



2025 Investment Window into Indonesia (IWI)

English

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Acronym and Abbreviation list

| | |
|------------|---|
| AANZFTA | ASEAN-Australia-New Zealand FTA |
| ACFTA | ASEAN-China FTA |
| ADB | Asian Development Bank |
| AEOI | Automatic Exchange of Information |
| AHKFTA | ASEAN-Hong Kong, China FTA |
| AHU Online | <i>Administrasi Hukum Umum Online</i> (online public services by Directorate General of General Law Administration) |
| AIFTA | ASEAN-India FTA |
| AJ-CEP | ASEAN-Japan Comprehensive Economic Partnership |
| AKFTA | ASEAN-Korea FTA |
| AMDAL | <i>Analisis Mengenai Dampak Lingkungan</i> (Environmental Impact Assessment) |
| ANDAL | <i>Analisis Dampak Lingkungan</i> (Environmental Impact Statement) |
| AOI | Articles of Incorporation |
| AP | <i>Akuntan Publik</i> (Public Accountant) |
| APA | Advance Pricing Agreements |
| APBN | <i>Anggaran Pendapatan dan Belanja Negara</i> (Indonesia State Revenue and Expenditure Budget) |
| API | <i>Angka Pengenal Impor</i> (Import Identity Number) |
| ASEAN | Association of Southeast Asian Nations |
| ATIGA | ASEAN Trade in Goods Agreement |
| BAL | Basic Agrarian Law |
| BANI | <i>Badan Arbitrase Nasional Indonesia</i> (Indonesian National Arbitration Body) |
| Bappenas | <i>Badan Perencanaan Pembangunan Nasional</i> (National Development Planning Agency) |
| BEI | <i>Bursa Efek Indonesia</i> (Indonesia Stock Exchange or IDX) |
| BEPS | Base Erosion and Profit Shifting |
| BI | Bank Indonesia (Central Bank of Indonesia) |
| BI7DRR | Bank Indonesia-7 Day Reverse Repo Rate |

| | |
|-----------|---|
| BKPM | <i>Badan Koordinasi Penanaman Modal</i> (Indonesia Investment Coordinating Board) |
| BLU | <i>Badan Layanan Umum</i> (Public Service Agency) |
| BMN | <i>Barang Milik Negara</i> (State Property) |
| BOD | Board of Directors |
| BOC | Board of Commissioners |
| BPH Migas | <i>Badan Pengatur Hilir Minyak dan Gas Bumi</i> (Downstream Oil and Gas Regulatory Body) |
| BPJS | <i>Badan Penyelenggara Jaminan Sosial</i> (Social Insurance Administration Organisation) |
| BPK | <i>Badan Pemeriksa Keuangan</i> (State Audit Board) |
| BPN | <i>Badan Pertanahan Nasional</i> (National Land Agency) |
| BPS | <i>Badan Pusat Statistik</i> (Indonesia Central Bureau of Statistics) |
| BPT | Branch Profit Tax |
| BRIN | <i>Badan Riset dan Inovasi Nasional</i> (National Research and Innovation Agency) |
| BSN | <i>Badan Standarisasi Nasional</i> (Indonesia National Standardisation Body) |
| BUJKA | <i>Badan Usaha Jasa Konstruksi Asing</i> (foreign construction company) |
| BUJKA RO | BUJKA Representative Office |
| BUJKN | <i>Badan Usaha Jasa Konstruksi Nasional</i> (local/national construction company) |
| BUKU | <i>Bank Umum berdasarkan Kegiatan Usaha</i> (Commercial Banks based on Business Activities) |
| BUMN | <i>Badan Usaha Milik Negara</i> (State-Owned Enterprise) |
| BUMD | <i>Badan Usaha Milik Daerah</i> (Local Government-Owned Enterprise) |
| BUMDes | <i>Badan Usaha Milik Desa</i> (Village-owned Enterprise) |
| BUMS | <i>Badan Usaha Milik Swasta</i> (Private-owned Enterprise) |
| CbC | Country-by-Country |
| CbCR | Country-by-Country Report |
| CCS | Carbon Capture Storage |
| CCUS | Carbon Capture, Utilization, and Storage |
| CFC | Controlled Foreign Companies |
| CEX | Certified Exporter |
| CIT | Corporate Income Tax |
| CITES | Convention on International Trade in Endangered Species of Wild Fauna and Flora |

| | |
|-------------|--|
| CoD | Certificate of Domicile |
| CoR | Certificate of Residence |
| CORS | Continuously Operating Reference Systems |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| COVID-19 | Coronavirus Disease-2019, an infectious disease caused by the SARS-CoV-2 virus |
| CoW | Contracts of Work |
| CPO | Crude Palm Oil |
| CR | Company Regulation (<i>Peraturan Perusahaan</i> or PP) |
| CRS | Common Reporting Standard |
| CSR | Corporate Social (and Environmental) Responsibility |
| DDI | Domestic Direct Investment |
| DER | Debt-to-Equity Ratio |
| DGIP | Directorate General of Intellectual Property |
| DGT | Directorate General of Taxes |
| DKI Jakarta | Special Territory of the Capital City (<i>Daerah Khusus Ibukota</i>) Jakarta |
| DPD | <i>Dewan Perwakilan Daerah</i> (Regional Representatives Council) |
| DPI | <i>Daftar Positif Investasi</i> (Positive Investment List) |
| DPO | Data Protection Officer |
| DPOaaS | Data Protection Officer-as-a-Service |
| DPR RI | <i>Dewan Perwakilan Rakyat Republik Indonesia</i> (People's Representative Council of the Republic of Indonesia) |
| DSAK-IAI | <i>Dewan Standar Akuntansi Keuangan-Ikatan Akuntan Indonesia</i> (Financial Accounting Standards Board of the Indonesian Institute of Accountants) |
| EBITDA | Earnings Before Interest, Taxes, Depreciation, and Amortisation |
| EBT | <i>Energi Baru dan Terbarukan</i> (New and Renewable Energy) |
| e-FIN | e-Filing Number |
| EFTA | European Free Trade Association |
| e-GMS | Electronic General Meeting of Stakeholders |
| EIT | Earned Income Taxd |
| EIU | Economist Intelligence Unit |
| EODB | Ease of Doing Business |

| | |
|-------|--|
| EPA | Economic Partnership Agreement |
| ESG | Environmental, Social, and Governance |
| ETM | Energy Transition Mechanism |
| EU | European Union |
| EV | Electric Vehicle |
| F&B | Food and Beverage |
| FCPA | Foreign Corrupt Practices Act |
| FDI | Foreign Direct Investment |
| FTA | Free Trade Agreement |
| FY | Fiscal Year |
| G20 | Group of 20 |
| GCA | Government Contracting Agency |
| GDP | Gross Domestic Product |
| GHG | Greenhouse Gas |
| GIAS | Global Internal Audit Standards |
| GMS | General Meeting of Shareholders |
| GMT | Global Minimum Tax |
| GNSS | Global Navigation Satellite Systems |
| GR | Government Regulation (<i>Peraturan Pemerintah</i>) |
| GRDP | Gross Regional Domestic Product |
| GSP | Generalized System of Preference |
| GVC | Global Value Chain |
| GW | Gigawatt |
| HDI | Human Development Index |
| HGB | <i>Hak Guna Bangunan</i> (Right to Build) |
| HGU | <i>Hak Guna Usaha</i> (Right to Cultivate) |
| HM | <i>Hak Milik</i> (Right of Ownership) |
| HMSRS | <i>Hak Milik Atas Satuan Rumah</i> (Right of Ownership over Condominium Units) |
| HP | <i>Hak Pakai</i> (Right to Use) |

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| HPL | <i>Hak Pengelolaan</i> (Right to Manage) |
| HPTL | <i>Hasil Pengolahan Tembakau Lainnya</i> (Other Tobacco Processing) |
| IACEPA | Indonesia-Australia Comprehensive Economic Partnership Agreement |
| IAI | <i>Ikatan Akuntan Indonesia</i> (Indonesian Institute of Accountants) |
| IASB | International Accounting Standards Board |
| ICA | Indonesian Customs Authority |
| ICC | Indonesian Civil Code (<i>Kitab Undang-Undang Hukum Perdata</i>) |
| IC-CEPA | Indonesia-Chile Comprehensive Economic Partnership Agreement |
| ICP | Indonesian Crude Price (regulated price of oil per barrel in Indonesia) |
| ICT | Information and Communications Technology |
| ICSID | International Centre for Settlement of Investment Disputes |
| IDR | Indonesian Rupiah |
| IDX | Indonesia Stock Exchange (<i>Bursa Efek Indonesia</i>) |
| IEL | Indonesian Employment Law (The Job Creation Law/Omnibus Law) |
| IFC | International Finance Corporation |
| IFRS | International Financial Reporting Standards |
| IEU-CEPA | Indonesia-European Union Comprehensive Economic Partnership Agreement |
| IIA | Institute of Internal Auditor |
| IICPA | Indonesian Institute of Certified Public Accountants (<i>Institut Akuntan Publik Indonesia</i>) |
| IIGF | Indonesia Infrastructure Guarantee Fund |
| IIF | Indonesia Infrastructure Finance (IIF) |
| IHSG | <i>Indeks Harga Saham Gabungan</i> (Composite Stock Price Index) |
| IJEPa | Indonesia-Japan Economic Partnership Agreement |
| IKN Nusantara | <i>Ibu Kota Negara Nusantara</i> (Nusantara Capital City) |
| ILO | International Labour Organization |
| IMF | International Monetary Fund |
| INA | Indonesian Investment Authority |
| IPBUJKA | <i>Izin Perwakilan Badan Usaha Jasa Konstruksi Asing</i> (foreign construction service business entity representative business license) |
| IPO | Initial Public Offering |

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| IPR | Intellectual Property Rights |
| IPR | <i>Izin Pertambangan Rakyat</i> (Community Mining License) |
| IPSKA | <i>Instansi Penerbit Surat Keterangan Asal</i> (Issuing Agency for Certificate of Origin) |
| IRA | Inflation Reduction Act |
| ISAK | <i>Interpretasi Standar Akuntansi Keuangan</i> (Financial Accounting Standard Interpretation) |
| ISIC | International Standard Industrial Classification |
| ITSK | <i>Inovasi Teknologi Sektor Keuangan</i> (Financial Sector Technology Innovation) |
| IUJK | <i>Izin Usaha Jasa Konstruksi</i> (Construction Business License) |
| IUP | <i>Izin Usaha Pertambangan</i> (Mining Business License) |
| IUPK | <i>Izin Usaha Pertambangan Khusus</i> (Special Mining Business License) |
| JETP | Just Energy Transition Partnership (JETP) |
| JICA | Japan International Cooperation Agency |
| KBLI | <i>Klasifikasi Baku Lapangan Usaha Indonesia</i> (Indonesian Standard Industrial Classifications) |
| KBM | <i>Kawasan Berikat Mandiri</i> (Self-managed Bonded Zones) |
| KBMI | <i>Kelompok Bank berdasarkan Modal Inti</i> (Bank Group based on Core Capital) |
| KEK | <i>Kawasan Ekonomi Khusus</i> (Special Economic Zone) |
| KITE | <i>Kemudahan Impor Tujuan Ekspor</i> (Import Concession for Export Purposes) |
| KMA | <i>Keputusan Ketua Mahkamah Agung</i> (Head of Supreme Court Decision) |
| KNEKS | <i>Komite Nasional Ekonomi dan Keuangan Syariah</i> (National Committee for Sharia Economy and Finance) |
| KNKG | <i>Komite Nasional Kebijakan Governansi</i> (National Committee on Governance) |
| KP | <i>Kuasa Pertambangan</i> (Mining Authorisation) |
| KP3A | <i>Kantor Perwakilan Perusahaan Perdagangan Asing</i> (Foreign Trade Company Representative Office) |
| KPEI | <i>Kliring Penjaminan Efek Indonesia</i> (The Clearing and Guarantee Institution of Indonesia) |
| KPPA | <i>Kantor Perwakilan Perusahaan Asing</i> (Foreign Company Representative Office) |
| KPPIP | <i>Komite Percepatan Penyediaan Infrastruktur Prioritas</i> (Committee for Acceleration of Priority Infrastructure Delivery) |
| KPK | <i>Komisi Pemberantasan Korupsi</i> (Corruption Eradication Commission) |
| KPPU | <i>Komisi Pengawas Persaingan Usaha</i> (Business Competition Supervisory Commission) |
| KSEI | <i>Kustodian Sentral Efek Indonesia</i> (The Indonesian Central Securities Depository) |
| LCS | Limited Concession Scheme |

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|------------|---|
| LoI | Letter of Interest |
| LST | Luxury-good Sales Tax |
| LVC | Land Value Capture |
| M&A | Merger & Acquisition |
| MAP | Mutual Agreement Procedure |
| MEMR | Ministry of Mineral and Energy Resources (<i>Kementerian Energi dan Sumber Daya Mineral Indonesia</i>) |
| MK | <i>Mahkamah Konstitusi</i> (Indonesia Constitutional Court) |
| MLI | Multilateral Instrument |
| MNEs | Multinational Enterprises |
| MoCI | Ministry of Communications and Informatics |
| MoF | Ministry of Finance |
| MoLHR | Ministry of Law and Human Rights (<i>Kementerian Hukum dan HAM Indonesia</i>) |
| MoPWP Reg. | Minister of Public Works and Public Housing Regulation |
| MPR | <i>Majelis Permusyawaratan Rakyat</i> (People's Consultative Assembly) |
| MRT | Mass Rapid Transit |
| MSME | Micro, Small, Medium Enterprises |
| MTO | Mandatory Tender Officer |
| MTN | Medium Term Notes |
| MW | Megawatt |
| NEET | Not in Employment, Education, and Training |
| NIB | <i>Nomor Induk Berusaha</i> (Business Identification Number) |
| NIK | <i>Nomor Induk Kependudukan</i> (National Identification Number) |
| NPPBKC | <i>Nomor Pokok Pengusaha Barang Kena Cukai</i> (Licensing of Excisable Goods Entrepreneur Registration Number) |
| NPWP | <i>Nomor Pokok Wajib Pajak</i> (Individual Tax Number) |
| NRE | New and Renewable Energy |
| NTA | Net Tangible Assets |
| NZE | Net Zero Emission |
| OECD | Organization for Economic Co-operation and Development |
| OIC | Organisation of Islamic Cooperation |

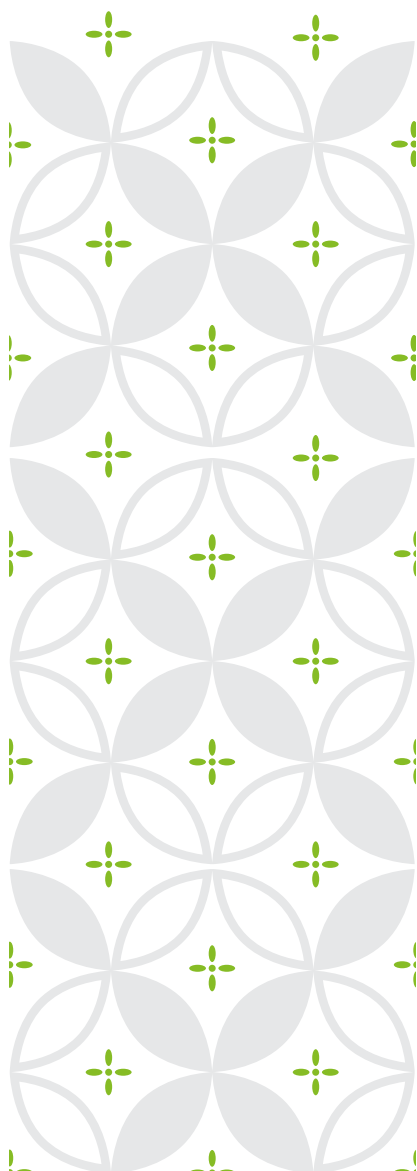
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| OIKN | <i>Otorita Ibu Kota Negara Nusantara</i> (IKN Authority Body) |
| OJK | <i>Otoritas Jasa Keuangan</i> (Financial Services Authority) |
| Omnibus Law | Law Number 11/2020 on Job Creation |
| OPEC | Organization of the Petroleum Exporting Countries |
| OSS | Online Single Submission |
| PAT | Profit After Tax |
| PDAM | <i>Perusahaan Daerah Air Minum</i> (Regional Drinking Water Company) |
| PDKB | <i>Pengusaha di Kawasan Berikat</i> (entrepreneur in a Bonded Zone) |
| PDP | Personal Data Protection |
| PE | Permanent Establishment |
| PERMA | <i>Peraturan Mahkamah Agung</i> (Supreme Court Regulation) |
| Perpres | <i>Peraturan Presiden</i> (Presidential Regulation or PR) |
| Persero | <i>Perusahaan Perseroan</i> (a state-owned limited liability company) |
| Perum | <i>Perusahaan Umum</i> (a public service entity wholly owned by the national government) |
| PIP | <i>Pusat Investasi Pemerintah</i> (Indonesia Investment Agency/Government Investment Unit) |
| PKB | <i>Perjanjian Kerja Bersama</i> (Collective Labour Agreement) |
| PKP | <i>Pengusaha Kena Pajak</i> (VAT Entrepreneur) |
| PKPU | <i>Penundaan Kewajiban Pembayaran Utang</i> (Suspension of Debt Payment Obligations) |
| PKWT | <i>Perjanjian Kerja Waktu Tertentu</i> (Specified Time Work Agreement) |
| PKWTT | <i>Perjanjian Kerja Waktu Tidak Tentu</i> (Unspecified Time Work Agreement) |
| PLB | <i>Pusat Logistik Berikat</i> (Bonded Logistics Centre) |
| PLN | <i>Perusahaan Listrik Negara</i> (Indonesian state-owned electricity company) |
| PLTN | <i>Pembangkit Listrik Tenaga Nuklir</i> (nuclear energy power plant/station) |
| PLTGU | <i>Pembangkit Listrik Tenaga Gas dan Uap</i> (Combined Cycle Gas Turbine Plant) |
| PLTS | <i>Pembangkit Listrik Tenaga Surya</i> (solar energy power plant/station) |
| PLTSa | <i>Pembangkit Listrik Tenaga Sampah</i> (waste-to-energy power plant/station) |
| PLTU | <i>Pembangkit Listrik Tenaga Uap</i> (steam-electric power plant/station) |
| PMA | <i>Penanaman Modal Asing</i> (foreign capital investment) |
| PMDN | <i>Penanaman Modal Dalam Negeri</i> (domestic capital investment) |

