium water requirement • Industry with large amount of water requirement (wet industry) that will automatically generate a huge amount of waste water (assuming that the amount of waste water generated from the utilization of clean water is between 60% and 80% return in the form of liquid waste). c) Production category: <ul style="list-style-type: none"> • Light Industry • Medium Industry • Heavy Industry 2. <u>Site Plan</u> Site plan is a continuous process of the master plan, which is used as a reference in the construction design in a larger scale and with more details including size and dimension. Site plan is made for industrial land, commercial lots, residential lots, roads and their supporting facilities as well as green open space. In the industrial area there is an arrangement for the land use. The pattern for the land use can be seen in the next table.

No	Type of Utilization	Utilization Structure (%)	Remarks
1	Industrial Lot	Maximum 70%	Every lot must follow Building Coverage Ratio (BCR) in accordance to local regulations (60-40)
2	Roads and networks	8-12%	<ul style="list-style-type: none"> ▪ Must reach accessibility where there are main roads and secondary roads (services) ▪ Primary axle pressure should be at least 8 tons and secondary one must be at least 5 tons ▪ Minimum 7m for road pavement
3	Green Open Space Areas	Minimum 10%	Can be in the form of green belt, park and perimeters.
4	Supporting facilities	6-12%	<p>Can be in the form of canteen, guest house, places of worship, sports facilities, STP, telecommunication shelter, etc.</p> <p>Parking and loading or unloading space must be provided in the industrial areas. The road network in an industrial area requires a high level of accessibility, so site layout planning of industrial areas must consider the following:</p> <ul style="list-style-type: none"> ▪ Provision of parking lot for employees vehicles in manufacturing lots ▪ The unloading activity must be conducted in the manufacturing lots so unloading space is required. ▪ Parking lot for employee bus or material container in queue for unloading must be prepared by the Industrial Zone management so that there would be no parking on road shoulders.

Chapter III: INFRASTRUCTURE STANDARDS IN SEZ

III.1 Road Standards

Business Entity managing SEZ must provide roads inside SEZ under the following provisions:

- Although the road in SEZ is not a public road, it must be integrated with public road system in terms of dimension and service level standards. For safety, road feasibility must be tested regularly in a period of 10 years or when there is a change in the road utilization plan.
- There should not be traffic congestion and traffic delay by applying these standards:
 - Volume Capacity Ratio (VCR) under 0.6 in main roads connected to primary road networks
 - VCR under 0.8 in internal roads towards lots
- For industrial zones, logistics zones and export zones, load class and infrastructure class in SEZ are equal or above the grade used for primary arterial roads nearby. In terms of increase in primary arterial road class, road construction in SEZ shall be adjusted.
- For industrial zones, logistic zones and export zones, the width of the pavement of one lane in two way roads must be at least 8 meters and two-lane in two-way must be minimum 2x7 meters.
- Facilities for pedestrian, at least sidewalk for safety and convenience, must be provided along the roads in developed area.
- The area for road network and channels must be at least 15% of the developed area.
- Providing land for permanent or portable weighbridge near SEZ gate where heavy industrial activities building materials industry, the primary energy industry, pulp industry, or any other industry exist. These are the types that require heavy goods transportation of non containerized cargo.
- Provide road lighting for safety and security in the developed area.

Even though road in SEZ is not a public road, it is necessary to consider its integration with public roads in accordance with relevant laws and regulations as follows:

Relevant Regulations	Regulation Number	Important Points				
Law	Law No. 38 of 2004 on Road	Public Road can be classified as follows:				
		Public Road Classification	Service Function	Road Distance	Average Speed	Number of Road entrance
		Artery	Major Transport	Far	High	Efficiently limited
		Collector	collector/deliver transport	Medium	Medium	Limited
		Local	Local Transport	Near	Low	Not Limited
		Environmental	environmental Transport	Near	Low	
		Local Government can set the highest speed limit declared with local traffic sign. Organizers are required to test the feasibility of roads that have been regularly operated for more than 10 years and/or as needed. Supply for certain environmental roads is adjusted to their capacity, integration, and traffic volume. Provisions regarding such installation of road equipment must refer to the provisions set in government regulations. Everyone Is prohibited from damaging and/or impairing road functions and road equipment.				

