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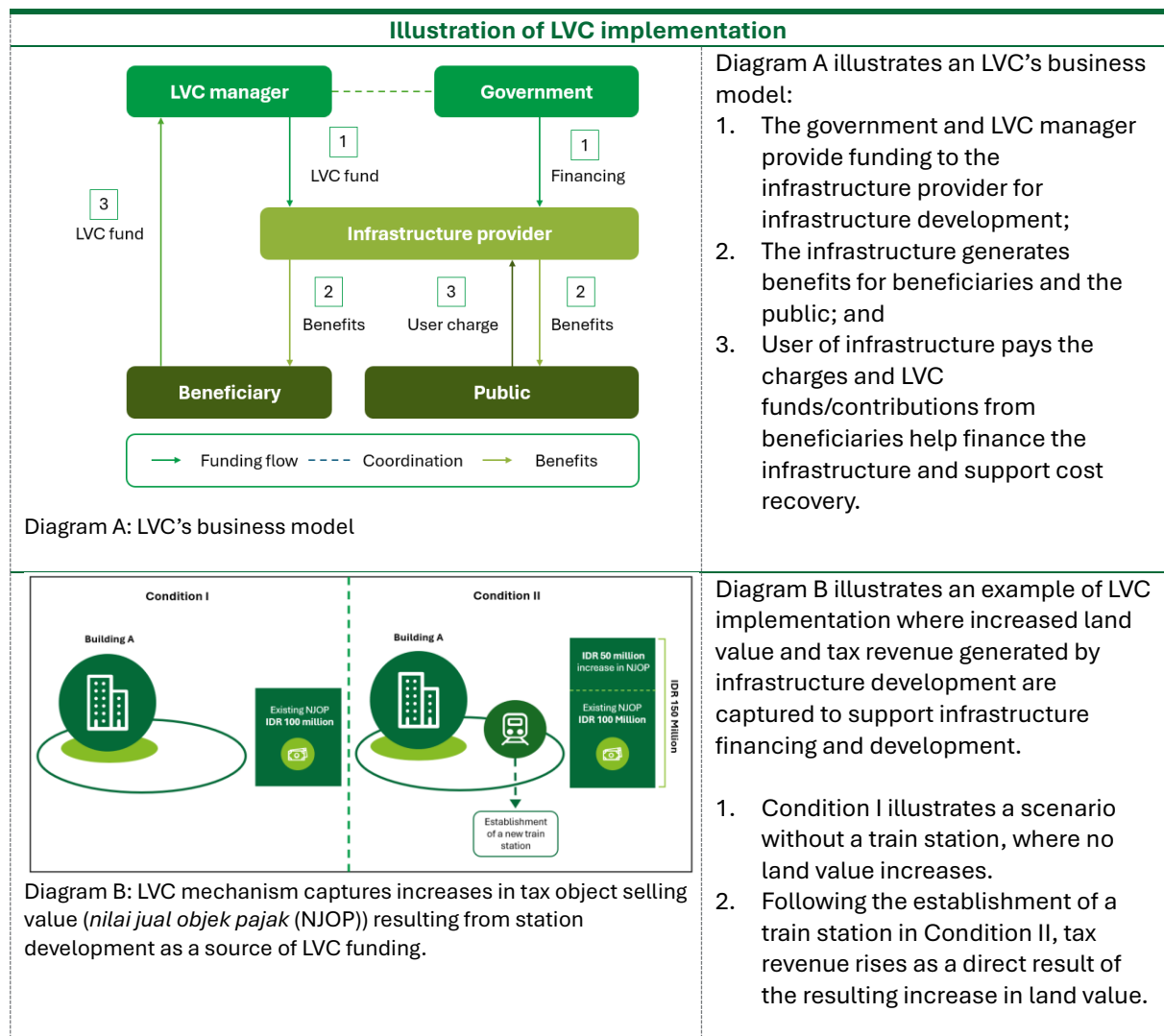
Land value capture: an alternative source of financing for infrastructure provision

Background

On 8 January 2026, the Coordinating Minister of Economic Affairs issued regulation Number 3 of 2026 regarding Guidelines for the Implementation of Infrastructure Provision Financing through the Management of Value Capture (CMEA Regulation 3/2026), which serves as an implementing regulation for land value capture (LVC) as stipulated under Presidential Regulation Number 79 of 2024 regarding Infrastructure Provision Financing through the Management of Value Capture. CMEA Regulation 3/2026 provides further guidelines for the implementation of LVC, including the technical aspects of planning, area value creation, area value capture, and area value financing.

To reduce reliance on state budget (*Anggaran Pendapatan dan Belanja Negara* (APBN)) and regional budget (*Anggaran Pendapatan dan Belanja Daerah* (APBD)) as sources of infrastructure financing, the government has developed the LVC scheme as an alternative financing mechanism based on the increase in value of an area resulting from infrastructure provision in that area. Through LVC, the increase in area value generated by infrastructure provision can be captured and used to support infrastructure financing. LVC is therefore expected to reduce the government's fiscal burden in financing infrastructure provision.