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| PMK | <i>Peraturan Menteri Keuangan</i> (Minister of Finance Regulation) |
| PMSE | <i>Perdagangan Melalui Sistem Elektronik</i> (transactions through electronic system) |
| POJK | <i>Peraturan OJK</i> (OJK Regulation) |
| PP | <i>Peraturan Pemerintah</i> (Government Regulation or GR) |
| PPAT | <i>Pejabat Pembuat Akta Tanah</i> (Official Certifier of Land Deeds) |
| PPATK | <i>Pusat Pelaporan dan Analisis Transaksi Keuangan</i> (Indonesian Financial Transaction Report and Analysis Center) |
| PPI SRN | <i>Sistem Registri Nasional Pengendalian Perubahan Iklim</i> (National Climate Change Control Registry System) |
| PPKM | <i>Pemberlakuan Pembatasan Kegiatan Masyarakat</i> (Community Activities Restrictions Enforcement (i.e. COVID-19-related semi-lockdown restrictions)) |
| PPMSE | <i>Penyelenggara Perdagangan Melalui Sistem Elektronik</i> (PMSE Providers) |
| PPP | Public Private Partnership |
| PPP IBE | Public Private Partnership Implementing Business Entity |
| PPSK | <i>Pengembangan dan Penguatan Sektor Keuangan</i> (Law on the Development and Strengthening of Financial Sector) |
| PR | Presidential Regulation (<i>Peraturan Presiden</i> or Perpres) |
| PSAK | <i>Pernyataan Standar Akuntansi Keuangan</i> (Indonesian Financial Accounting Standards) |
| PSN | <i>Proyek Strategis Nasional</i> (Strategic National Project) |
| PSCs | Production Sharing Contracts |
| PT | <i>Perseroan Terbatas</i> (limited liability company) |
| PTBAE-PU | <i>Persetujuan Teknis Batas Atas Emisi Pelaku Usaha</i> (Technical Approval of Business Actor Emission Upper Limits) |
| PUG-KI | <i>Pedoman Umum Governansi Korporat Indonesia</i> (General Guidelines for Indonesian Corporate Governance) |
| PUPR | <i>Pekerjaan Umum dan Perumahan Rakyat</i> (Indonesia Ministry of Public Works and Housing) |
| R&D | Research and Development |
| RCEP | Regional Comprehensive Economic Partnership |
| RDTR | <i>Rencana Detail Tata Ruang</i> (Detailed Spatial Plan) |
| REX | Registered Exporter |
| RI | Republic of Indonesia |
| RKAB | <i>Rencana Kerja dan Anggaran Biaya</i> (Work Plans and Funding Budget) |
| RKL | <i>Rencana Pengelolaan Lingkungan Hidup</i> (Environmental Management Plan) |
| RO | Representative Office |
| RP | Recompense Payment (<i>uang penggantian hak</i>) |

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| RPJPN | <i>Rencana Pembangunan Jangka Panjang Nasional</i> (Long-term National Development Plan) |
| RPJMN | <i>Rencana Pembangunan Jangka Menengah Nasional</i> (National Medium-term Development Plan) |
| RPL | <i>Rencana Pemantauan Lingkungan Hidup</i> (Environmental Monitoring Plan) |
| RSUD | <i>Rumah Sakit Umum Darurat</i> (Regional Public Hospitals) |
| RUPTL | <i>Rencana Usaha Penyediaan Tenaga Listrik</i> (Business Plan for Providing Electricity) |
| S&P | Standard & Poor's |
| SAK | <i>Standar Akuntansi Keuangan</i> (Financial Accounting Standards) |
| SAK EP | <i>Standar Akuntansi Keuangan – Entitas Privat</i> (Indonesian Financial Accounting Standards for Private Entities) |
| SAK EMKM | <i>Standar Akuntansi Keuangan – Entitas Mikro Kecil dan Menengah</i> (Indonesian Financial Accounting Standards for Micro, Small, and Medium Entities) |
| SAK ETAP | <i>Standar Akuntansi Keuangan untuk Entitas Tanpa Akuntabilitas Publik</i> (SAK for Entities that Have No Public Accountability) |
| SBN | <i>Surat Berharga Negara</i> (Indonesia Government Bonds) |
| SBSN | <i>Surat Berharga Syariah Negara</i> (Indonesian State Islamic Security) |
| SEZ | Special Economic Zone (<i>Kawasan Ekonomi Eksklusif</i> or <i>KEK</i>) |
| SEMA | <i>Surat Edaran Mahkamah Agung</i> (Circular of the Supreme Court) |
| SIN | Single Identity Number |
| SIPB | <i>Surat Izin Penambangan Batuan</i> (Authorisation Letter for Rock Mining) |
| SKD WPLN | <i>Surat Keterangan Domisili Wajib Pajak Luar Negeri</i> (Certificate of Domicile of Foreign Taxpayers) |
| SKK Migas | <i>Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi</i> (Special Task Force for Upstream Oil and Gas Business Activities in Indonesia) |
| SKPT | <i>Surat Keterangan Pendaftaran Tanah</i> (land registration certificates) |
| SMI | <i>PT Sarana Multi Infrastruktur (Persero)</i> (a state-owned company engaged in infrastructure project financing) |
| SMR | Small Modular Reactor |
| SNI | <i>Standar Nasional Indonesia</i> (Indonesia National Standard) |
| SoE | State-owned Enterprises |
| SP | Severance Payment (<i>uang pesangon</i>) |
| SPAM | <i>Sistem Penyediaan Air Minum</i> (Drinking Water Supply System) |
| SPC | Special Purpose Company |
| SPEGRK | <i>Sertifikat Penurunan Emisi Gas Rumah Kaca</i> (Greenhouse Gas Emission Reduction Certificate) |
| SPPKP | <i>Surat Pengukuhan Pengusaha Kena Pajak</i> (Taxable Entrepreneur Confirmation Letter) |
| SPPL | <i>Pernyataan Kesanggupan Pengelolaan dan Pemantauan Lingkungan Hidup</i> (Letter of Undertaking of Environmental Management and Monitoring) |

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| SPRINT | <i>Sistem Perizinan Otoritas Jasa Keuangan</i> (Financial Service Authority Licensing System) |
| SPT | <i>Surat Pemberitahuan Tahunan</i> (Annual Notification Letter) |
| SRBI | <i>Sekuritas Rupiah Bank Indonesia</i> |
| SRO | Self-Regulatory Organisation |
| SVP | Service Payment (<i>uang penghargaan masa kerja</i>) |
| SWIFT | Society of Worldwide Interbank Financial Telecommunication |
| TA | Tax Amnesty |
| TDP | <i>Tanda Daftar Perusahaan</i> (Company Registration Certificate) |
| THR | <i>Tunjangan Hari Raya</i> (Religious Festivity Allowance) |
| TNI | <i>Tentara Nasional Indonesia</i> (Indonesian National Armed Forces) |
| TRIPs | Trade Related Aspects of Intellectual Property Rights Agreement |
| UAE | United Arab Emirates |
| UK | United Kingdom |
| UKL/UPL | <i>Upaya Pengelolaan Lingkungan dan Upaya Pemantauan Lingkungan</i> (Environmental Management Efforts and Environmental Monitoring Efforts) |
| UMP | <i>Upah Minimum Provinsi</i> (Provincial Minimum Wage) |
| UNCITRAL | United Nations Commission on International Trade Law |
| UNFPA | United Nations Population Fund |
| USA/US | United States of America |
| USD/US\$ | US Dollar |
| UU | <i>Undang-Undang</i> (Law) |
| UUD | <i>Undang-Undang Dasar</i> (Constitution) |
| UUS | <i>Undang-Undang Syariah</i> (Sharia Law) |
| VAT | Value Added Tax (<i>Pajak Pertambahan Nilai</i> or PPN) |
| VDP | Voluntary Disclosure Program |
| WHT | Withholding taxes |
| WIPO | World Intellectual Property Organization |
| YoY | Year-on-Year |
| YTD | Year-to-date |

Foreword



Selamat datang di Indonesia! Welcome to Indonesia!

Indonesia has transitioned into a new leadership following the results of the 2024 General Election. The new President, Prabowo Subianto, and Vice President, Gibran Rakabuming, succeeded President Joko Widodo and Vice President Ma'aruf Amin, respectively, with the new cabinet – Merah Putih Cabinet – that will govern Indonesia in 2024-2029.

According to the International Monetary Fund (IMF), Indonesia's economic growth is projected to remain leading in Southeast Asia at 5.1%, ahead of Malaysia (4.4%) and Thailand (3.1%) in 2025. With rising global confidence in Indonesia as a result of solid economic growth and the government proving its ability to control domestic inflation, coupled with the new President-Vice President's vision, the country is aiming for an annual growth of 6-8% in the next five years.

To achieve this economic growth target, the Ministry of Investment and Downstream Industry has also pushed its investment target to IDR1,900 trillion for 2025, with investment priorities on sectors such as New and Renewable Energy (NRE), downstream industry, food security, export-oriented manufacturing industry, and the *Ibu Kota Negara* (IKN) Nusantara. In tandem with investment, the Subianto administration introduced the Free Nutritious Meal (*Makan Bergizi Gratis*) program that is targeted to stimulate domestic economic activities and benefit the quality of Indonesia's human capital for future generations.

Building infrastructure remains the focus of the country's National Medium-Term Development Plan (RPJMN) 2025-2029. These infrastructures are not only aimed at improving connectivity, but also to transform Indonesia to be self-sufficient in energy and food, as well as improving the national defence. By 2025, the Subianto administration targets to complete 48 Strategic National Projects (PSN) that commenced in the Widodo administration - such as toll roads and dams.

Furthermore, significant updates to regulations have been announced in 2024. On 31 October 2024, the Indonesian Constitutional Court issued its ruling on Constitutional Court Decision Number 168/PUU-XXI/2023, which addressed labour-related lawsuits concerning the Job Creation Law. This decision encompasses issues such as the separation of Indonesian Employment Law from the Job Creation Law, as well as the socio-economic welfare of workers. Under the new regulations, businesses are expected to place greater emphasis on labour rights, thereby improving the welfare of local workers.

Foreword



Another significant regulatory event was the full implementation of Indonesia's Personal Data Protection (PDP) Law on 17 October 2024. The Law was promulgated on 17 October 2022 as Law Number 27/2022 on Personal Data Protection (*"Undang-Undang Perlindungan Data Pribadi"* or the PDP Law). The enactment of the PDP Law aims to guarantee the data protection rights of every individual, public entity, organisation, or institution within and outside the jurisdiction of the Republic of Indonesia. With the fully implemented PDP Law, we expect to increase the competitiveness of Indonesia's information and communications technology (ICT) sector and thereby drive the overall growth of the digital economy.

To support the government's efforts and to offer quick and clear answers to everyone who is contemplating investing in Indonesia, I am very pleased to present the newly redesigned, collaborative work from Deloitte Indonesia's dedicated team of experts, **"Investment Windows into Indonesia (IWI)—2025 Edition"**.

I believe that this publication will provide broad and impactful insights to all potential investors and become an important tool to help you explore the numerous opportunities that await you the moment you start doing business in Indonesia. We have also made this publication readily available in Japanese, Chinese, and Korean.

Brian Indradjaja

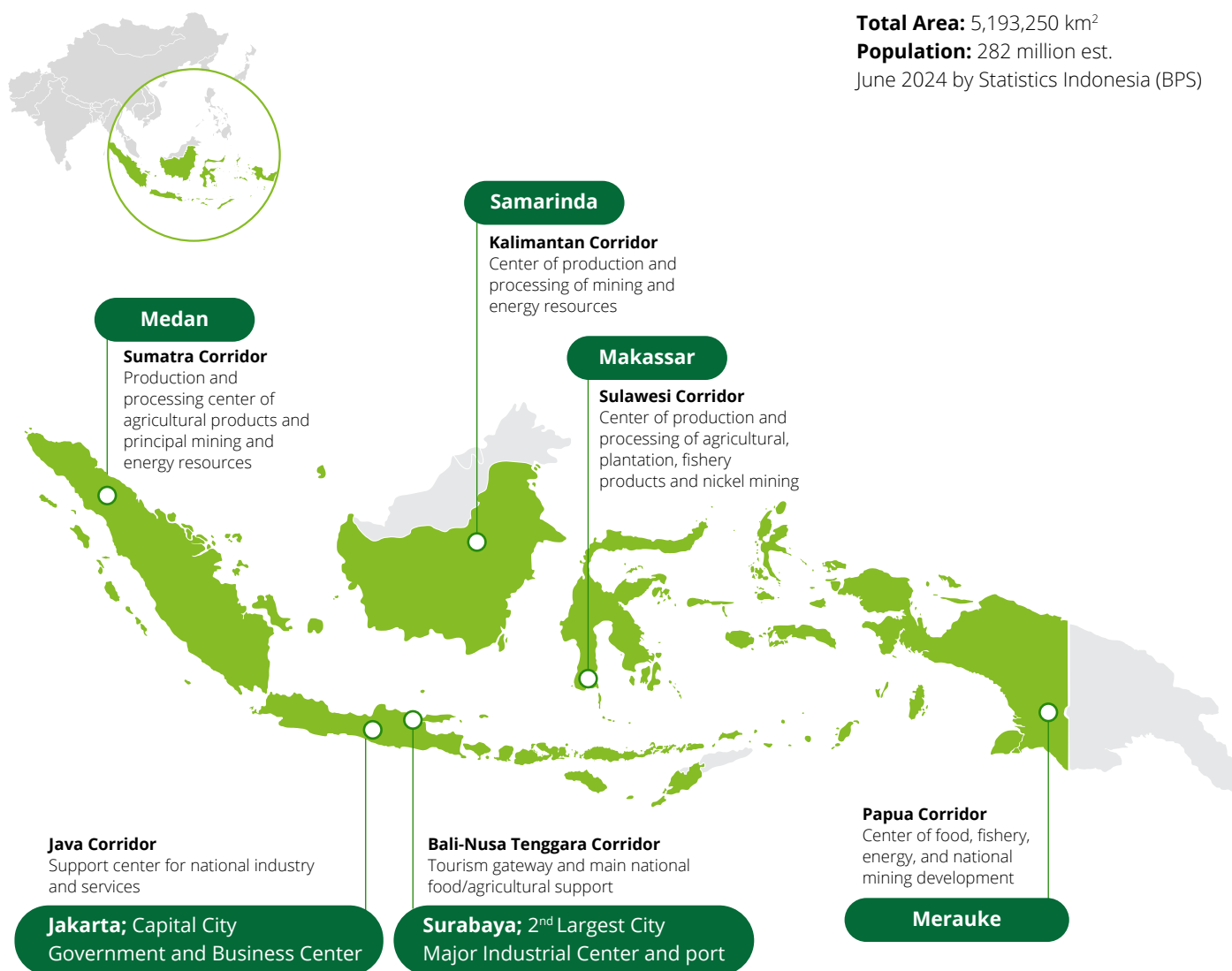
Indonesia Leader,
President Director of PT Deloitte Konsultan Indonesia

A. Introduction to Indonesia

Republic of Indonesia

- Archipelagic country with more than 17,000 islands
- Constitutional democracy with an executive presidency
- **Nationality** : Indonesian (40.2% Javanese, 15.5% Sundanese, 3.58% Batak, 3.22% Sulawesi ethnic groups, 3.03% Madurese, 2.88% Betawi and 31.59% other ethnic groups)
- **Languages** : Bahasa Indonesia (Indonesian), English (business, professional), and local dialects
- **Currency** : Indonesian Rupiah (IDR)

Figure 1: Overview of Indonesia's geography and demographics



1. General overview

Indonesia is a diverse archipelago nation-state of more than 300 ethnic groups and the largest economy in Southeast Asia. Indonesia ranks as the fourth most populous country in the world, the world's eighth largest economy in terms of purchasing power parity in 2023. It is a member of the G20 group of nations – the only member from the Southeast Asia region. Indonesia's development goals and strategies are outlined in its current medium-term development plan (RPJMN) 2025-2029 and for the long run are reflected in the Golden Indonesia 2045 Vision. While challenges to Indonesia's development include global volatility related to geopolitics, health, and economics, Indonesia is still listed as one of the fastest growing economies among the G20 countries.