III.2 Fencing Standards

Business Entity managing SEZ shall;

- Set clear boundaries that limit the entire SEZ area. Fences can be natural or artificial or transparent.
- Set fences around zones, sub-zones and blocks receiving special facilities of customs or export/import. This must follow existing standards from the Ministry of Finance, among others;
 - Surrounded by fences with a vertical height of at least 2.5 meters,
 - Prohibited to have a direct connection with other buildings, and
 - Have OSS system for goods entrance and exit.

The relevant regulations are;

Related Regulation	Number of Regulation	Important Point
Law	Law No. 39 of 2009 on Special Economic Zones	One of the criteria for the location that must be met in proposal to become SEZ is that the location must have the clear boundaries in form of natural boundaries (river or sea) or artificial boundary (fence or walls).

III.3 Electricity Standards

Business Entity managing SEZ shall;

- Provide reliable, safe and environmentally friendly electricity from licensed power supply providers.
- Meet the requirements of Technical Distribution System suitable with the Ministerial Regulation of Energy and Mineral Resources No. 4 of 2009 on Power Distribution such as;
 - The system's nominal frequency is 50 Hz and normal frequency has a range between 49.5 Hz to 50.5 Hz, and

- Distribution system voltage must be maintained at normal condition of maximum +5% and minimum -10% of nominal voltage.
- Maintain coordination with power supply providers in providing information to tenants/stakeholders in SEZ in the event of;
 - scheduled electricity cut, and
 - any interference as well as the estimated time needed for repair.
- Specifically for Technology Development Zone, interference should be no more than 10 seconds.

Regulations relevant to electricity requirements are as follows:

Relevant Regulations	Regulation Number	Important Points
Ministerial Regulation	Ministerial Regulation of Energy and Human Resources Number: 2682 K/21/MEM/2008 on General Planning of National Electricity for 2008 to 2027	Availability of power supply must be guaranteed in terms of its adequate amount, fair price, and good quality. Provision of electricity must be conducted based on increasing benefit, fairness, efficiency, sustainability, economic optimization, self-reliance, preservation of environment, as well as security and safety.
Ministerial Regulation of Industry	Ministerial Regulation of Industry No. 35 of 2010 on Technical Guidelines of Industrial Area	Power supply provision need to consider the source of the power supply, whether only from local power company or requiring the participation of private sector to assist in meeting industrial electricity demand. Provision and installation of electricity distribution network must be in accordance with the provisions of PLN. Electricity source can be supplied by PLN and industrial zone manager (private electricity company). Street lighting on each lane must comply with applicable regulations. Electrical capacity for the Industrial Areas must be at least 0.15 – 0.2 MVA/Ha.

III.4 Telecommunication Standards

Business Entity managing SEZ shall;

- Provide telecommunication network which is prepared to service all lots with underground cable if cable system is to be used, and
- Technology development zone is required to connect to internet broadband network.

Relevant regulations are as follows:

Relevant Regulations	Regulation Number	Important points
Ministerial Regulation of Industry	Ministerial Regulation of Industry No. 35 of 2010 on Technical Guidelines of Industrial Area	Industrial activity will not be separated from business aspect in the context of marketing and business development. Hence, means of telecommunication such as telephone and internet become basic needs for the industrial actors to conduct their activities. Its availability is therefore a prerequisite to determine industrial location. Telecommunication network is prepared using underground or upper-ground cabling system. Telecommunication network includes the facsimile/telex network. Telecommunication network in the industrial area must comply with the applicable technical requirements.

III.5 Clean Water Standards

Business Entity managing SEZ Management shall;

- Provide clean water sourced from PDAM, or land water, or class 1 river water. Water needs in the industrial processing zones and primary energy zones must not be sourced from land sources, and
- Guarantee clean water quality at least equivalent to standard quality of class 1 river water as determined in Government Regulation No. 82 of 2001.

Regulations relevant to clean water are as follows:

Relevant Regulations	Regulation Number	Important Points
Law	Law No.32 of 2009 on Environmental Protection and Management	Article 20 paragraph 2 of Law No. 32 of 2009 on Environmental Protection and Management regulates environmental quality standards including water quality standard.
Government Regulation	Government Regulation No. 82 of 2001 on Water Quality Management and Water Pollution Control	Water used for drinking and/or for other necessities is required to have the quality equal to class 1 (one) as defined in the regulation in 2001.
Ministerial Regulation	Ministerial Regulation of Health No. 492/MENKES/PER/IV/2010 on Requirement for Drinking Water Quality	This regulation states that drinking water is safe if it meets the physical, microbiological, chemical and radioactive requirements stated in mandatory parameters and additional parameters.