LVC is an alternative financing mechanism for area-based infrastructure provision and/or infrastructure provision within a zoning radius or corridor. Under LVC, infrastructure provision can be financed by capturing a portion of the increase in area value resulting from value creation initiatives carried out by the central government, regional governments, and/or business entities, obtained from beneficiaries and through area development. LVC aims to create a value benefit cycle in infrastructure provision.



The LVC cycle includes:

- Planning;
- Area value creation;
- Area value capture; and
- Area value financing.

Planning

At the planning stage, the regional government determines potential catchment areas. Potential catchment areas in each corridor or economic zone are determined according to infrastructure-based and/or area- or region-based benefits arising from the implementation of LVC.

Infrastructure-based benefits

Where the district/city's detailed spatial plan (*Rencana Detail Tata Ruang* (RDTR)) designates a transit-oriented development (TOD) area along with a bonus zone and/or transfer of building rights, the potential catchment area can be determined based on the TOD area. In such cases, area value can be captured through compensation for building floor ratio (*Koefisien Lantai Bangunan* (KLB)) exceedance and/or transfer of building rights.

The types of infrastructure that can be used to determine potential catchment areas are:

- Transportation;
- Roads;
- Climate resilience infrastructure;
- New and renewable energy;
- Water supply systems; and
- Other infrastructure that can increase area value.

Area- or region-based benefits

Potential catchment areas are determined based on the following areas:

- Special economic zones;
- Industrial areas, with potential catchment areas covering at least 50 hectares;
- Central business districts;
- Free trade zones and free ports, with potential catchment areas designated in accordance with applicable laws and regulations;
- TOD areas, with potential catchment areas comprising TOD-designated areas located within a 400–800 meter radius of mass transit nodes;
- Tourism areas, with potential catchment areas covering at least 100 hectares in accordance with applicable laws and regulations;
- Residential and settlement areas, with potential catchment areas designated as residential and settlement areas under the applicable spatial plan; and
- Areas resulting from area arrangement (*penataan kawasan*).

Potential catchment areas are determined through an LVC feasibility study. The regional government may assign the preparation of the LVC feasibility study to:

- A regional apparatus responsible for regional development planning; or
- Regional-owned enterprises (*Badan Usaha Milik Daerah* (BUMD)).

The minimum content of the LVC feasibility study includes:

- Background of the economic corridor/zone;
- The current state of the economy and the labor market;
- Legal analysis;
- Economic development plans and studies within the economic corridor/zone;
- Infrastructure provision requirements within the economic corridor/zone;
- Basic principles of business models;
- Implementation and governance of LVC;
- Institutional aspects of LVC implementation;
- Identification of catchment areas and delineation boundaries; and
- Analysis to identify value capture potential.

The LVC feasibility study may be used as a standalone study or part of a feasibility study on the management of the area or the provision of the relevant infrastructure. The completed LVC feasibility study is submitted to the regional secretary for consideration before being submitted to the regional head for approval. The approved LVC feasibility study becomes the basis for preparing the LVC plan.

The LVC plan is a planning document for implementing LVC in a catchment area. It is prepared based on the LVC feasibility study and serves as the basis for policy determination and decision-making by the regional government in implementing LVC. The LVC plan is approved by the regional head and stipulated through a regional head regulation. The regional head regulation contains at least:

- The catchment area and delineation boundaries;
- Infrastructure provision needs;
- Beneficiaries of the catchment area, being parties that benefit from the increase in value;
- LVC manager;
- LVC instruments to be applied to the catchment area;

- Use of LVC funds obtained from implementing LVC in the catchment area;
- Determination of key performance indicators for the duties and responsibilities of the LVC manager; and
- Parameters for LVC application in the catchment area.

The beneficiaries in the LVC plan are as follows:

- Holders of land rights over state land;
- Owners of landed houses and/or flats;
- Owners of premises and/or parking area;
- Owners of office building;
- Owners of retail units in shopping malls;
- Owners of accommodation buildings;
- Holders of land rights over management rights applicable for a certain period of time; and/or
- Other parties determined by the regional head from time to time.

Beneficiaries are required to pay financial obligations in the form of cash or in-kind payment as result of increase in value.

Beneficiaries that may be exempted from financial obligations in implementing LVC are:

- Low-income individuals;
- Operators of public facilities (e.g., schools and public hospitals); and/or
- Organizers of social institutions (e.g., foundations and places of worship).

Area value creation

Area value is created through value creation initiatives undertaken by the central government, regional governments, and/or business entities that increase the value of an area. Such initiatives may be in the form of certain government policies and/or infrastructure provision.

The implementation of certain government policies may include:

- Changes to the spatial plan (e.g., rezoning of an area from green open space to commercial and service uses, driving an increase in area value); and/or
- Land consolidation (e.g., consolidating several agricultural land parcels for conversion into commercial and service areas, promoting economic growth and thereby increasing area values).