From an investment standpoint, the attraction of Indonesia is the combination of its natural resource endowments, geographically strategic location, its large and youthful population, and a Human Development Index (HDI) that is consistently increasing. In 2023, the Statistics Indonesia (*Badan Pusat Statistik* or BPS) reported that Indonesia attained a **Human Development Index of 74.39**, which represented a modest increase from the previous year's HDI of 73.77.¹ These factors, paired with improvements in the ease of doing business governance reforms towards a more investment-friendly climate, send positive signals for investors to consider opportunities to invest in Indonesia. The country's vibrant digital economic activity is also indicative of the growing entrepreneurship of the millennial and Gen Z generation in Indonesia and is a basis for building readiness to face the challenges of Industry 4.0.

Macroeconomic condition and forecast

Since 2021, the government has prioritised government spending in several sectors, mainly in health, education, and social welfare protection. The Indonesian economy will also continue to be supported by household consumption, which is forecasted to increase by an average of 5% per annum over the next five years. Hence, a combination of growth in private investment and consumption as well as net exports stimulated by government spending is needed in FY2025 to deliver a sustainable economic recovery.

Figure 2: Indonesia's key economic outlook indicators

| Indicators | 2022 | 2023 | 2024 ^f | 2025 ^f | 2026 ^f |
|---|--------|--------|---------------------|---------------------|---------------------|
| GDP growth (% growth, yoy) | 5.3 | 5.1 | 5.1 ^f | 5.1 ^f | 5.0 ^f |
| Private consumption (% growth, yoy) | 4.9 | 4.8 | 5.1 ^f | 5.2 ^f | 5.2 ^f |
| Government consumption (% growth, yoy) | -4.5 | 3.0 | 7.5 ^f | 4.9 ^f | 3.7 ^f |
| Gross fixed capital formation (% growth, yoy) | 3.9 | 4.4 | 4.9 ^f | 5.0 ^f | 5.1 ^f |
| Exports of goods & services (% growth, yoy) | 16.2 | 1.3 | 3.5 ^f | 5.2 ^f | 5.0 ^f |
| Imports of goods & services (% growth, yoy) | 15.0 | -1.7 | 4.7 ^f | 4.8 ^f | 4.8 ^f |
| Inflation (end period) (% growth, yoy) | 5.5 | 2.6 | 2.2 ^f | 2.5 ^f | 3.0 ^f |
| USD exchange rate (end period) | 15,809 | 15,493 | 15,748 ^f | 15,614 ^f | 15,872 ^f |

^f Forecasts (data taken from EIU as of 11 November 2024)

■ Key drivers for Indonesian economic recovery

Source: EIU, Statistics Indonesia, Bank Indonesia.

Based on the 20-year long-term national development plan (RPJPN) for the period of 2025-2045, Indonesia is aiming to achieve a per capita income equivalent to that of high-income countries by 2045. Meanwhile, the rebound in Indonesia's economic recovery from COVID-19 has proved to be robust. This feat is due to the prudent refocusing of the State Revenue and Expenditure Budget (*Anggaran Pendapatan dan Belanja Negara* or APBN) which was run at a healthy deficit. This initiative ensured that economic recovery objectives were kept aligned, which eventually saw PPKM measures and pent-up domestic consumption demand being released. The results were that since 2022, the government of Indonesia announced that Indonesia's annual GDP growth remained stable at around 5%.

¹ "Indeks Pembangunan Manusia (IPM) Indonesia tahun 2023 mencapai 74,39, meningkat 0,62 poin (0,84 persen) dibandingkan tahun sebelumnya (73,77)". Statistics Indonesia (BPS). 2023.

• GDP growth and forecast

Indonesia has a robust and resilient economy in facing the global economic uncertainty. This can be seen from several indicators, such as: (1) Indonesia's moderately positive trend in GDP growth in 2024 and 2025 as projected by the government, Bank Indonesia (BI), the World Bank, International Monetary Fund (IMF), and Asian Development Bank (ADB); (2) Positive trends in household consumption and industrial productivity – reflecting high levels of mobility, purchasing power, and positive consumer confidence index; (3) The increase in industrial sectors' production; (4) Trade surplus and increase in foreign exchange reserves; (5) Stable debt-to-GDP ratio; and (6) A positive year-to-date trend in Indonesia's composite stock price index (*Indeks Harga Saham Gabungan* or IHSG).²

Previously, the 2024 General Election was forecasted to create positive impact for Indonesia's GDP growth and will not create dire disruption to the overall economy. This is because Indonesia's post-COVID-19 pandemic macroeconomic condition grows positively and stays resilient in facing external disruptions. Spending was expected to increase in Q3-Q4 2023 for the 2024 election and for election campaign purposes, which was projected to stimulate household and domestic consumption. Activities in food and beverage, transportation, and retail sectors were projected to increase during the 2024 General Election Year. Meanwhile, Rupiah was projected to strengthen, in line with the increasing capital inflow in 2024³

Indeed, Indonesia's 2024 GDP growth stabilised at around 5% throughout Q1-Q3. The key driving factors behind Indonesia's economic growth mainly lie in household consumption, which in 2024 was stimulated by activities related to the General Election. Household consumption grew by 4.9% YoY in Q3 2024, contributing 2.6% to the 4.9% GDP growth thanks to increases in people's mobility and spending.⁴ Specific to Q1-Q2 2024, the quarter's economic growth was supplemented by increased consumption thanks to Eid Al-Fitr (*Idul Fitri*) – with other religious celebrations, and longer school holidays. This year also shows increasing electronic appliances purchase during Eid Al-Fitr, along with consumer goods related to leisure.⁵

Meanwhile, Non-Profit Institutions Serving Households spending showed the most growth for three quarters in a row (Q4 2023-Q2 2024), which was influenced by the 2024 election. Activities in food and beverage, transportation, and retail sectors increased following the 2024 General Election and religious holidays.⁶ Additionally, tax revenue performance is still growing. As of October 2024, state revenue from tax reached IDR1,517 trillion, or 76.3% of the 2024 State Budget target.⁷

Figure 3: Indonesia's quarterly GDP growth comparison, 2020-2024 (in %)



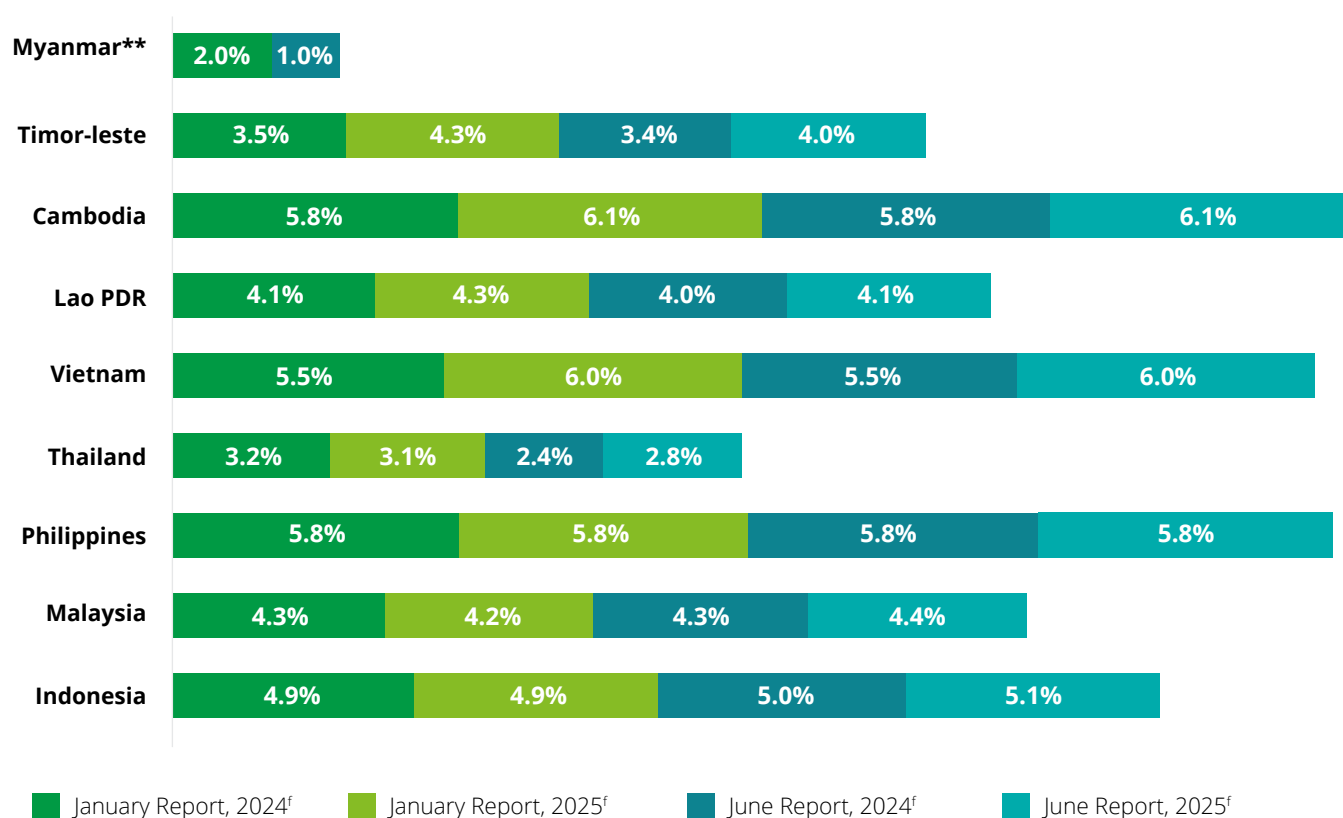
Source: Statistics Indonesia (BPS).

² "Jaga Pertumbuhan Ekonomi 2024, Menkeu: Pemerintah akan Perhatikan Konsumsi, Investasi, Ekspor, Impor". Ministry of Finance of RI. 6 August 2024.
³ "Uji Risiko Pemilu 2024, Ada Efek ke Investasi Hingga Rupiah?". CNBC Indonesia. 24 July 2023.
⁴ "Berita Resmi Statistik 5 November 2024". Statistics Indonesia (BPS). 5 November 2024.
⁵ "Setelah Pemilu, Ekonomi Terindikasi Tumbuh Melambat". Kompas.com. 15 Mei 2024.
⁶ "Berita Resmi Statistik". Statistics Indonesia (BPS). 5 August 2024.
⁷ "Kinerja Pendapatan Negara Tahun 2024 Masih Terkendali, Menkeu : Ada Kenaikan Dibanding Tahun 2023". Ministry of Finance of RI. 9 November 2024.

Indonesia's Ministry of Finance estimated Indonesia's annual GDP growth to reach 5.2% by the end of 2024 and 2025.⁸ Meanwhile, the World Bank predicted Indonesia's GDP growth rate in 2024 would reach 5.0% and 5.1% in 2025.⁹ In July 2024, S&P Global ratings affirmed Indonesia's outlook as stable, projecting that Indonesia would achieve economic growth at around 5% rate through 2027, with private investment forecasted to grow following the slowdown from the 2024 General Election.¹⁰ Smooth transition to the new government and prominent policy continuity is anticipated, as the President-elect Prabowo Subianto had served in the previous government.¹¹

Figure 4 provides a snapshot of the World Bank's forecasts for Southeast Asian economies in 2024-2025, where the regional trend of stronger anticipated recovery has been dulled by global external crises. Despite this, Indonesia's resilience and the myriad of opportunities due to the combination of its youthful demographics, relatively high HDI, access to natural endowments, vibrant domestic markets and e-commerce, and a pro-investment government mean that the government and domestic businesses would be keen on being more integrated to the global supply chain. Global investors would potentially benefit particularly from the investment-friendly ecosystem offered in Special Economic Zones (KEK) and partnerships with domestic businesses either to better serve the large domestic market or to invest in downstream industrialisation as part of the global supply chain.

Figure 4: World Bank GDP growth rate forecast of several Southeast Asian countries for 2024-2025, January and June 2024 reports comparison



*No data of Brunei Darussalam in the documents.

**Forecast for Myanmar beyond 2023 are excluded by World Bank due to high degree of uncertainty.

Source: World Bank Global Economic Prospects, January and June 2024 Editions.

⁸ "Jaga Pertumbuhan Ekonomi 2024, Menkeu: Pemerintah akan Perhatikan Konsumsi, Investasi, Ekspor, Impor". Ministry of Finance of RI. 6 August 2024; "Wamenkeu I: Perkiraan Pertumbuhan Ekonomi 2025 Sangat Baik". Ministry of Finance of RI. 16 August 2024.

⁹ "Indonesia Economic Prospects". World Bank. June 2024.

¹⁰ "Indonesia Ratings Affirmed At 'BBB/A-2'; Outlook Stable". S&P Global Ratings. 30 July 2024.

¹¹ Ibid.

• Spillovers from major geopolitical conflicts

Spill-over effects from the Russia-Ukraine Conflict and spikes in commodities prices are becoming more manageable and relaxed. The Russia-Ukraine conflict – that has been occurring since early 2022 – still influences the global economic condition. This conflict has created spill-over effects that were felt across the globe, disrupted both the energy and food supply chains that led to global spikes in prices and shortages in supplies of essential commodities. Indonesia leveraged windfall profit from surges in prices in energy and agricultural commodities, mainly on exports in oil, Crude Palm Oil (CPO), and coal. Meanwhile, domestic price of cooking oil – a derivative product of CPO – is slowly returning to its pre-2022 condition after experiencing a spike in 2022 following the increasing price of CPO and several other commodities. In addition, governments tighten their monetary policies and increased their nations' interest rates in response to the inflating price in commodities. The interest rate of Bank Indonesia (the central bank of Indonesia) rose from 3.75% in August 2022 to 6.25% in May 2024, but went down to 6% in September 2024 following the Fed's cut of interest rate.

Indonesia has called for the conflict to end immediately as it threatens regional and global peace and stability. As stated by the then-President Jokowi during the 2022 G20 Summit, the conflict in Ukraine has set back the global recovery from COVID-19 and has increased the risk of food, energy, and financial crises. Global economic recovery cannot be achieved without peace between Russia and Ukraine.¹²

The eruption of Israel-Palestine conflict has further obscured the global economy. The decades of conflict between Israel-Palestine worsen in October 2023, which presently has escalated into conflicts between Israel with Iran and Lebanon – and have not shown signs of relaxation. With Iran's reputation as a top global oil producer, nations may have to anticipate another disruption in global oil supply chain, considering the possibility of Israel targeting Iran's oil production sites and Iran blockading the Strait of Hormuz. As a note, the Indonesian Crude Price (ICP) of oil have decreased from USD117.62 per barrel in June 2022 to USD69.36 per barrel in June 2023 following the decreasing tense of the Russia-Ukraine conflict.¹³ In early October 2024, however, the price of ICP were recorded at USD79 per barrel – experiencing another rise due to the middle east conflict. In response to this, the Ministry of Energy and Mineral Resources of RI states that the government is constantly monitoring the global oil market. The rising ICP from January-October 2024 is in a relatively safe spot – still below the 2024 State Budget (APBN) macroeconomic assumption of USD82 per barrel.¹⁴ Additionally, the slowing global demand for oil and sufficient oil supply in the global market prevented sudden spike in oil price.

Indonesia, through the Ministry of Foreign Affairs, has been vocal and consistent in encouraging a “two-state solution” to de-escalate Israel-Palestine conflict, along with permanent ceasefire.¹⁵ Indonesia holds strong stance for peace in the middle east and supporting Palestine as an official state. Boycott on pro-Israel products has also been echoing by many of the population since the conflict escalated, although the government has never made this official.¹⁶ Nevertheless, Indonesia's trade amount with Israel is little compared to with other countries.¹⁷ The boycott primarily raises sensitivity around companies that are accused of having ties with Israel and has had limited direct consequences on Indonesia's economy.

Trade performance

Global external crises such as geopolitical conflicts and climate change have certainly created major challenges for the international community, including Indonesia. The International Monetary Fund (IMF) projects the global economy will only grow by 3.2% in 2024 and 3.3% in 2025. However, the IMF projects Indonesia's annual economic growth will reach 5.0% in 2024 and 5.1% in 2025. This projection is higher than Malaysia's projected growth of 4.4% in 2024 and 2025 and Thailand's at 2.9% in 2024 and 3.1% in 2025.¹⁸

Fortunately, since 2022, Indonesia has experienced strong economic growth and incremental recovery. The government, along with relevant stakeholders, have been maximising their efforts to push Indonesia's recovery and stability in many sectors. **Indonesia's overall trade balance achieved a surplus for 53 consecutive months by the end of September 2024.** From January 2024, BPS reported Indonesia's trade balance surplus worth USD21.9 billion by the end of Q3 2024.¹⁹ Indonesia's Q1-Q3 2024 cumulative export value rose by 0.3% compared to the same period in 2023. Manufacturing industry contributed the most to Indonesia's export increase. China, ASEAN, and the US remain as Indonesia's top three non-oil and gas export destinations.²⁰

¹² “Jokowi Ungkap Debat soal Sikap G20 terhadap Perang di Ukraina Berlangsung Alot”. Kompas.com. 16 November 2022.