III.6 Drainage Standards

Business Entity managing SEZ shall a network for rain water drainage and reservoir under the following requirements:

- Can accommodate rain water so there is no puddle with a rain return period of 25 years.
- Plan for rain water (drainage) network in SEZ must comply with the technical provisions of the local government.

III.7 Standards for waste water discharge channels

Business Entity managing SEZ shall;

- Provide closed waste water channels and monitoring pond/pit that facilitate the taking of waste water sample at SEZ outlets.
- Check the parameter of water quality at SEZ outlets periodically at least once a month. Testing is carried out at a laboratory accredited and registered by the Ministry of Environment.
- Ensure that the waste water quality from SEZ is better than the quality standard issued by the waste water management as set in Government Regulation No. 82 of 2001 as follows:
 - Class I, water that can be used for drinking water;

- Class II, water that can be used for recreational activity;
- Class III, water that can be used for fishery, livestock and agriculture; and
- Class IV, water that can be used for agricultural irrigation.

In the provision of centralized STP, SEZ management can limit the quality of waste water effluent from the lots:

- To meet STP standards as follows:
 - BOD : 400 – 600 mg/l
 - COD : 600 – 800 mg/l
 - TSS : 400 -600 mg/l
 - pH : 4 -10
- If the waste water effluent from the lots exceeds STP influent standards, the waste water from the lot must be cleaned first.

Relevant legislation on waste water is as follows:

Relevant Regulations	Regulation Number	Important Points
Law	Law No.32 of 2009 on Environmental Protection and Management	This law regulates environmental standards including waste water standard. Everyone is allowed to dispose waste to the environment media with the requirements that the disposed waste meet environmental standards and licensed by the Minister, Governor, or Regent/mayor according to their authority.
Government Regulation	Government Regulation No. 82 of 2001 on Water Quality Management and Waste Water Control	This regulation states that water quality is divided into 4 (four) classes: <ol style="list-style-type: none"> 1. Class I (one) water can be used for drinking water and /or other water necessities that require equivalent standard; 2. Class II (two) water can be used for water recreation, fisheries, livestock, irrigation for plantation, and or other allotments that require equal standard; 3. Class III (three) can be used for fresh water aquaculture, livestock, farming, irrigation for crops, and other uses that requires the same water quality; 4. Class IV (four) can be used for crop irrigation and other uses that require the same water quality.

III.8 Standard of Sewerage Treatment Plant (STP)

Business Entity managing SEZ in Industrial Area (processing) or Primary Energy Zones with more than 100Ha development area shall;

- Provide centralized STP.
- Have waste water quality of STP effluent in accordance with the Ministerial Regulation of Environmental No. 3 of 2010 on Waste Water Quality Standard for Industrial Areas.

If the waste water from the lot exceeds the quality standard of STP effluent, it must be cleaned in advance and every lot must provide a pond/pit for waste water monitoring to ensure easy sampling.

Relevant Regulations on waste water drainage are as follows:

Related Regulation	Number of Regulation	Importance Point
Law	Law No.32 of 2009 on Environment Protection and Management	This law regulates the environmental quality standard including water quality and waste water quality standards. Everyone is allowed to dispose waste to the environmental media with the requirements that the disposed waste meets environmental quality standard and is licensed by the Minister, Governor, or Regent/Mayor in accordance with their authorization.
Ministerial Regulation	Ministerial Regulation of Environment Number 3 of 2010 on Waste Water Quality Standard for Industrial Areas	This regulation states that every industrial area which has a centralized STP must obey the waste water quality standard for industrial areas, among others: <ul style="list-style-type: none"> • pH : 6-9 • TSS : 150 mg/l • BOD : 50 mg/l • COD : 100 mg/l • Sulfida : 1 mg/l • Amonia (NH3-N) : 20 mg/l • Fenol : 1 mg/l • oil and fat : 15 mg/l • MBAS : 10 mg/l • Cadmium : 0,1 mg/l • Chrome Heksavalen (Cr 6+) : 0,5 mg/l • Chrome Total (Cr) : 1 mg/l • Copper (Cu) : 2 mg/l • Lead (Pb) : 1 mg/l • Nickel (Ni) : 0,5 mg/l • Zinc (Zn) : 10 mg/l • Waste water quality maximum: 0.8 L per second per Ha of utilized area <p>If the industrial area does not possess centralized STP, waste water quality standard is applicable to every business type and/or activity in accordance with the ministerial regulation on waste water quality standard.</p> <p>This regulation also states that industrial zones must separate their waste water channel and rain water drainage channel.</p> <p>The obligation to examine the parameter of waste water quality regularly (at least once a month) is also stipulated in this regulation according to the waste water quality standard listed above. Examination is carried out in a laboratory that has been accredited by and registered at the Ministry of Environment.</p>