Infrastructure provision may be conducted through several schemes, as follows:

- Financing from the APBN, including financing in the form of on-lending foreign loans/grants;
- Financing from the APBD, including regional debt financing in the form of regional loans, regional bonds, and/or regional sharia bonds (*sukuk*);
- Financing carried out by public service agencies (*badan layanan umum*) and/or state-owned enterprises (*Badan Usaha Milik Negara* (BUMN)) or BUMD that organize infrastructure provision;
- Financing through public-private partnership (PPP) schemes and/or limited management rights cooperation;
- Financing through the area manager, where the area-based development is managed by an area manager;
- Financing from LVC funds; and/or
- Other financing schemes in accordance with applicable laws and regulations.

Area value capture

Area value is captured by mapping and measuring the increase in value that has been or will be generated as a result of value creation and enjoyed by the beneficiaries; and then capturing such increase in value. The captured value is used for value financing. Area value may be captured in the form of LVC funds and/or area development results.

Area value capture in the form of LVC funds may be conducted using the following methods.

Methods	Description
Increase of regional revenue	Regional revenue may increase through higher taxes payable by beneficiaries as a result of value creation in an area. The relevant tax is the land and building tax (<i>Pajak Bumi dan Bangunan</i> (PBB-P2)).
Voluntary payments with fiscal and nonfiscal incentives	Beneficiaries may make voluntary payments to the LVC manager under a cooperation agreement to fund area development and/or infrastructure that creates benefits and added value. Beneficiaries may be granted fiscal and nonfiscal incentives.
Compensation for KLB exceedance in cash	Compensation for KLB exceedance may be provided in the form of cash.
Transfer of building rights	Transfer of building rights is an instrument to encourage the voluntary transfer of transferable development rights from an area to be preserved or protected to a place or area to be developed.

Area value capture in the form of area development results may be conducted using the following methods.

Methods	Description
Utilization of state- or regional-owned assets in the form of physical or noncash results of area value creation	State- or regional-owned assets resulting from area value creation may be utilized by optimizing the use of such assets within the catchment area for the benefit of beneficiaries.
Compensation for KLB exceedance in physical or noncash form	Compensation for KLB exceedance may be provided in physical or noncash form through the provision of public facilities.
Horizontal integration of infrastructure provision and property businesses	Horizontal integration of infrastructure provision and property businesses means integrating property businesses into infrastructure provision within the catchment area, with the aim of using the profits generated from the property businesses to cover all or part of the costs associated with infrastructure provision.

Area value financing

Area value financing is conducted by redistributing LVC funds and area development results obtained from beneficiaries.

LVC funds

LVC funds are intended to finance area development, infrastructure provision, and/or improvement of facilities, infrastructure, and public services. The provision of LVC funds is subject to a funding support agreement between the LVC manager and the parties responsible for infrastructure provision. LVC funds may be used for:

- Supporting the repayment of financing that has been entered into by the regional government in connection with infrastructure provision, including payment of principal, interest, and/or rewards on regional loans and regional bonds, in connection with issuance of regional bonds or continuation of foreign loans/grants;
- Providing funding support to business entities that manage infrastructure provision in accordance with the provisions of laws and regulations;
- Providing funding support to the government contracting agency and/or implementing business entity in the event that the infrastructure provision is carried out under a PPP scheme;
- Providing funding support to the area manager in the event that infrastructure provision is organized by the area manager;

- Providing funding support to the infrastructure provision manager in the event that infrastructure provision is carried out under a government assignment scheme in accordance with the provisions of laws and regulations; and/or
- other forms of payment in accordance with the provisions of laws and regulations.

Infrastructure types that may be funded from LVC funds include:

- transportation
- roads;
- climate resilience infrastructure;
- new and renewable energy;
- telecommunications and informatics;
- drinking water supply;
- electricity;
- energy conservation;
- housing and residential areas;
- educational, research, and development facilities;
- urban facilities;
- health facilities;
- sports, arts, and cultural facilities;
- specific components of technology and/or digital systems related to the infrastructure as listed above; and/or
- other infrastructure designated by the regional government in accordance with the applicable laws and regulations.

Management of area development results

Area development results may be received in the form of assets handed over to the regional government and recorded as regional government assets. The handover of assets will be documented in minutes of handover signed by the LVC manager and the regional government.

Key takeaways

- CMEA Regulation 3/2026 establishes detailed guidelines for financing infrastructure through LVC, providing a more defined legal and operational framework for its implementation.
- It also sets out methods for determining potential catchment areas and implementing LVC instruments, including the bonus zone, transfer of building rights, and compensation for KLB exceedance.
- Regional governments are expected to align spatial planning and zoning regulations with the LVC framework, making local regulatory readiness essential for effective implementation.
- Developers, infrastructure investors, BUMN, and regional governments should assess how upcoming infrastructure projects may interact with the LVC framework, including potential opportunities and obligations. In particular, projects located within TOD areas or other designated areas expected to experience significant increases in land value may be subject to new financing arrangements under CMEA Regulation 3/2026.

Stefanus Brian Audyanto
Managing Partner

saudyanto@deloittelegal-id.com

Anthony Pratama Chandra
Partner

anchandra@deloittelegal-id.com

Derryan Rahmat Putra
Junior Partner

dputra@deloittelegal-id.com

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