¹³ “Rerata ICP Juni 2022 Naik Jadi US\$117,62 per Barel”. Ministry of Energy and Mineral Resources of RI. 04 July 2022; “ICP Juni 2023 Turun Rendah Sebesar US\$0,76 Per Barel Dibandingkan Mei 2023”. Ministry of Energy and Mineral Resources of RI. 06 July 2023.

¹⁴ “Kementerian ESDM: Harga Minyak Terus Dipantau”. Kompas.com. 5 October 2024.

¹⁵ “Konsistensi Indonesia Suarakan 'Two-State Solution' Terkait Konflik Palestina-Israel”. Hukumonline.com. 1 April 2024.

¹⁶ “Mendag: Pemerintah Tidak Boikot Produk Israel”. CNBC Indonesia. 27 November 2023.

¹⁷ “Daftar Barang Impor Israel ke Indonesia dan Nilainya”. CNN Indonesia. 16 August 2024.

¹⁸ “World Economic Outlook Update, July 2024: The Global Economy in a Sticky Spot”. International Monetary Fund. July 2024.

¹⁹ “Berita Resmi Statistik, 15 Oktober 2024”. Statistics Indonesia (BPS). 15 October 2024.

²⁰ Ibid.

Figure 5: Indonesia's Q1-Q3 2024 export highlights

| Export | Export Value | | |
|--------|--------------------------------------|-------------------|--|
| | Description | Value | % Growth Compared to the Same Period in 2023 |
| | Total Oil & Gas Exports | USD 11.7 billion | -0.8% |
| | Total Non-Oil & Gas Export | USD 181.2 billion | 0.3% |
| | Total Cumulative Export | USD 192.9 billion | 0.3% |
| | Export Contributors | | |
| | Sectors | Value | % Growth Compared to the Same Period in 2023 |
| | Manufacturing Industry | USD 142.3 billion | 2.5% |
| | Mining and Others | USD 35 billion | -8.8% |
| | Oil and Gas | USD 11.7 billion | -0.8% |
| | Agriculture, Forestry, and Fisheries | USD 3.8 billion | 17.6% |
| | Top Non-Oil & Gas Export Destination | | |
| | Destination | Value | % from Total Export |
| | China | USD 42.5 billion | 23.5% |
| | ASEAN | USD 32.6 billion | 18.0% |
| | United States of America | USD 19.2 billion | 10.6% |
| | India | USD 15.3 billion | 8.4% |
| | European Union | USD 12.9 billion | 7.1% |
| | Others | USD 58.6 billion | 32.4% |

Source: Statistics Indonesia (BPS), "Berita Resmi Statistik", 15 October 2024.

As for imports, Indonesia's cumulative imports value from January-September 2024 rose by 3.9% compared to the same period in 2023. This is mainly influenced by increasing imports on raw/auxiliary materials. Non-oil and gas imports in the January-September 2024 period were primarily coming from China, ASEAN, and Japan.²¹

²¹ Ibid.

Figure 6: Indonesia's Q1-Q3 2024 import highlights

| Import | Import Value | | |
|--------|--|-------------------|--|
| | Description | Value | % Growth Compared to the Same Period in 2023 |
| | Total Oil & Gas Imports | USD 26.7 billion | 3.8% |
| | Total Non-Oil & Gas Imports | USD 144.1 billion | 3.9% |
| | Total Cumulative Import | USD 170.8 billion | 3.9% |
| | Import Contributor based on Use of Goods | | |
| | Sectors | Value | % Growth Compared to the Same Period in 2023 |
| | Raw/Auxiliary Goods | USD 124.7 billion | 3.9% |
| | Capital Goods | USD 29.8 billion | 3.3% |
| | Consumption Goods | USD 16.3 billion | 4.3% |
| | Top Non-Oil & Gas Import Destination | | |
| | Destination | Value | % from Total Export |
| | China | USD 51.4billion | 36% |
| | ASEAN | USD 25.7 billion | 18% |
| | Japan | USD 10.5 billion | 7% |
| | European Union | USD 9.4 billion | 7% |
| | Australia | USD 7.3 billion | 5% |
| | Others | USD 39.8 billion | 28% |

Source: Statistics Indonesia (BPS), "Berita Resmi Statistik", 15 October 2024.

In response to the turbulence in Indonesia's domestic market, the new Ministry of Trade puts forward three strategies for the next five years.²² First, the Ministry focuses on safeguarding the domestic market by increasing the competitiveness of Indonesian products and prioritises local products than the imported ones. Second, the Ministry aims to expand Indonesia's foreign market access through expanding its export destinations and increasing Indonesia's involvement in trade treaties. For instance, Indonesia is in discussion with the European Union on the Indonesia-European Union Comprehensive Economic Partnership Agreement (IEU-CEPA) treaty, aimed to be realised by Q1 2025.²³ Lastly, in line with the *Asta Cita* vision of strengthening the MSME sector, the Ministry of Trade introduces the MSME Go Global initiative, which focuses on increasing exports of Indonesian MSME products on the global market.

Monetary and fiscal performance and strategy

APBN is another key element that plays an important factor in Indonesia's economic recovery. APBN has been acting as a 'shock absorber' in response to external crises, such as COVID-19, and impacts from geopolitical conflicts. To achieve the Golden Indonesia 2045 Vision, the government focuses the APBN in 2025 to accelerate inclusive and sustainable economic transformation and improve human resource quality. The priority programs include the Free Nutritious Meal Program, school renovation, free medical checks, and increasing food security and poverty alleviation. In terms of budget allocation, the spending allocation of APBN 2025 will be prioritised on education, social welfare protection, infrastructure development – including Nusantara New Capital City development, health care, food resilience, and law enforcement and defence and security.

²² "Mendag Budi Santoso Ungkap Strategi untuk Jalankan 3 Program Utama Kementeriannya". Tempo.co. 31 October 2024.

²³ "Strategi Mendag Jaga Ekonomi RI, Perbanyak Perjanjian Dagang". Liputan6.com. 4 November 2024.

Figure 7: Indonesia's macroeconomic and national development targets in APBN

| Item | APBN 2023 Target | APBN 2024 Target | APBN 2025 Target |
|------------------------------------|------------------|------------------|------------------|
| Economic growth (% YoY) | 5.3 | 5.2 | 5.2 |
| Inflation rate (% YoY) | 3.6 | 2.8 | 2.5 |
| Government bonds interest rate (%) | 7.9 | 6.7 | 7.0 |
| USD exchange rate (IDR) | 14,800 | 15,000 | 16,000 |
| Poverty rate (%) | 7.5 - 8.5 | 6.5 - 7.5 | 7.0 - 8.0 |
| Unemployment rate (%) | 5.3 - 6.0 | 5.0 - 5.7 | 4.5 - 5.0 |

Source: Ministry of Finance of RI, 2024.

The US Federal Reserve 'hawkish' policy initiatives impacted capital flows into emerging market economy countries, which has slightly affected Indonesia's capital outflow from government bonds (*Surat Berharga Negara* or SBN) as well as resulting in the Rupiah weakening somewhat against the US dollar in Q1 2024. The government bonds capital outflow did not affect Indonesia's monetary stability. Indeed, demand for Indonesian government bonds rose steadily since Q2 2024 despite experiencing capital outflows in the previous quarter. Combined with improving economic growth and manageable inflation rate, Indonesia is experiencing relatively high comeback of capital inflows in semester-I 2024 – to which most of the funds were injected through *Sekuritas Rupiah Bank Indonesia* (SRBI).²⁴

SRBI is a new monetary instrument introduced by the Central Bank of Indonesia (BI) in 2023. This instrument takes the form of basic assets of government bonds (SBN) owned by BI in Rupiah currency, as recognition of short-term debt. SRBI can act as an instrument for investment by filling the gap when the issuance of SBN is in a state of downtrend. SRBI can only be purchased by conventional commercial banks that are participants of public market operations, either directly or through intermediaries. This commercial bank can then trade SRBI in the secondary market, where investors can enter through this secondary market.²⁵ This instrument was developed to further stimulate foreign investment into the Indonesian market, and safeguarding Indonesia's macroeconomic and monetary stability in the uncertain global economic condition.

The government is confident that Indonesia will continue to experience capital inflows of government bonds. Capital outflow pressure relaxes after The Fed cuts interest rate by 50 basis points in early September 2024, which in turn stimulating recovery of foreign capital inflows for Indonesia in both stock market and SBN.²⁶ Meanwhile, foreign investor confidence has also shown positive recovery after Bank Indonesia released **Consumer Confidence Index** (*Indeks Keyakinan Konsumen*) surveys which **resulted in scores of over 120 (optimistic)** since Q1-Q3 2024.

On the other hand, the **Rupiah exchange rate has been relatively stable, appreciating by 0.4% in September 2024 since August 2024 following foreign capital inflow recovery**.²⁷ The Rupiah exchange rate depreciated by 1.2% in October 2024 since December 2023 due to an escalation of geopolitical tension in the Middle East. Bank Indonesia estimates the Rupiah exchange rate will strengthen in line with attractive yields, low inflation, and positive prospects for Indonesia's economic growth. The Indonesian Rupiah is still in a relatively safe spot compared to other emerging market economy currencies that depreciated against the US Dollar, such as the Taiwan Dollar (4.6%), Korean Won (5.6%), and the Philippine Peso (4.3%).²⁸ Moreover, according to Bank Indonesia, Indonesia's foreign exchange reserves as of late October 2024 remain high at USD151.2 billion, equivalent to financing 6.6 months' worth of imports or 6.4 months' worth of imports plus the government's foreign currency debt payments.²⁹

²⁴ "Dana Asing Banjiri RI Rp120 Triliun, Tsunami Capital Outflow Diyakini BI Berakhir". *Bisnis.com*. 23 July 2023.

²⁵ "Instrumen Investasi Baru Penyerap Likuiditas". *Kontan*. 13 September 2023.

²⁶ "Sri Mulyani: Tekanan Capital Outflow Mereda usai The Fed Pangkas Suku Bunga". *Bisnis.com*. 23 September 2024.

²⁷ "Siaran Pers Stabilitas Sistem Keuangan Tetap Terjaga di Tengah Dinamika Geopolitik Global dan Arah Pelonggaran Kebijakan Moneter". Ministry of Finance of RI. 18 October 2024.

²⁸ "BI-Rate Tetap 6,00%: Mempertahankan Stabilitas, Memperkuat Pertumbuhan Ekonomi". Bank Indonesia. 16 October 2024.

²⁹ "Cadangan Devisa Oktober 2024 Meningkat". Bank Indonesia. 7 November 2024.

Bank Indonesia emphasises that Indonesia's inflation rate is consistently decreasing and becoming more stable and manageable, recorded at 1.8% YoY in September 2024.³⁰ Some factors contributing to the month-on-month reduction include increasing supply of food commodity, recovering domestic economic condition, and positive impacts of digitalisation. Indonesia's inflation rate is still relatively low compared to other emerging economy countries such as India (3.7%) and the Philippines (3.3%).³¹

Bank Indonesia has been playing a vital role in keeping the inflation rate stable with its flexible use of monetary policy. The monetary policy is directed to increase the stabilisation of the Rupiah exchange rate in order to reduce the effects of the uncertain global financial market. The efficiency of giving liquidity incentives to banks to stimulate credit/financing is being strengthened, while flexible macroprudential policies are still being implemented to support growth in priority sectors and create job opportunities – such as in MSME sector and green economy. Bank Indonesia is also focusing on accelerating digitalisation of payment systems in order to increase digital economic and financial inclusion. Meanwhile, Bank Indonesia has been maintaining the interest rate/BI-7 Day Reverse Repo Rate (BI7DRR) at 6.00% to support sustainable economic growth and maintain the inflation rate at 2.5%±1% for the remaining of 2024 and 2025.³²

Seizing opportunities for Golden Indonesia 2045 Vision

In mid-2023, the Ministry of National Development Planning (Bappenas) announced the National Long Term Development Plan (*Rencana Pembangunan Jangka Panjang Nasional* or RPJPN) for 2025-2045. The RPJPN encompasses the Golden Indonesia 2045 Vision, which is branched into five separate targets:³³

- Achieving GDP per capita that is on par with developed countries;
- Achieving 0% poverty and reduced inequality among the population;
- Increasing Indonesia's overall global competitiveness and influence;
- Increasing human capital quality and competitiveness; and
- Achieving- Net Zero Emission (NZE) and reduced greenhouse gas emissions.

These targets are intended to take advantage of the demographic dividend of Indonesia's changing age composition, which has resulted in the population becoming concentrated in the working age group and as a result has the inherent potential of driving higher levels of per capita income. The United Nations Population Fund (UNFPA) estimates that this window of opportunity is only available in the 2020-2030 period.

In August 2024, the government and the House of Representatives (DPR RI) announced the ratification of the RPJPN 2025-2045 Draft Bill. The ratification was officially agreed upon in the DPR RI Plenary Meeting as a strategic step towards achieving the Golden Indonesia 2045 Vision. The Legislative Body of DPR RI ensured that the RPJPN 2025-2045, promoting the theme "Unitary State of the Republic of Indonesia: United, Sovereign, Advanced, and Sustainable", or "*Negara Kesatuan Republik Indonesia yang Bersatu, Berdaulat, Maju, dan Berkelanjutan*", becomes the main guide in achieving more inclusive and measurable national development targets. These targets will be accomplished through eight development agendas, seventeen development directions, and guarded through forty-five key development indicators.³⁴ Following the ratification by the DPR RI, in September 2024 the RPJPN 2025-2045 was signed by President Joko Widodo into Law Number 59 of 2024 regarding the National Long-Term Development Plan (RPJPN) 2025-2045.³⁵

The RPJPN 2025–2045 will serve as a compass that directs Indonesia's development for the next 20 years, coordinating the efforts of all development actors—government and non-government—to ensure that their efforts are aligned, harmonious, and integrated in order to realise the aspirations of the country.³⁶ This is in line with the vision of Prabowo Subianto's new administration, "National Transformation Strategy: Towards Golden Indonesia 2045", which is embodied in 8 Missions (*Asta Cita*), 8 Quick Win Programmes, and 17 Priority Programmes.³⁷

³⁰ "Inflasi Agustus 2023 Tetap Terjaga". Bank Indonesia. 01 September 2023.

³¹ "Inflation Rate in India 2024: A closer look at economic trends". Forbes India. 16 October 2024; "Summary Inflation Report Consumer Price Index". Philippine Statistics Authority. October 2024.

³² "BI-Rate Tetap 6,00%: Mempertahankan Stabilitas, Memperkuat Pertumbuhan Ekonomi". Bank Indonesia. 16 October 2024.

³³ "RPJPN 2025-2045". Indonesia2045.go.id.

³⁴ "Pengesahan RUU RPJPN 2025-2045, Fondasi Penting Visi Indonesia Emas 2045". Bappenas.go.id. 20 August 2024.

³⁵ "Jokowi Teken UU RPJPN, Peta Jalan Target Indonesia Emas 2045". CNN Indonesia. 20 September 2024.

³⁶ "Pengesahan RUU RPJPN 2025-2045, Fondasi Penting Visi Indonesia Emas 2045". Bappenas.go.id. 20 August 2024.





³⁷ "Visi, Misi dan Program Calon Presiden dan Wakil Presiden 2024-2029 H. Prabowo Subianto dan Gibran Rakabuming Raka". 2024.

Welcoming the New Government: Transition from Joko Widodo to Prabowo Subianto Administration




2024 marks the end of Joko Widodo (Jokowi)'s administration since he took office in 2014. This is in accordance with Article 7 of the 1945 Constitution of the Republic of Indonesia, which states that the President and Vice President only hold office for five years, and thereafter can be re-elected to the same office, for one term only. Out of the three presidential candidates participating in the Election, Prabowo Subianto and Gibran Rakabuming Raka gained the most vote – 58% nationally, earning them the position of the next President and Vice President for the 2024-2029 administration.

In their campaign, Prabowo-Gibran brings forth the vision of “National Transformation Strategy: Towards Golden Indonesia 2045”, which is further elaborated in the “*Asta Cita*” missions (see **Figure 8**) for the next five years of administration. As the new President and Vice President, Prabowo-Gibran’s missions are translated into Indonesia’s National Medium-term Development Plan (RPJMN) 2025-2029.