III.9 Solid Waste Standards

Business Entity managing SEZ shall maintain solid waste standards as follows:

- Ensuring that there are no piles of garbage that disrupt the environment in terms of health, sight and smell.
- Special handling of activities which generate B3 waste must comply with the Government Regulation No. 18 of 1999.

Relevant Regulations on solid waste are as follows:

Relevant Regulations	Regulation Number	Important points
Law	Law No.32 of 2009 on Environmental Protection and Management	This law regulates environmental quality standard including standard of interference and other quality standards in accordance with science and technology development. Everyone is allowed to dispose waste to environment media as long as the disposed waste meets the environmental quality standard and is licensed by the Minister, Governor, or Regent/Mayor in accordance with their authorization.

Relevant Regulations	Regulation Number	Important points
Law	Law No. 18 of 2008 on Waste Management	<p>This law stipulates that residential areas, commercial areas, public facilities, social facilities, and the other facilities are required to provide affordable waste sorting facilities for public.</p> <p>In addition to waste sorting, waste reduction and waste management must be carried out to address home waste.</p> <p>Waste reduction can also be conducted by limiting garbage mound, recycling and reusing waste. On the other hand, waste management activities include;</p> <ul style="list-style-type: none"> • Segregation by separating and grouping waste according to the type, amount, and/or nature of the waste. • Gathering by collecting and removing waste from the source to a temporary shelter or integrated waste processing site. • Transportation by carrying the garbage from the source, temporary shelter, and/or integrated waste treatment facilities to the final processing site. • Management by changing the characteristic, composition, and amount of waste. • Final processing by returning the safe residue of the previous processing results to the environment.
Government Regulation	Government Regulation No. 18 of 1999 on Hazardous and Toxic Waste Management	To handle toxic materials or hazardous waste, this regulation mentions that every person who conducts businesses and/or activities using toxic materials and/or generating hazardous waste must implement B3 waste reduction, B3 waste management and/or stockpiling of the B3 waste.

III.10 Fire Brigade Public Service Standards

Business Entity managing SEZ shall provide hydrant or water resources adequate for fire-fighting maximum every 200 meters. (Fleet and fire fighter services are regulated in SEZ Business Services module).

Relevant legislation is;

Relevant Regulations	Regulation Number	Important Points
Law	Law No. 28 of 2002 on Building Construction	<p>This law regulates building safety requirements including building's capacity to support the load as well as its ability to prevent and overcome fire and thunder hazards.</p> <p>Building's capacity to prevent and overcome may come in the form of passive and/or active protection systems.</p> <p>Passive protection system includes the stability of the structure and its elements, fireproof construction, compartment and separation, as well as the protection of existing aperture to prevent and limit the spread of fire and smoke. Active system protection includes the equipment needed to detect and extinguish fire and to control smoke as well as fire rescue facilities.</p>
Ministerial Regulation	Ministerial regulation of Industry No. 35 of 2010 on Industrial Area Guidelines	This regulation stipulates that the capacity of the available fire brigade must comply with applicable technical guidelines.
Ministerial Regulation	Ministerial Regulation of Public Work Number: 11/KPTS/2000 on Technical Guidelines of Fire Prevention Management in Urban Areas	<p>Management of Environmental Fire Prevention is a part of "Estate Management" to prepare managers, occupants, and fire brigade to extinguish any fire that occurs in the area.</p> <p>Service area in each fire management does not exceed 7.5 km radius. In addition, developed area must be protected by fire trucks posted in the nearest station within 2.5 km and 3.5 km away from the sector.</p>