Figure 8: *Asta Cita* – The Eight Mission of Prabowo-Gibran administration³⁸

| No | Mission | Working program examples |
|----|--|--|
| 1 |  Strengthening the foundation of Pancasila ideology, democracy, and human rights. | <ul style="list-style-type: none"> Developing an app that can strengthen social cohesivity. Prioritising women empowerment and children protection. |
| 2 |  Consolidating the national defence and security system and fostering national self-reliance through self-sufficiency in food, energy, water, and sharia economy, digital economy, green economy, and blue economy. | <ul style="list-style-type: none"> Military modernisation, strengthening cyber defence. Digital farming, forest revitalisation through Public-Private Partnership (PPP) Improving New & Renewable Energy (NRE) landscape, accelerating decarbonisation, and increasing budget for research and development (R&D) in endangered species preservation. Improving ports, sea transportation armada, and marine commodity cultivation. |
| 3 |  Continuing infrastructure development and improving quality employment opportunities, promoting entrepreneurship, expanding the creative industry, and developing agro-maritime industries in production centres through active cooperative involvement. | <ul style="list-style-type: none"> Micro, Small, and Medium Enterprises (MSMEs) digitalisation. Improving sharia sector and developing waqf bank. Improving and synergising connectivity and digital infrastructures. |
| 4 |  Enhancing human resource development, science, technology, education, health, sports achievements, gender equality, and empowering the roles of women, youth (millennials and Generation Z), and persons with disabilities. | <ul style="list-style-type: none"> Increasing R&D fund to contribute 1.5-2.0% of GDP in five years and international exchange program. Preventing stunting and accelerating national pharmaceutical industry independency. Strengthening infrastructure and landscape for the marginalised. Tax incentive for sports clubs. |
| 5 |  Continuing downstream processing and developing natural resource-based industries to increase domestic value-added. | <ul style="list-style-type: none"> Developing innovative financing programs to attract investment in downstream. Developing international transshipment hub. |

³⁸ Ibid.

| No | Mission | Working program examples |
|----|--|---|
| 6 |  <p>Building from the village and grassroots for economic growth, economic equity, and poverty eradication.</p> | <ul style="list-style-type: none"> Continuing energy subsidies program, affordable transportation, and Nusantara Capital City (IKN Nusantara) development. Accelerating poverty eradication program among institutions through integrated database. |
| 7 |  <p>Intensifying political, legal, and bureaucratic reform, and strengthening the prevention and eradication of corruption, drugs, gambling, and smuggling.</p> | <ul style="list-style-type: none"> Developing Single Identity Number (SIN) to ease administrative requirements and land bank. Strengthening corruption control to encourage ease of doing business, revising outsourcing system, and providing legal certainty for two-wheeled vehicles as public transportation. Tax exemption for two years for newly established MSMEs, reducing income tax, and eradicating value added tax for books. Developing a database for asset and wealth of ministries, strengthening the smart government system. |
| 8 |  <p>Enhancing alignment with a harmonious life in the environment, nature, and culture, and increasing religious tolerance to achieve a just and prosperous society.</p> | <ul style="list-style-type: none"> Strengthening and modernising the preservation of Indonesia's cultures. Increasing the budget allocation for disaster mitigation and revamping intra-agency coordination of disaster management. |

Aside from the “*Asta Cita*”, the two foci of the Subianto administration that have made spotlights are achieving a GDP growth rate of 6-8% YoY and the Free Nutritious Meal program. The new government is anticipated to give its fullest effort in achieving a GDP growth rate of 6-8%. By the time this publication was released, Indonesia was experiencing deflation for five consecutive months from May to October 2024 – coupled with the drop in the middle-class population and unstable people's purchasing power. To address these challenges, the Subianto administration aims to deliver social aid programs to the impacted population to stimulate their purchasing power. Social aid will act as a short-run solution. In the long run, de-bureaucratisation and de-regulation (e.g., tax de-regulation) will be necessary to ease business and investment – particularly in vital sectors like manufacturing, textile, and food and beverage, which in turn is expected to decrease the unemployment rate.³⁹

Achieving a 6-8% GDP will require Indonesia to increase its national income. In line with this, the Subianto administration aims to strengthen disciplined tax submission on domestic institutions and drive primary export sectors – which include downstream processing commodities.⁴⁰ The downstream initiative is expected to be expanded to provide commodities other than minerals, such as farming commodities. Incentives – either monetary or non-monetary – are expected to be injected into concerning sectors (such as manufacturing) or growing sectors (such as carbon trading) to strengthen and safeguard their business ecosystem.

³⁹ “Tim Ekonomi Prabowo soal Fokus 100 Hari Pertama: Selamatkan Daya Beli Warga”. Kumparan.com. 14 October 2024.

⁴⁰ Ibid.

A brief into the Free Nutritious Meal Program

The Free Nutritious Meal (*Makan Bergizi Gratis*) is a key program of the Subianto administration, which is a realisation of Prabowo-Gibran's campaign. Similar to the US National School Lunch Act and China's Nutritious Meal Project, this program gives school students and children in the community free meal once a day. This program aims to improve the nutrition of Indonesia's children and eliminate children's stunting rate, thus improving the quality of Indonesia's human capital for future generations.

Free Nutritious Meal is aimed to commence in January 2025, delivering three million portions of meals for the first quarter (which will double in the next quarter). When fully implemented, this program will cost a total of IDR400 trillion per year, around IDR1.2 trillion per day for 83 million beneficiaries in five years – which will include infants and pregnant and breastfeeding mothers-in-needs. This program is projected to create new employment opportunities for 1.5 million people who will work in 30,000 service units across Indonesia.⁴¹

The immense spending, purchase of domestic food ingredient commodities, and human resources allocated for the Free Nutritious Meal program are expected to further stimulate the national economy to achieve the 6-8% GDP growth. Large circulation of money within the community is expected to happen when this program is fully implemented, which will improve liquidity in the villages.⁴² Stakeholders that tend to be unnoticed like farmers and village-owned enterprises (BUMDes) will play important roles in providing the prime ingredients for the meal and coordinating the distribution of the meal to the beneficiaries.



President Subianto highlighted the importance of corruption eradication, aiming to strengthen anti-corruption enforcement in his presidential term. As for the foreign policy direction, President Subianto states that Indonesia will remain being a non-block state with its "independent and active foreign policy", aiming to strengthen relations with countries globally. Indonesia will continue its support on Palestine and aims to send more humanitarian aid to the areas of conflict in Palestine.⁴³ We may expect President Subianto to be more active and involved in the international affairs and Indonesia's foreign diplomacy than his predecessor, as the President for 2024-2029 has a solid background in diplomacy and defence.

In terms of cabinet structure, the Subianto administration focuses on building a cabinet with experts on their fields, separates ministries that have overlapping duties, and re-aligned ministries based on present needs to ensure better performance and service to the people. President Prabowo Subianto and Vice President Gibran Rakabuming announced their cabinet for the 2024-2029 administration, namely the Red and White Cabinet (*Kabinet Merah Putih*; referring to the color of the national flag of Indonesia) with a total of 48 ministers, 56 vice ministers, and 5 head of institutions outside the coordination of the Coordinating Ministries. Some ministers from the Jokowi administration resume their duty in the Subianto administration, such as Sri Mulyani as the Minister of Finance, Budi Sadikin as the Minister of Health, Airlangga Hartanto as the Coordinating Minister for Economic Affairs, Rosan Roeslani as the Minister of Investment and Downstream, Bahlil Lahadalia as the Minister of Energy and Mineral Resources, and Erick Thohir as the Minister of State-Owned Enterprise.

⁴¹ "Program Makan Bergizi Gratis akan Dimulai Januari 2025, Tahap 1 dengan 3 Juta Porsi". Tempo.com. 17 October 2024.

⁴² "Anggaran Makan Bergizi Gratis: Sehari Rp 1,2 T, Setahun Rp 400". Detik.com. 8 October 2024.

⁴³ "Poin-poin Penting Pidato Perdana Presiden Prabowo Subianto". Detik.com. 21 October 2024.

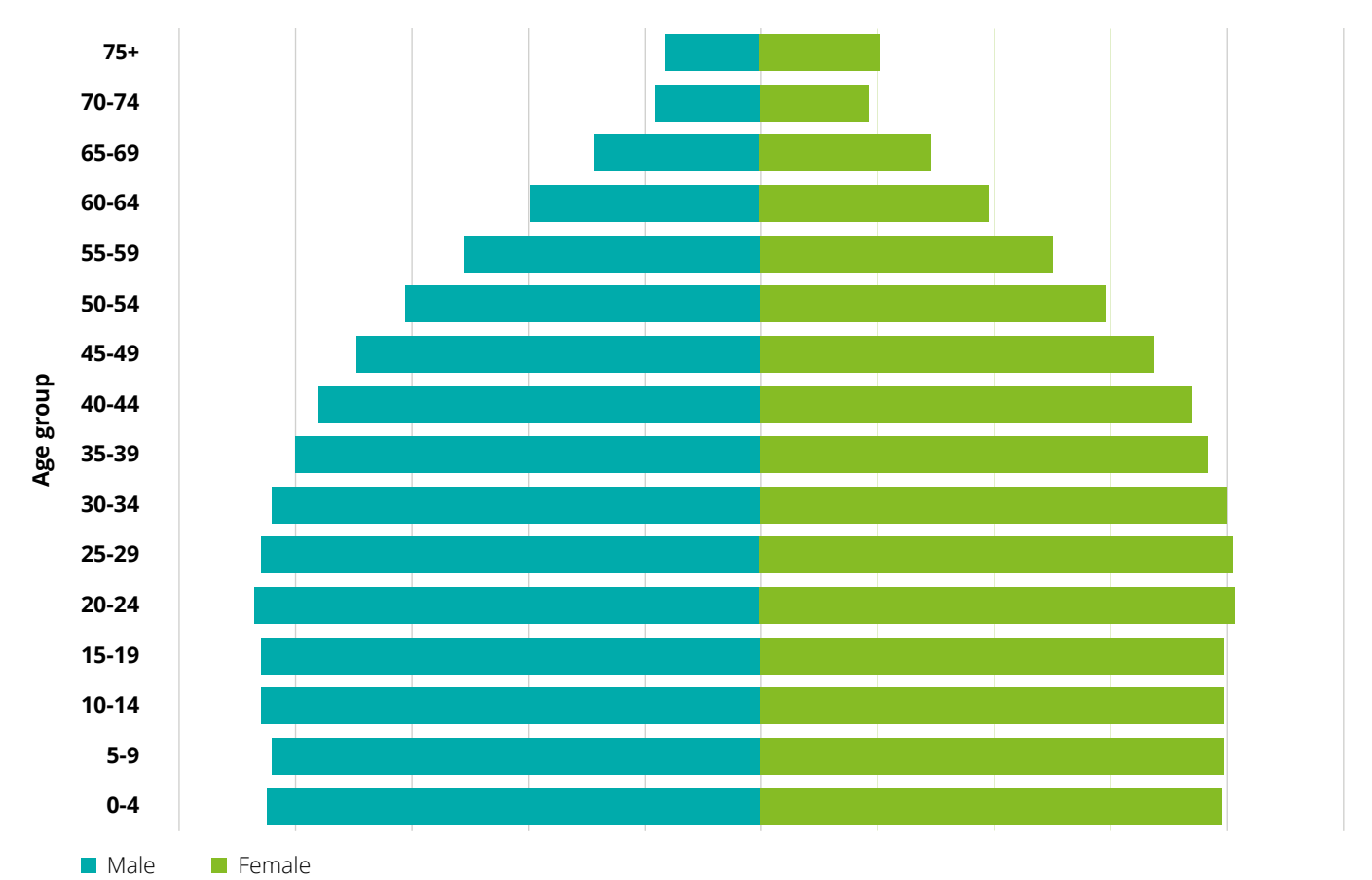
2. Demography

Buoyed by domestic consumption and investment, Indonesia’s economy is anticipated to steadily grow in 2025. One of the key strategies to boost the economy is to embrace Indonesia’s ever-expanding population by driving investment and improving management in key sectors. Indonesia consists of 38 provinces, more than 17,000 islands, and more than 280 million people, making Indonesia the fourth largest country in the world in terms of population. With a young and growing labour force, Indonesia is set to benefit from a favourable demographic, such as:

- Over 70% of the population is aged between 15 and 65, with a low dependency ratio and a dynamic workforce with high literacy rates.
- Around 59% of the population lives in urban areas.
- Indonesia’s population accounts for 41% of the total population of ASEAN countries combined.

The demographic above can impact economic growth through various channels including the size of labour force, productivity, and capital formation. According to BPS, as of August 2024, 215 million people were of working age. Of these, 152 million people were in the labour force, equivalent to 70.6% of the Labour Force Participation Rate. As the economy steadily recovers, the Open Unemployment Rate was 4.9% in August 2024 (7.4 million people), a decrease of 0.5 million people compared to the same period in 2023.⁴⁴ Employment rates are high in agriculture, trading, processing industry, F&B, and accommodation sectors. In addition, Indonesia also has a large consumer base with fast-increasing spending power.

Figure 9: The population of Indonesia by age and gender (2023)



Source: Statistics Indonesia (BPS), 2024.

⁴⁴ “Berita Resmi Statistik, 5 November 2024”. Statistics Indonesia (BPS), 5 November 2024.

3. Investment Climate Overview and Opportunities in Indonesia

A large part of Indonesia's economic success is a result of the growing middle class and stable economic growth. Indonesia's debt-to-GDP ratio shows consistent drop since 2021; from 40.7% in 2021, 39.7% in 2022, and 39.2% in 2023. According to Bank Indonesia, Indonesia's debt-to-GDP ratio experienced another drop, reaching 38.5% in Q3 2024.⁴⁵ This drop was stimulated by the increasing capital inflow into Indonesia's government bonds, which can be seen as an increase of investors' trust toward Indonesia's investment landscape.⁴⁶ The government, however, is targeting to cap Indonesia's debt-to-GDP ratio at no more than 60% by the end of the fiscal year – consistent with the maximum limit stipulated in Law No. 17/2003 on State Finance.⁴⁷ Indonesia's debt-to-GDP is considered the lowest among several countries, such as Malaysia (63.1%), Thailand (64.0%), and Philippines (60.2%).

Foreign Direct Investment (FDI) realisation

Consistent with the World Bank's projection that Indonesia's economic growth would be around 5% by 2024, followed by 5.1% in 2025 and 2026, Investment realisation demonstrated a positive trend thus far. From Q1-Q3 2024, data from the Ministry of Investment and Downstream Industry/Investment Coordinating Board (*Badan Koordinasi Penanaman Modal* or BKPM) indicated that Foreign Direct Investment (FDI) in Indonesia was at IDR654 trillion (around USD42.3 billion), which represented 51.9% of Indonesia's total investment realisation. Investment realisation – Domestic Direct Investment (DDI) and FDI combined – from Q1-Q3 2024 totalled IDR1,261 trillion (around USD81.6 billion), which increased by almost 20% YoY and represented 76.4% of the President's targeted 2024 investment realisation of IDR1,650 trillion (around USD106.8 billion).⁴⁸

As a developing country, Foreign Direct Investment (FDI) is an important source of capital and contributes to national development through the transfer of assets, management, and technology to stimulate the country's economy. In 2023, FDI in West Java led with USD8.3 billion, or 16% of national FDI realisation by province, followed by Central Sulawesi with USD7.2 billion or 14%. For FDI realisation in Q1-Q3 2024, West Java still led, followed by Central Sulawesi, as shown in **Figure 10**. Furthermore, in terms of FDI realisation based on origin of investment, in 2023 Singapore was the largest investor in the country with an investment value worth USD15.3 billion, which was followed by China at USD7.4 billion. The largest investments in 2023 were in Basic Metal, Metal Goods, Non-Machinery and Equipment with a value of USD11.8 billion or 23% of total direct investment. These conditions did not change significantly until Q3 2024 as shown in **Figures 11 and 12**.

The downstream policy, which is key to investment growth as it increases value-added and job creation, significantly affected the performance of investment realisation up to Q3 2024.⁴⁹ The government of Indonesia is placing great focus on downstream industry (*hilirisasi*) activities, which is expected to create lucrative advantages for Indonesia in achieving the Golden Indonesia 2045 Vision. As shown in **Figure 13**, the downstream sector has generated IDR262.3 trillion (around USD17 billion) from Q1-Q3 2024, which accounts for 21.6% of the total investment realisation in the period.

⁴⁵ "Pembiayaan APBN Tetap On Track: Lindungi Masyarakat dan Jaga Stabilitas". Ministry of Finance of RI. 26 September 2024.

⁴⁶ "Utang Luar Negeri RI Tembus Rp6.577,5 T per Agustus 2024". CNN Indonesia. 14 October 2024.

⁴⁷ "APBN KITA October 2023". Ministry of Finance of RI. August 2023.

⁴⁸ "Perkembangan Realisasi Investasi Triwulan III dan Januari-September 2024". Ministry of Investment and Downstream Industry of RI. 15 October 2024.

⁴⁹ "Rosan: Realisasi Investasi Terus Bertumbuh, Indonesia Konsisten Jalankan Hilirisasi". Ministry of Investment and Downstream Industry of RI. 21 October 2024.

Figure 10: FDI realisation based on province (in USD million)

| Province | 2022 | | 2023 | | 2024 | |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Investment Value | % of Total Value | Investment Value | % of Total Value | Investment Value | % of Total Value |
| West Java | 6,535 | 14% | 8,283 | 16% | 7,450 | 17% |
| Central Sulawesi | 7,486 | 16% | 7,244 | 14% | 6,369 | 15% |
| DKI Jakarta | 3,744 | 8% | 4,830 | 10% | 6,124 | 14% |
| North Maluku | 4,488 | 10% | 4,998 | 10% | 3,541 | 8% |
| Banten | 3,411 | 7% | 4,451 | 9% | 3,201 | 7% |
| East Java | 3,134 | 7% | 4,740 | 9% | 2,767 | 6% |
| Riau | 2,749 | 6% | 2,042 | 4% | 1,172 | 3% |
| South Sulawesi | 1,226 | 3% | 337 | 1% | 246 | 1% |
| Central Java | 2,362 | 5% | 1,564 | 3% | 1,664 | 4% |
| Other Provinces | 11,472 | 25% | 11,779 | 23% | 11,093 | 25% |
| Total Investment Value | 46,605 | 100% | 50,268 | 100% | 43,627 | 100% |

Source: Ministry of Investment and Downstream Industry of RI, "Perkembangan Realisasi Investasi Triwulan III dan Januari-September 2024", 15 October 2024.

Figure 11: FDI realisation by origin of investment (in USD million)

| Origin of Investment | 2022 | | 2023 | | 2024 (Q1-Q3) | |
|-------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Investment Value | % of Total Value | Investment Value | % of Total Value | Investment Value | % of Total Value |
| Singapore | 13,281 | 29% | 15,355 | 31% | 14,355 | 33% |
| China | 8,226 | 18% | 7,438 | 15% | 5,779 | 13% |
| Hongkong | 5,514 | 12% | 6,504 | 13% | 6,056 | 14% |
| Japan | 3,563 | 8% | 4,639 | 9% | 2,520 | 6% |
| USA | 3,026 | 7% | 3,283 | 7% | 2,822 | 6% |
| Malaysia | 3,343 | 7% | 4,060 | 8% | 2,722 | 6% |
| South Korea | 2,298 | 5% | 2,543 | 5% | 2,429 | 6% |
| Netherlands | 1,220 | 3% | 1,258 | 3% | 1,136 | 3% |
| Others | 5,133 | 11% | 5,187 | 10% | 5,807 | 13% |
| Total Investment Value | 45,605 | 100% | 50,267 | 100% | 43,627 | 100% |
| Total Investment Value | 46,605 | 100% | 50,268 | 100% | 43,627 | 100% |

Source: Ministry of Investment and Downstream Industry of RI, "Perkembangan Realisasi Investasi Triwulan III dan Januari-September 2024", 15 October 2024.

Figure 12: FDI realisation based on sector (in USD million)

| Sector | 2022 | | 2023 | | 2024 (Q1-Q3) | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | Investment Value | % of Total Value | Investment Value | % of Total Value | Investment Value | % of Total Value |
| Base Metal, Metal Goods, Non-Machinery, and Equipment | 10,961 | 24% | 11,787 | 23% | 10,186 | 23% |
| Transportation, Warehouse, and Telecommunication | 4,125 | 9% | 5,615 | 11% | 3,977 | 9% |
| Chemical and Pharmaceutical Industry | 4,506 | 10% | 4,805 | 10% | 3,225 | 7% |
| Mining | 5,145 | 11% | 4,715 | 9% | 3,860 | 9% |
| Paper and Printing Industry | 1,630 | 4% | 3,431 | 7% | 2,650 | 6% |
| Electricity, Gas, and Water Supply | 3,763 | 8% | 2,742 | 5% | 1,841 | 4% |
| Housing, Industrial Estate, and Office Building | 3,015 | 7% | 2,575 | 5% | 2,336 | 5% |
| Food Industry | 2,425 | 5% | 2,263 | 5% | 2,196 | 5% |
| Others | 10,037 | 22% | 12,334 | 25% | 13,355 | 31% |
| Total Investment Value | 46,605 | 100% | 50,267 | 100% | 43,627 | 100% |

Source: Ministry of Investment and Downstream Industry of RI, "Perkembangan Realisasi Investasi Triwulan III dan Januari-September 2024", 15 October 2024.

Figure 13: FDI realisation based on downstream industry

| Industry/sectors | Investment Value (IDR) | Investment Value (USD)* |
|---|------------------------|-------------------------|
| Mineral | | |
| Smelter | | |
| Comprises of Nickel, Bauxite, and Copper with the following investment value: | | |
| Nickel | 113.7 trillion | USD7.3 billion |
| Bauxite | 1 trillion | USD0.06 billion |
| Copper | 45.7 trillion | USD2.9 billion |
| Total Value from Smelter | 160.4 trillion | USD10.4 billion |
| Agriculture | | |
| CPO/Oleochemical | 44 trillion | USD2.8 billion |
| Forestry | | |
| Pulp and Paper | 33.7 trillion | USD2.2 billion |
| Oil & Gas | | |
| Petrochemical | 17.4 trillion | USD1.1 billion |
| Electric Vehicle (EV) Ecosystem | | |
| EV Battery | 6.8 trillion | USD0.4 billion |
| Total Investment Value | 262.3 trillion | USD17 billion |

*Based on October 2024 exchange rate (USD1 = IDR15,463.50)

Source: Ministry of Investment and Downstream Industry of RI, "Perkembangan Realisasi Investasi Triwulan III dan Januari-September 2024", 15 October 2024.

Sovereign credit ratings and ease of doing business

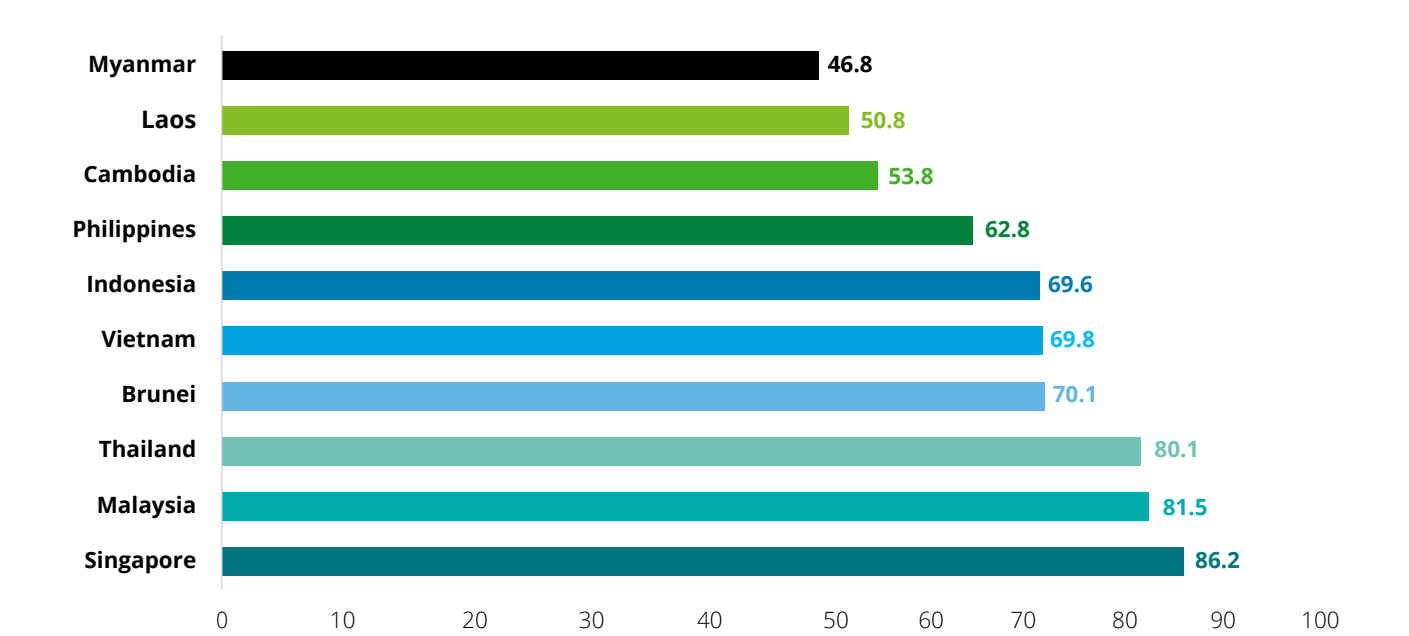
Indonesia’s sovereign bonds remain attractive to investors. The sovereign bonds were rated investment grade by major credit ratings agencies after Indonesia’s outlook were revised to negative in April 2020 amid COVID-19. In 2024, Fitch Ratings and S&P assessed Indonesia’s sovereign credit ranking to remain BBB with a stable outlook. These ratings, as summarised in **Figure 14**, reflect Indonesia’s resilience to the global crises, improving government and external credit-metrics, and an ability to manage domestic political challenges to the reform agenda.

Figure 14: Indonesia sovereign credit ranking⁵⁰

| Rating agency | Rate | Outlook | Date |
|--|------|----------|----------------|
| Fitch Ratings | BBB | Stable | March 2024 |
| Standard and Poor's | BBB | Stable | July 2024 |
| Rating and Investment Information Inc. | BBB+ | Positive | September 2024 |
| Japan Credit Rating Agency | BBB+ | Stable | March 2024 |
| Moody's Investor Service | Baa2 | Stable | April 2024 |

Furthermore, according to Statista Research Department, Indonesia ranked sixth in terms of Ease of Doing Business (EODB) in ASEAN countries with a score of 69.6 in 2020. During the same year, Singapore ranked first with a score of 86.2. The table below indicates the EODB rankings for all Southeast Asia countries based on their respective index scores.⁵¹

Figure 15. Southeast Asia Ease of Doing Business (EODB) in 2020, by index score



Source: Statista, 2021.

⁵⁰ "Updates on Indonesia Sovereign Credit Rating". Financial Services Authority of RI (OJK). 1 October 2024.

⁵¹ "ASEAN: Ease of Doing Business (EODB) Score 2020". Statista.com. 2021.

Hot spots for investment

Indonesia has a well-balanced economy, in which all major sectors play an important role. Agriculture historically has been the dominant sector in terms of both employment and output. The country has a vast range of mineral resources, which have been exploited over the past decades, enabling the mining sector to make an important contribution to Indonesia's balance of payments. Indonesia also has a well-diversified trading economy. From January to September 2024, the country's largest exporter is the manufacturing industry, followed by coal and other mining products, oil and gas products, and agriculture, forestry, and fishery products.⁵²

Following leadership transition, Indonesia's investment priorities show no significant changes. **Figure 16** shows the 9 investment priority focus of the Ministry of Investment and Downstream Industry that is in line with the *Asta Cita*. Additionally, the Ministry of Investment and Downstream has announced 81 projects ready-to-offer to investors with the pre-feasibility study. These include projects in manufacturing (39 projects), food and agriculture (14 projects), tourism (13 projects), infrastructure (9 projects), industrial estate (4 projects), and renewable energy (2) sectors.⁵³

Figure 16: The 9 investment priorities of Indonesia⁵⁴

| Investment Priority | Potential Opportunity Examples |
|---|--|
|  New and Renewable Energy (NRE) | <ul style="list-style-type: none"> Total NRE potential in Indonesia: 3.687 GigaWatts (GW); Installed capacity: 13.1 GW. NRE breakdown: Hydro: 95 GW, Solar: 3.294 GW, BioEnergy: 57 GW, Wind: 155 GW, Geothermal: 23 GW, and Tidal: 63 GW. |
|  Downstream Industry | <ul style="list-style-type: none"> Investment opportunity worth USD618 billion from 28 downstream industry commodities in 2023-2040. Commodities such as: nickel, copper, bauxite, tin, petrochemical, fertilizer, CPO, sugarcane, seaweed. |
|  Food Security | <ul style="list-style-type: none"> Investment in rice estate, sugar, and bioethanol in Merauke Regency, South Papua |
|  Semiconductor | <ul style="list-style-type: none"> Raw materials availability for the upstream semiconductor industry: Silica, Gallium, Copper, Bauxite, and Gold. |
|  Digital Economy and Data Centre | <ul style="list-style-type: none"> Indonesia's digital economy market is projected to reach USD210-360 billion by 2030, with a growth rate of 5.9% (2024-2029). Current installed capacity (as of November 2024) is 430 MegaWatts (MW) from a potential of 2.7 GigaWatts (GW). |
|  Export-oriented Manufacturing Industry | <ul style="list-style-type: none"> Potential to enter the global supply chain (Global Value Chain/GVC). |
|  Healthcare | <ul style="list-style-type: none"> Investment opportunities in pharmaceutical industry, medical devices, and healthcare services. Special Economic Zone for health sector in Sanur, Bali. |
|  IKN Nusantara | <ul style="list-style-type: none"> Investment in housing, education, healthcare, eco-friendly transportation, commercial areas, and digital infrastructure. Tax Holiday for 30 years, ease of licensing, building rights (HGU) for 95 years – and can be extended. |
|  Education and Vocational | <ul style="list-style-type: none"> Super tax deduction of 200% for investments in the Vocational Education sector. Special Economic Zone for Education in BSD, Banten. |

Downstream industry is expected to hold significant importance for Indonesia's economy in the following years, along with investment in the energy and food sectors. This is in line with President Subianto's goal for an energy- and food-sufficient Indonesia. Consumer goods, farming and agriculture, transportation, and logistics sectors are expected to benefit from the Free Nutritious Meal program. Meanwhile, the development of Indonesia's New Capital City (IKN) Nusantara is still listed as the investment priority of the new government. In addition to the 10 investment priorities, below is the sectors that hold promising investment potential in Indonesia.

⁵² "Berita Resmi Statistik 15 Oktober 2024". Statistics Indonesia (BPS). 15 October 2024.

⁵³ "Potensi Investasi Regional". Ministry of Investment and Downstream Industry of RI.

⁵⁴ "The Business and Investment Landscape in Indonesia". Nurul Ichwan (Deputy Minister for Investment Promotion of Ministry of Investment and Downstream Industry of RI). Presented at 2024 Deloitte Annual Entrepreneur Summit Southeast Asian Edition. 5 November 2024.

• Investment in infrastructure sector

To support connectivity, employment, and economic growth across the archipelago, the National Strategic Projects (PSN) managed by the Committee for the Acceleration of Priority Infrastructure Delivery (KPPID), which began during the Jokowi administration, will continue. Under President Jokowi's administration, between 2016 and 2024 a total of 198 National Strategic Projects (PSN) were executed. With 2.7 million employments absorbed, the estimated national investment realisation of the finished PSN was IDR1,614 trillion. The Coordinating Ministry for Economic Affairs mentioned that by 2024 the goal is to complete 41 PSNs with a total value of IDR554 trillion. These projects include the development of the transportation sector (airports, railroads, ports), as well as critical minerals (nickel, copper, alumina bauxite, and iron sand downstreaming).⁵⁵

Of the total PSNs that have been completed, there are 43 PSNs with an estimated value of IDR1,427.36 trillion that will be inherited by the Subianto administration. These PSNs consist of 32 toll road projects, 5 dam projects, 2 irrigation projects, 1 raw water project, 1 Drinking Water Supply System (SPAM) project, 1 sanitation project, and 1 industrial estate project. The viability of these projects is mostly determined by the new government's priorities as well as the nation's political, economic, and financial circumstances.⁵⁶ In addition, President Jokowi has established 16 new PSNs consisting of 14 projects and 2 programmes, with an estimated IDR1,449 trillion in investment. Most of these initiatives are intended to be funded by the private sector or the government cooperation scheme with business entities (PPP), rather than by the state budget (APBN).⁵⁷

President Subianto, with his vision of national food and energy self-sufficiency amid the ongoing global uncertainty, instructed to formulate downstream programmes for 26 key commodities. In terms of infrastructure, the focus of development in the Subianto administration includes the Giant Sea Wall project, revitalising schools, upgrading class D regional public hospitals (RSUD) to class C, building dams and agricultural irrigation systems to support the food resilience programme, as well as a target of building 3 million houses per year, consisting of 2 million houses in rural areas and 1 million houses in urban areas.⁵⁸

• New State Capital – Ibu Kota Negara Nusantara project

In 2022, the new State Capital project called IKN or Ibu Kota Negara Nusantara was added to the list of the government's priority projects.⁵⁹ IKN project was first introduced in 2019 by Jokowi's second administration and is targeted to be completed in 2045. Located in East Kalimantan, the government envisions IKN to be "Indonesia's superhub" as well as the centre of Indonesia's government. According to the IKN Authority Body, the whole project will cover an area of 256,000 hectares and utilise around IDR466 trillion worth of funding over the period to 2045, for which the government greatly welcomes foreign investment. IKN adopts green and smart city concepts, to which 5G will be a prominent backbone for the city. 5G's low latency, great bandwidth, and high speed will benefit IKN as a smart city. The city will also implement fixed broadband and mobile broadband fully run with 5G, as stated in the government's telecommunications infrastructure design master plan of IKN.⁶⁰

Picture 2. Conceptual design of IKN



Source: The Jakarta Post, 2022.

⁵⁵ "Pemerintah Klaim Tuntaskan 198 Proyek Strategis Nasional Selama 2016-2024". Kompas.com. 14 May 2024.

⁵⁶ "Begini Nasib 43 PSN Warisan Jokowi untuk Prabowo". Kontan.co.id. 2 October 2024.

⁵⁷ "Untung-Rugi Warisan PSN Jokowi". Koran.tempo.co. 16 May 2024.

⁵⁸ "Presiden Prabowo Tegaskan Sinergi Program Kerja dan Hilirisasi Komoditas untuk Masa Depan Indonesia". Presiden.go.id. 23 October 2024.

⁵⁹ "Jokowi Tetapkan IKN Jadi Proyek Strategis Nasional". CNN Indonesia. 06 September 2022.