Chapter IV Other Standards

IV.1 Ports

Business Entity managing SEZ can construct and operate a terminal for their interests and a special port under the following provisions:

- Terminal is a facility that consists of dock or mooring sites for vessels, buildup places, and/or places for loading and unloading of goods or passengers.
- Private Terminal is located in work areas and supporting areas in accordance with SEZ's principal business activities.
- Special terminal is a terminal to serve own interests in accordance with SEZ's principal business activities namely:
 - Is part of the nearest port but located outside the regional workplace environment and its supporting areas.
 - Government/ agencies must be placed to monitor shipping safety and security.
 - Operational license for the Terminal is given for a period of maximum 5 (five) years and is extendable as long as the requirements are met.
 - Special terminals opened for international trade are determined by relevant Ministers responsible for transportation affairs.
 - Special terminal is prohibited from being used for public purposes except in an emergency with permission from the Minister responsible for transportation affairs.
- Special terminals can be develop and operated only in cases in which;
 - The nearest ports cannot accommodate the main activities.
 - Based on economic and technical consideration, special terminals will be more effective; and able to ensure shipping safety and security.

Regulations related to the port arrangement in Law No. 17 of 2008 on Shipping are as follows:

Relevant Regulations	Regulation Numbers	Important Points
Law	Law No. 18 of 2007 on Shipping	<p>A port is a place consisting of land and/or water with particular borders as a place for governmental and business activities where ships are moored, passengers and/or goods are unloaded or loaded. It is equipped with shipping safety and security facilities as well as supporting activities. It is also used as a transfer for intra and inter-modes of transport.</p> <p>A terminal is a facility that consists of a dock for mooring of vessels, buildup place, and / or place for loading and unloading of goods or passengers.</p> <p>A special terminal is a terminal located outside the Regional Work Environment and Environment Area of Interest on Ports to serve private interests in accordance with its main business.</p> <p>Part Owned Terminal is located in the Regional Work Environment and Environment Area of Interest on Ports to serve private interests in accordance with the principle business in SEZ.</p>

Relevant Regulations	Regulation Numbers	Important Points
		<p>To support certain activities outside the Regional Work of Environment and Environmental Area of interest, a “Special Terminal” can be built within a port.</p> <ul style="list-style-type: none"> • It is determined as part of the nearest port must have certain Regional Work Environment and Environment Area of Interest. • Government agencies must be in place to conduct to implement shipping safety and security, as well as institutions that implement governmental functions as needed. <p>A special terminal can only be develop and operated as follows:</p> <ul style="list-style-type: none"> • The nearest port cannot accommodate the main activities. • Based on economic and technical operational consideration, it will be more effective and efficient ensuring shipping safety and security to develop and operate a special terminal.
		<p>A special Terminal must not be used for public purposes except in an emergency condition with permission from the Minister. Operational license is given for a maximum of 5 (five) years and can be extended as long as the requirements under this Law are met. In the case of special terminal changing its status into a port, land, and/or water, dock, sailing route, and supporting facilities for sailing navigation, it is then controlled and owned by the government.</p>
		<p>Special Terminal can be used to conduct International Trade activities. Ports and special terminals which are open for International Trade are determined by relevant Minister.</p>
		<p>Regional Work Environment (DLKr) is the area of water and land on a particular port or terminal which is directly used for port activities. Area of Interest Environment (DLKp) is the water area surrounding harbor area of work environment that is used to ensure shipping safety.</p>
		<p>The use of certain water and land areas as ports is specified by the Minister in accordance with the National Ports Master Plan. Ports construction must be equipped with the Regional Work Environment (DLKr) and Environment Area of Interest (DLKp).</p>

IV.2 Airports

Business Entity managing SEZ can develop and operate special airports, heliports, and city check in counters under the following provisions:

- Special Airports are prohibited to;
 - Serve direct flights from and/or to abroad except in certain circumstances temporarily after obtaining permission from the Minister who is responsible for transportation affairs.
 - Be used for public purposes except in certain circumstances temporarily with permission from the Minister who is responsible for transportation affairs.
- The development and operation of special airports to support principal activities in SEZ must have the permission from the Minister in air transportation division by meeting these requirements:
 - Proof of ownership and/ or tenure;
 - Recommendations from local government;
 - Detailed engineering design of main facilities; and
 - Environmental sustainability.
- The operation of airports must meet the requirements of flight safety and registration from the Minister responsible for transportation affairs. This applies for airports with maximum 30

(thirty) seats and maximum capacity of weight after takeoff up to 5,700 (five thousand seven hundred) kilograms or airports certification for bigger capacity airports.