⁶⁰ "Kemenkominfo Siapkan Infrastruktur Telekomunikasi di IKN Nusantara". BeritaSatu.com. 20 January 2022.

In late August 2022, the Ministry of Public Works and Housing (*Pekerjaan Umum dan Perumahan Rakyat* or PUPR) began Phase 1 development of IKN Nusantara, comprising 19 projects worth a total of IDR5.3 trillion.⁶¹ The development of IKN Nusantara is divided into five phases, which began in 2022 and are targeted to be completed in 2045. Each phase is comprised of different goals:⁶²

Phase 1 development (2022-2024)

Comprises basic infrastructures such as toll roads, State Palace, presidential office, government housings, clean water access, and Sepaku Semoi dam.

Phase 2 development (2025-2029):

Fully operational public transportation modes, expanding housing for civil servants, and transferring of civil servants to IKN.

Phase 3 development (2030-2034)

Development of integrated airport access, continuing the transfer of police/military personnel, and strengthening economic superhubs and smart city elements.

Phase 4 development (2035-2039)

Strengthening education, health care, and socio-cultural sectors, increasing education and research agency capacities, and increasing basic infrastructures as the population rises.

Phase 5 development (2040-2045)

Development of railways access to IKN for the surrounding districts, finalisation of integrated infrastructure, achieving NZE and high usage of New and Renewable Energy (NRE), and further developing sustainable industries.

As stated in President Subianto and Vice President Rakabuming's *Asta Cita*, **the development of IKN Nusantara will continue** in their administration. This was further emphasised by President Subianto during the ministerial retreat of his cabinet. The Subianto administration aims to complete the development of IKN Nusantara infrastructures by 2028.⁶³ Additionally, Basuki Hadimuljono, who served as the Minister of Public Works and Housing from 2014-2024, was appointed by the Subianto administration as the new Head of IKN Authority Body (OIKN).⁶⁴

As of August 2024, there are 472 investors that have stated their Letter of Interest (LoI) to invest and cooperate in IKN Nusantara development. About 220 investors have been verified by the government, and some have begun their groundbreaking move into IKN Nusantara development, with the primary focus on complementing the infrastructure development that the Ministry of Public Works and Housing has been working on.⁶⁵ This includes infrastructures like hospitals, hotels, shopping centres, and sports facilities. Foreign investments mainly come in the form of Public Private Partnership (PPP) and direct investment.

As of early November 2024, there have been eight groundbreaking activities conducted by the investors – and there are investors still lining up to invest in IKN Nusantara development.⁶⁶ For instance, Singapore's Sembcorp Utilities Pte Ltd is looking to invest in solar panel development in IKN Nusantara, which is worth IDR987 billion, among others.⁶⁷ The Ministry of Investment ensures that Indonesian State-owned Enterprises (SoEs) and private investors can cooperate smoothly without the need to compete with one another and that Indonesia has a promising economic development.

⁶¹ "Ministry begins Rp5.3-trillion first phase of IKN development". AntaraNews.com. 29 August 2022.

⁶² "Terencana dan Terukur, Pembangunan IKN Tahap I Tuntas 2024". Kompas.com. 14 April 2024.

⁶³ "Bagi Prabowo, IKN Merupakan Ibu Kota Politik". Kompas.com. 28 October 2024.

⁶⁴ "Prabowo Minta Basuki Hadimuljono Pimpin Otorita IKN". Detik.com. 31 October 2024.

⁶⁵ "Jokowi Bilang Ada 472 Investor Antre Masuk IKN, 220 Sudah Diverifikasi". CNBC Indonesia. 13 August 2024.

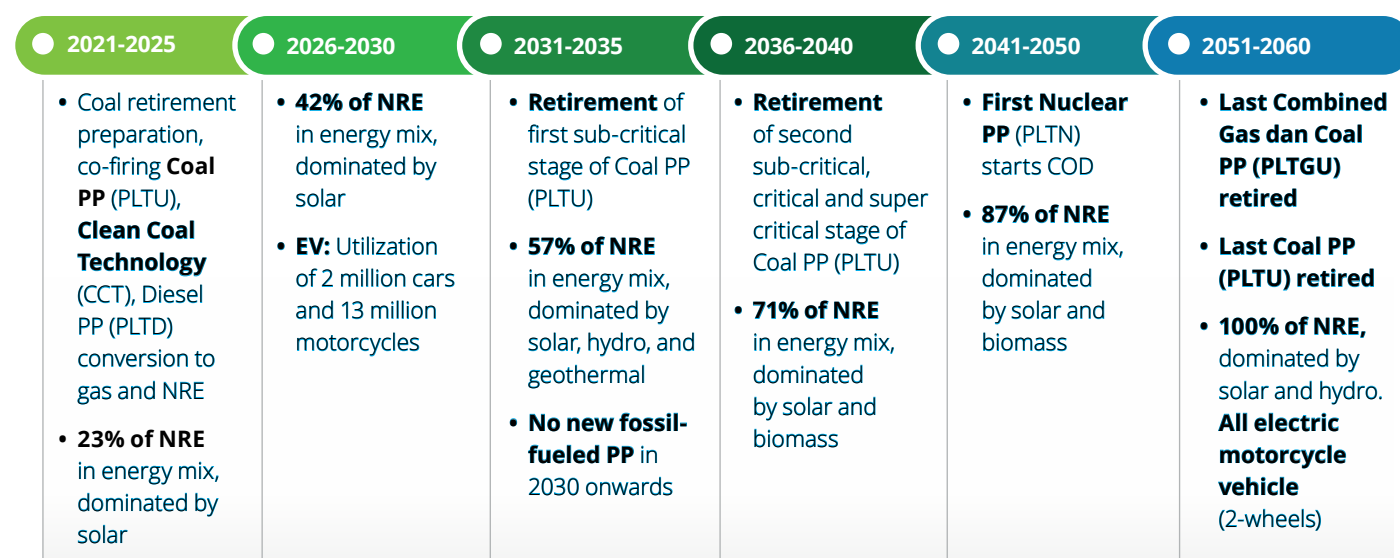
⁶⁶ "OIKN Yakini Prabowo Groundbreaking Proyek di IKN Tahun Ini". CNN Indonesia. 31 October 2024.

⁶⁷ "Five foreign investors keen to invest USD165 mln in Nusantara". ANTARA News. 24 September 2024.

Investment in New and Renewable Energy (NRE)

Indonesia is taking serious action in achieving its net zero emission targets by 2060 and commit to clean and renewable energy transition. This is supported by the enactment of **Perpres No. 112/2022** on the Acceleration of Renewable Energy Development for Electricity Power Provision in Indonesia and the Ministry of Energy and Mineral Resources' commitment to **ease green investment regulatory matters in Indonesia**. In addition, the new Subianto administration envisioned an energy-sufficient Indonesia for the next five years, which will require the acceleration of green energy power source development. The government has developed a specific roadmap for green energy transition towards 2060, which can be seen in **Figure 17**.

Figure 17: Indonesia's roadmap for green energy transition⁶⁸



Source: Ministry of Investment and Downstream Processing, 2021.

As a start, State Electric Company (*Perusahaan Listrik Negara* or PLN) promotes green investment in Indonesia, accelerating the "early retirement phase" of several Steam (or coal-fired) Power Plants (*Pembangkit Listrik Tenaga Uap* or PLTU) and decommissioning fossil-based power plants periodically to be replaced by renewable energy (*Energi Baru dan Terbarukan* or EBT) power plants.⁶⁹ Several countries and institutions have shown interest in investing in PLN's PLTU early retirement program, the waste-to-energy power plant (*Pembangkit Listrik Tenaga Sampah* or PLTSa) establishment program, and the renewable energy development program. Makassar city, for example, has attracted a China-based NRE company to invest in PLTSa development for the city, with the project worth USD200 million.⁷⁰ Meanwhile, in the Business Plan for Providing Electricity (*Rencana Usaha Penyediaan Tenaga Listrik* or RUPTL), the government is targeting 60 gigawatts (GW) of New and Renewable Energy (NRE) power plant development by 2040.⁷¹

PLN has attracted and received funding worth USD750 million from eight multinational banks for Indonesia's green energy transition projects, as well as signing an MoU with Japan International Cooperation Agency (JICA) on green energy transition acceleration studies in Indonesia.⁷² During the 2022 G20 Presidency, Indonesia received USD20 million worth of funding from the Just Energy Transition Partnership (JETP) for green and renewable energy transition-related projects, such as PLTU early retirement projects and investment in green and renewable energy technology and industry.⁷³ ADB has also agreed to contribute to Indonesia's PLTU early retirement projects. Through the Energy Transition Mechanism (ETM), ADB will cooperate with PLN in decommissioning the 660-megawatt Cirebon-1 PLTU plant, aiming to reduce CO2 emissions in the Asia Pacific region.⁷⁴

⁶⁸ "Investment Opportunities & Policy in Indonesia". Nurul Ichwan (Deputy Minister for Investment Promotion of Ministry of Investment and Downstream Industry of RI). Presented at Deloitte Indonesia Chinese Services Group Annual Seminar 2024. 24 October 2024.

⁶⁹ "Berjibaku Padamkan PLTU". Bisnis Indonesia. 19 October 2022.

⁷⁰ "Kemenko Marves Sambut Positif Penandatanganan Perjanjian Kerja Sama PSEL Kota Makassar". Coordinating Ministry for Maritime and Investment Affairs. 24 September 2024.

⁷¹ "Tren Energi Hijau Penopang Rapor Biru". Business Insight. 12 September 2023.

⁷² "PLN Peroleh Pembiayaan USD 750 Juta untuk Proyek Transisi Energi Hijau". Investor Daily. 04 November 2022.

⁷³ "RI Dapat Dana Transisi Energi dari G20 Rp 300 Triliun, Pegiat Lingkungan Soroti soal Pensiun Dini PLTU Batu Bara". Kompas.com. 16 November 2022.

⁷⁴ "Indonesia finalizes early retirement package for 660-MW coal plant". Antara News. 5 May 2024.

Aside from decommissioning coal-based power plants, Indonesia, through its State-owned Enterprise (SoE), Pertamina New & Renewable Energy, has secured cooperation with ACWA Power – an electricity company from Saudi Arabia – to develop a clean energy electricity power plant under the Grass Root Refinery and Petrochemical project.⁷⁵ Additionally, Indonesia launched its Cirata floating solar photovoltaics (PV) (*Pembangkit Listrik Tenaga Surya* (PLTS) Cirata), the biggest floating solar PV in Southeast Asia and the third biggest in the world. This project is worth IDR1.7 trillion and is a result of PLN's cooperation with a clean energy company from the United Arab Emirates (UAE).⁷⁶ The Indonesian government has also been accelerating the enactment of laws and regulations on green and renewable energy, as well as introducing tax incentives for green and renewable energy developments in Indonesia – particularly for power plants.

Indonesia offers great prospects for NRE-based investments, as emphasised by the Ministry of State-owned Enterprises (*Badan Usaha Milik Negara* or BUMN). For example, Indonesia possesses huge potential in geothermal energy with up to 23.8 gigawatts (GW) worth of potential – the second largest in the world. By 2030, the government aims to develop renewable energy power plants with a total capacity of up to 20.9 GW, and at a total estimated investment of about USD55.2 billion. Hydroelectric power plant holds the largest renewable energy potential in Indonesia, followed by solar, and then geothermal.⁷⁷

Indonesia is also abundant in uranium and thorium, elements that are utilised to fuel nuclear power. Despite being geographically located in the “**Ring of Fire**”, the development of nuclear power plants (*Pembangkit Listrik Tenaga Nuklir* or PLTN) in Indonesia is still safe and possible according to National Research and Innovation Agency's (*Badan Riset dan Inovasi Nasional* or BRIN) assessment, specifically in West and East Kalimantan.⁷⁸ Nuclear-based clean energy has become a top energy priority that Indonesia aims to further develop to achieve its energy sufficiency.⁷⁹ As Indonesia welcomes investors in nuclear energy development, PLN states that there are investors from Russia, US, and China and foreign energy companies that have shown interest in nuclear energy development in Indonesia. In October 2024, Indonesia secured a cooperation with Canada on small-scale nuclear reactor technology development – Small Modular Reactor (SMR).⁸⁰ Not just on NRE, the government is also continuously improving the regulations to support nuclear energy development in Indonesia. Hence, investing in clean and renewable energy projects is expected to be a worthwhile option for investors in the coming years.

• Carbon investment

Carbon trading

Indonesia has ratified the Paris Agreement and aims to reduce greenhouse gas (GHG) emissions by 29% unconditionally (with independent effort) and 41% conditionally (with international support) by 2030. However, the government increased the targets to 31.9% with independent effort and 43.2% with international support.⁸¹ In their bid to achieve the targets, the government developed carbon trading mechanism and its supporting regulations. Carbon trading is regulated under Financial Services Authority Regulation No. 14/2023 on Carbon Trading (POJK No. 14 *Tahun 2023 tentang Perdagangan Karbon*). The Carbon Exchange is fully managed and operated by Indonesia Stock Exchange (IDX) Carbon, as mandated by OJK.

On the carbon exchange, the units traded are Greenhouse Gas Emission Reduction Certificate (SPEGRK) and Technical Approval of Business Actor Emission Upper Limits (PTBAE-PU) recorded in the National Climate Change Control Registry System (PPI SRN) by the Ministry of Environment.⁸² In contrast to international exchanges that regard carbon units as commodities, Indonesia's carbon market offers carbon units as securities. Although this goes against the idea of “retired carbon,” which states that carbon units should only be used once to cut emissions, it permits the management of carbon units as securities that may be resold in the form of derivatives.⁸³

⁷⁵ “RI Ketiban Durian Runtuh di KTT G20 Bali, Nih Rinciannya!”, CNBC Indonesia. 17 November 2022.

⁷⁶ “Ini Dia 7 PLTS Terapung Terbesar Dunia, RI Nomor Berapa?”, CNBC Indonesia. 13 November 2023.

⁷⁷ “Swasta Dilibatkan dalam Proyek EBT Rp 861,6 Triliun”, Investor Daily. 26 October 2022.

⁷⁸ “Dukung Program NZE 2060, Keberadaan PLTN Dinilai Layak Diperhitungkan”, Investor Daily. 25 October 2022.

⁷⁹ “Pemerintah Dorong Investasi Sektor EBT”, Media Indonesia. 04 November 2022.





⁸⁰ “Menyeriusi Tenaga Nuklir”, Bisnis Indonesia. 15 October 2024.

⁸¹ “Lampaui Target, Realisasi Penurunan Emisi 2022 Capai 91,5 Juta Ton”, Ministry of Energy and Mineral Resources of RI. 30 January 2023.

⁸² “OJK Beberkan Mekanisme Pengawasan Perdagangan Karbon”, Bisnis.com. 13 September 2023.

⁸³ “Mengenal Bursa Karbon Indonesia (Indonesia Carbon Exchange) dan Tantangannya di Masa Depan”, Ministry of Finance of RI. 17 September 2024.

There are four market mechanisms that is available in the carbon exchange:⁸⁴

| | |
|--|---|
|  | <p>Regular market</p> <p>In this market, like stock trading in general, service users can submit bids and asks.</p> |
|  | <p>Auction market</p> <p>This market is a one-way sale from the project owner, such as an initial public offering of shares or initial public offering/IPO. In this scheme, the carbon units auctioned will be determined by the regulator. Similar to stock trading, sellers and buyers will set a price starting from IDR1 and beyond until the price is formed.</p> |
|  | <p>Negotiation market</p> <p>Gives companies the opportunity to sell the certificate directly to potential buyers. Sales are made based on the number of units, like lots on shares.</p> |
|  | <p>Marketplace market</p> <p>Just like in regular marketplace, projects can be shown, and buyers can submit their bids. However, buying and selling on the Marketplace is carried out as a whole, based on the project that will be carried out by a company. The difference with other markets is that the prices listed are fixed, so there is no haggling.</p> |

One year after its establishment, Indonesia's carbon trading recorded a carbon transactions volume of 613.7 tons of CO₂ emissions in a year, exceeding that of Malaysia's (190.3 tons of CO₂ emission) and Japan's (502.8 tons CO₂ emissions). In the same period, the IDX Carbon recorded domestic carbon exchange service users reaching 81 users, with a retirement of 420 tons of CO₂ emission from 322 beneficiaries. The IDX Carbon also has three projects in the energy sector through Greenhouse Gas Emission Reduction Certificate (SPE GRK) worth 1.3 million tons of CO₂ emission.⁸⁵ In the years ahead, the government of Indonesia aims to focus on harmonising Indonesia's carbon certification by with the global standards to provide seamless carbon trading experience for investors.

Carbon Capture and Storage (CCS)/Carbon Capture, Utilisation, and Storage (CCUS)

Aside from carbon exchange, Indonesia will be able to provide Carbon Capture and Storage (CCS) and Carbon Capture, Utilisation, and Storage (CCUS) services for industries other than oil and for foreign countries. CCS/CCUS is the process of capturing and storing the carbon produced industry, where carbon is then "injected" underground.⁸⁶ As a note, Indonesia has large carbon storage capability, where the government states that Indonesia has carbon storage capacity amounting to 630 gigatons in depleted reservoirs and saline aquifers. CCS/CCUS is projected to generate USD478 billion to Indonesia's GDP and opens 53,000 employment opportunities by 2050.⁸⁷ With such importance, the government welcomes investment in CCS/CCUS projects.