- Building permission for helipads in SEZ is given by local governments after obtaining technical considerations from the Minister responsible for such transportation affairs.
- Development of check in counters in SEZ that do not have an airport is determined by relevant Ministers. Check in counter is an integral part of a regional airport and must consider aviation security.

Regulation regarding airports can be found in Law No. 1 of 2009 on Flights.

Relevant Regulations	Regulation Number	Important Points
Law	Law No. 1 of 2009 on Flights	<p>Airports is a land and/or water area with certain boundaries, used for air plane landing and takeoff, goods and passengers, loading and unloading, and transfer sites for intra and inter-modes of transport, which facilitate flight security and safety, as well as main facilities and supporting facilities.</p> <p>A Special Airport is an airport which is only used for private interest to support main business activities.</p> <p>In order to support such activities, government, regional government, and/or Indonesian legal entities can develop special airports after obtaining building license from relevant Minister. Monitoring and management of special airports operation are conducted by the nearest airport authority appointed by the Minister.</p> <p>Building permit of special airports must meet the requirements for ownerships rights and/or tenure; recommendations provided by local governments; detailed engineering design of main facilities; and environmental sustainability.</p> <p>Special airport is prohibited from serving direct flights from and/or to abroad except in certain conditions and only temporarily, after obtaining a license from the Minister responsible for such transportation affairs. In addition, special airports are also prohibited from being used for public interests except for certain conditions with temporary permission from the Minister.</p> <p>Special airports could change into airports that serve public interest after meeting relevant requirements as regulated by the Minister.</p> <p>Ministers give certification and registration to airports that meet the requirements for flight safety. Certification must be obtained by airports that serve aircrafts with more than 30 (thirty) seats or with maximum takeoff weight of more than 5,700 (five thousand and seven hundred) kilograms. Airports must also register for serving aircraft with a maximum capacity of 30 (thirty) seats or a maximum takeoff weight of more than 5,700 (five thousand and seven hundred) kilograms.</p> <p>Places for helicopters to takeoff and landing: on land (surface level heliport), rooftop (elevated heliport) or waters (helicopter deck). Building permits for heliports are given by local governments after obtaining technical considerations from the Minister.</p> <p>Check in counters can be established outside the airport Regional Work Environment determined by the Minister. Check in counters is an integral part from the Work Environment of an airport and must consider flight security.</p>

IV.3 Railways

Business Entity managing SEZ can build and operate special railways facilities under the following provisions:

- Railway facilities include rail, stations, and operational facilities to ensure train operations.
 - Railway is a line specifically used by SEZ business entities to support their main activities.
- Railways must meet specific technical requirements of railway and infrastructures.

Regulations regarding railways can be found in Law Number 23 of 2007 on Railways.

Relevant Regulations	Regulation Number	Important Points
Law	Law No. 23 of 2007 on Railways	<p>Railway infrastructure: Railway infrastructure consists of lines, stations, and operational facilities to ensure railway operations. Railway is a line that consists of a series of railway lots including rail space, rights for railways, railway control room, as well as the space above and below. Rail stations serve the departure and arrival of trains containing passengers and loading and unloading of goods; and/or other railway operations.</p> <hr/> <p>Special Railway Infrastructure. Special railway is a line specifically used by certain business entities to support their main activities. Special railways must meet specific technical requirements of railways facility and utilization. Business entities must have procurement license or construction and operational license given by;</p> <ul style="list-style-type: none"> • Central government for Inter -provincial and inter-countries. • Provincial Government for inter-regional/cities, with central Government approval. • Regional/city Government for inner- region/city with approval from the central Government.

IV.4 Building and Construction Standards

Requirements and standards for a building constructed in SEZ are;

- Law Number 28 of 2002 on Building Construction.
- Decree of the Minister of Public Works Number 441/KPTS/1998 on Technical Requirements for Building Construction.
- Decree of the Minister of Public Works Number. 10/KPTS/2000 about Technical Security Requirements for Fire Hazards in Building and Environment.