Indonesia owns around 15 CCS/CCUS projects that is targeted to be ready before 2030. According to the government, Indonesia's CCS/CCUS have captured the interests of investors, with one of the examples are the CCS implementation in Suralaya coal-fired power plant (PLTU) in Banten, West Java, among three others. Indonesia's state-owned electricity company, PLN, has formed cooperation with Japanese-based companies JERA, JGC, and Inpex, as well as Korean-based CCS technology provider, Karbon Korea on CCS implementations in four coal- and gas-based power plants. PLN discovered that its power plants hold 37.6 Gigawatts of capacity that meets the criteria for CCS implementation, and 19 Gigawatts feasible for CCS implementation. In the future, the Company is preparing to implement CCS with the capacity of 2 Gigawatts by 2040 and 19 Gigawatts by 2060.⁸⁸

The government is preparing to open Indonesia's CCS/CCUS for cross-border use. This means that foreign countries can also export their carbon to Indonesia, storing their carbon in Indonesia in exchange for payment. In tandem, the government has issued Presidential Regulation No. 14/2024 on CCS Activities and is accelerating the legalisation of derivative laws on CCS/CCUS to optimise carbon storage activities in Indonesia.⁸⁹

⁸⁴ "Ini yang akan Diperdagangkan di Bursa Karbon", IDX Channel.com. 13 September 2023.

⁸⁵ "Bursa Indonesia Lampaui Malaysia & Jepang", Bisnis Indonesia. 30 September 2024; "Membenahi Bursa Karbon", Bisnis Indonesia. 4 October 2024.

⁸⁶ "Indonesia Bakal Jadi Tempat Penyimpanan Karbon Asing, Regulasi Disiapkan", Investor.id. 11 September 2023.

⁸⁷ "Proyek Gudang Karbon Mulai Diminati Investor", Kontan. 1 August 2024.

⁸⁸ "PLN looks to trial carbon capture at four coal-fired plants", The Jakarta Post. 5 August 2024.

⁸⁹ "Proyek Gudang Karbon Mulai Diminati Investor", Kontan. 1 August 2024.

• Investing in Sharia sector

Indonesia is a member of the Organisation of Islamic Cooperation (OIC) and home to more than 245 million Muslim population as of June 2024, ranking first as the largest country with a Muslim population in the world. Indonesia is placed third in the list of the top 15 countries with a strong Islamic economy by the 2023/24 State of the Global Islamic Economy Report. Along with the other OIC countries, investments in the Sharia economy reached USD25.9 billion in 2022/2023, mostly in Sharia finance, halal food, halal pharmaceuticals and cosmetics, media, and travel and tourism sectors. Indonesia's halal food consumption and Sharia fashion also dominate the global Sharia market, ranking as the first and second largest in the world, respectively.⁹⁰

Indonesia has formed the National Committee for Sharia Economy and Finance (*Komite Nasional Ekonomi dan Keuangan Syariah* (KNEKS)) since November 2016 to further accelerate and strengthen Sharia economic growth in the nation. Through KNEKS, Indonesia is targeting to become a leading Sharia economy and financial global market, while also becoming a leading halal producer in the world.⁹¹ In addition to this vision, Conventional Commercial Banks are also working on separating the Sharia Business Units from their traditional businesses, which will ultimately affect the overall Sharia business. This is regulated under the Financial Services Authority (OJK) Regulation No. 12/2023 on Sharia Business Unit.⁹²

In terms of stock exchange, Sharia products are viewed to be relatively resilient and more stable compared to the conventional ones in supporting Assets Under Management. Sharia also indirectly goes hand-in-hand with Environmental, Social, and Governance (ESG) aspects, which helps attract the demand of the non-Muslim population to invest in Sharia.⁹³ With such importance, investment in the Sharia sector holds great prospects in Indonesia, particularly in Sharia finance, halal food, and halal pharmaceuticals and cosmetics.

4. Regional snapshots

For those who are targeting appropriate locations to invest in or expand current business scope, we have selected the top 10 provinces and present a regional snapshot, by regional GDP on an annual basis and several indicators relevant to foreign investment, such as FDI by value, FDI by number of projects, as well as monthly minimum wage in 10 provinces in the figures below for further reference. As a note, concerning **Figure 21**, the Ministry of Manpower has announced a new formula for 2025 minimum wage calculation, with approximately 6.5% wage increase for 2025.⁹⁴

Figure 18. Top 10 regional demographics*

| Province | Provincial Capital | Area (sq. km) | No. of Islands | No. of Regencies | No. of Cities | Population | Human Development Index |
|-----------------|--------------------|---------------|----------------|------------------|---------------|------------|-------------------------|
| DKI Jakarta | Jakarta | 660.98 | 113 | 1 | 5 | 11,350,328 | 82,46 |
| DI Yogyakarta | Yogyakarta | 3,170.65 | 33 | 4 | 1 | 3,710,229 | 81,09 |
| East Kalimantan | Samarinda | 126,981.28 | 243 | 7 | 3 | 3,970,764 | 78,20 |
| Riau Island | Tanjungpinang | 8,269.71 | 2028 | 5 | 2 | 2,150,329 | 79,08 |
| Bali | Denpasar | 5,590.15 | 34 | 8 | 2 | 4,327,276 | 78,01 |
| North Sulawesi | Manado | 14,500.28 | 353 | 11 | 4 | 2,676,012 | 75,04 |
| Riau | Pekanbaru | 89,935.90 | 144 | 10 | 2 | 6,794,944 | 74,95 |
| Banten | Serang | 9,352.77 | 81 | 4 | 4 | 12,381,098 | 73,77 |
| West Sumatera | Padang | 42,119.54 | 219 | 12 | 7 | 5,701,545 | 75,64 |
| West Java | Bandung | 37,044.86 | 30 | 18 | 9 | 49,572,392 | 74,24 |

*Based on 2023 data.

Source: Statistics Indonesia (BPS), 2023; Dukcapil, 2023.

⁹⁰ "State of the Global Islamic Economy Report 2023/24". DinarSandard. 26 December 2023.

⁹¹ "Gak Main-main, Ini Modal RI Jadi Pusat Industri Halal 2024". CNBC Indonesia. 27 February 2023.

⁹² "Bank yang Mau Spin Off Syariah Mesti Siapkan Rp 1 Triliun". CNBC Indonesia. 26 July 2023.

⁹³ "Minat Produk Syariah Masih Tinggi di 2023". CNBC Indonesia. 27 February 2023.

⁹⁴ "Lengkap! Daftar UMP 2025 di 38 Provinsi Usai Naik 6,5%". Ekonomi.bisnis.com. 2 December 2024.

Figure 19. Top 10 Gross Regional Domestic Product provinces (in IDR billion)

| Province | 2020 | 2021 | 2022 | 2023 | % Of National GDRP 2023 |
|----------------------------|-------------------|-------------------|-------------------|-------------------|-------------------------|
| DKI Jakarta | 2,768,190 | 2,914,581 | 3,186,470 | 3,442,980 | 16% |
| East Java | 2,299,791 | 2,454,499 | 2,730,907 | 2,953,546 | 14% |
| West Java | 2,084,620 | 2,209,822 | 2,422,782 | 2,625,218 | 13% |
| Central Java | 1,347,923 | 1,420,800 | 1,560,899 | 1,696,795 | 8% |
| North Sumatra | 811,188 | 859,871 | 955,193 | 1,026,472 | 5% |
| Riau | 728,650 | 843,211 | 991,590 | 1,050,995 | 5% |
| Banten | 625,979 | 665,922 | 747,250 | 843,571 | 4% |
| East Kalimantan | 607,586 | 695,158 | 921,333 | 814,124 | 4% |
| South Sulawesi | 504,059 | 545,230 | 605,145 | 652,574 | 3% |
| South Sumatra | 456,648 | 491,566 | 591,603 | 629,099 | 3% |
| Total Top 10 | 12,234,635 | 13,100,661 | 14,713,171 | 15,735,374 | 75% |
| Total National GRDP | 15,438,018 | 16,970,789 | 19,588,446 | 20,892,376 | 100% |

Source: Statistics Indonesia (BPS), 2024.

Figure 20. Top 10 regional FDI realisation by investment value (in USD Million)

| Province | 2021 | 2022 | 2023 | 2024 (Q1-Q3) |
|-------------------------------|---------------|---------------|---------------|---------------|
| West Java | 5,218 | 6,535 | 8,284 | 7,450 |
| Central Sulawesi | 2,718 | 7,486 | 7,244 | 6,369 |
| DKI Jakarta | 3,331 | 3,744 | 4,830 | 6,124 |
| North Maluku | 2,820 | 4,488 | 4,998 | 3,541 |
| Banten | 2,190 | 3,411 | 4,452 | 3,201 |
| East Java | 1,849 | 3,134 | 4,741 | 2,767 |
| Riau | 1,921 | 2,749 | 2,042 | 1,172 |
| South Sumatera | 1,260 | 1,226 | 1,479 | 924 |
| Central Java | 1,466 | 2,362 | 1,564 | 1,664 |
| North Sumatera | 580 | 1,316 | 1,181 | 1,022 |
| Total Top 10 | 24,618 | 36,491 | 40,967 | 34,234 |
| Total Investment Value | 31,093 | 45,605 | 50,268 | 43,627 |

Source: Statistics Indonesia (BPS), 2024; Ministry of Investment and Downstream Industry of RI, 2024.

Figure 21. Top 10 regional FDI realisation by number of projects

| Province | 2021 | 2022 | 2023 | 2024 (Q1-Q3) |
|---------------------------|---------------|---------------|---------------|---------------|
| DKI Jakarta | 7,620 | 15,921 | 20,028 | 26,626 |
| Bali | 2,798 | 8,179 | 16,282 | 23,929 |
| West Java | 5,244 | 12,419 | 10,512 | 12,290 |
| Banten | 1,939 | 4,364 | 4,775 | 6,310 |
| East Java | 1,815 | 4,311 | 3,913 | 4,703 |
| Central Java | 1,293 | 3,087 | 3,021 | 3,759 |
| Riau Islands | 992 | 2,144 | 1,753 | 2,240 |
| North Sumatera | 690 | 1,613 | 1,253 | 1,348 |
| West Nusa Tenggara | 824 | 1,491 | 1,571 | 2,111 |
| East Kalimantan | 428 | 1,005 | 822 | 983 |
| Total Top 10 | 23,643 | 54,534 | 63,930 | 84,299 |
| Total FDI Projects | 27,271 | 63,080 | 70,898 | 92,275 |

Source: Statistics Indonesia (BPS), 2024; Ministry of Investment and Downstream Industry of RI, 2024.

Figure 22: Top 10 provincial minimum wage (UMP) per month (in USD)*

| Province | 2021 | 2022 | 2023 | 2024 |
|------------------|------|------|------|------|
| DKI Jakarta | 286 | 307 | 317 | 349 |
| Papua | 223 | 242 | 252 | 277 |
| Central Papua** | - | 242 | 252 | 277 |
| West Papua | 200 | 205 | 219 | 234 |
| Bangka Belitung | 204 | 205 | 228 | 251 |
| North Sulawesi | 207 | 218 | 222 | 244 |
| Aceh | 198 | 214 | 217 | 238 |
| South Sumatera | 197 | 213 | 216 | 238 |
| South Sulawesi | 198 | 212 | 215 | 237 |
| Riau Islands | 191 | 219 | 213 | 234 |
| North Kalimantan | 189 | 204 | 210 | 232 |

*Based on October 2024 exchange rate (USD1 = IDR15,463.50)

**Central Papua was established on 29 July 2022 based on Law No. 15/2022 on the Establishment of Central Papua Province

Source: Ministry of Manpower of RI, 2024; Bisnis.com, 2024; Statistics Indonesia (BPS), 2024.

5. Legal and political system

Civil Law tradition and gradual reform

Indonesia's legal system originated from the laws and practices of the Dutch colonial era, which lasted for approximately 350 (three hundred fifty) years before Indonesia declared independence. The independence era was characterised by policy reforms, a transition from parliamentary democracy to a more centralised system of "guided democracy" (known as "*demokrasi terpimpin*"), nationalisation of Dutch enterprises and the expulsion of Dutch citizens from Indonesia.

During the era of President Soeharto's administration (the so-called "*Orde Baru*" or "*New Order*"), the Indonesian government's attitude towards foreigners underwent a significant change, with a series of policy initiatives and large-scale legal reforms aimed at attracting international investors to improve the country's economy. These efforts were considered to be successful in many areas.

Following the Asian Financial Crisis (1997/1998), Indonesia's government devolved significant political and legal authority to the provinces, regencies and cities. It re-initiated widespread legal reform in an effort to improve government institutions, reduce corruption, improve the country's fiscal and monetary policies and meet other policy goals. The reform period also saw Indonesia successfully transition from an authoritarian state to a democracy, with elections being held in 1999, 2004, 2009, 2014 and 2019 (the latter of which resulted in the re-election of President Jokowi). The next presidential election is scheduled for 2024.

Despite these series of reforms, many of Indonesia's laws and regulations are still based on the Dutch colonial codes that were effective as of independence and remain valid until they are revoked and replaced by new laws or regulations. For example, the Indonesian Civil Code (*Kitab Undang-Undang Hukum Perdata*) remains the foundation of Indonesian law regarding contracts and many general rights and obligations relevant to commercial activities. Aside from the Indonesian Civil Code, the Indonesian Criminal Code (*Kitab Undang-Undang Hukum Pidana*) sets out certain provisions for criminal code and the Indonesian Commercial Code (*Kitab Undang-Undang Hukum Dagang*) has become the foundation of Indonesian law on commercial activities conducted within the Indonesian territory.

Hierarchy of laws and regulations in Indonesia

Set out below is the hierarchy of laws and regulations in Indonesia:

- a. 1945 Constitution (*Undang-Undang Dasar 1945*), which serves as the basic foundation of the state and constitutional arrangements.
- b. Assembly Decree (*Ketetapan MPR*) sets forth a determination of the People's Consultative Assembly.
- c. Law or Government Regulation in Lieu of Law (*Undang-Undang/Peraturan Pemerintah Pengganti Undang-Undang*) regulates subjects that are governed by the 1945 Constitution.
- d. Government Regulation (*Peraturan Pemerintah*) implements laws.
- e. Presidential Regulation (*Peraturan Presiden*) covers subjects mandated by law or the implementation of government regulations.
- f. Provincial Regional Regulation (*Peraturan Daerah Provinsi*) implements principles of regional autonomy and laws, government regulations and presidential regulations in respect of the relevant province.
- g. Regency/Municipality Regional Regulation (*Peraturan Daerah Kabupaten/Kota*) implements principles of regional autonomy and laws, government regulations and presidential regulations in respect of the relevant regency/city.

The abovementioned hierarchy may be used as a reference to resolve issues regarding which regulations should take precedence in the event of a conflict between laws and regulations.

Indonesian law also recognises the following additional sources of law which are not specifically mentioned in the hierarchy, namely: treaties, customs (*adat*), case precedents (civil jurisprudence or *jurisprudensi*) and opinions of legal experts (*doktrin*). Case precedents and expert opinions are only referred to as references for the application of law, rather than as a source of binding legal authority.

National political system

Indonesia is a presidential representative democratic republic, with an independent legislature and judiciary. The main components of the national political system are:

- **President of the Republic of Indonesia:** elected for a five-year term; the President is the head of state, head of Government and head and elector of the Council of Ministers (Indonesia's cabinet), as well as the commander-in-chief of the Indonesian army.
- **People's Consultative Assembly (*Majelis Permusyawaratan Rakyat* or "MPR"):** the highest representative and law-making body that has the power to impeach the president. It is composed of two houses or chambers: the People's Representative Council (*Dewan Perwakilan Rakyat* or "DPR") and the Regional Representatives Council (*Dewan Perwakilan Daerah* or "DPD"). All legislation is passed by the DPR, which also supervises the executive branch. The DPD's authority is limited to regional autonomy-related matters, the relationship between central and local government, formation, expansion and merger of regions, natural resources and other economic resources management, and bills related to the financial balance between the central and the regions.
- **Supreme Court (*Mahkamah Agung*):** the highest-level judicial body in Indonesia. The president appoints the judges of the Supreme Court. All civil disputes appear first before a state court (*Pengadilan Negeri*), before being heard in the high court (*Pengadilan Tinggi*), the intermediate appellate court. Other components of the judiciary include the commercial courts (*Pengadilan Niaga*), which hear bankruptcy and insolvency cases, as well as intellectual property cases; the Industrial relation courts (*Pengadilan Hubungan Industrial*), which examine cases on disputes of rights, interests, termination of employment, and disputes among labour unions within a company. Further, the state administrative courts (*Pengadilan Tata Usaha Negara*), which hear administrative law cases against the government; religious courts (*Pengadilan Agama*) which examine specific religious cases; and military court, which has judicial power in the military.
- **Constitutional Court (*Mahkamah Konstitusi*):** a judicial body authorised to administer constitutional justice in Indonesia. The Constitutional Court has the same position as the Supreme Court and hears disputes concerning the legality of laws, dissolution of political parties, general elections, and the scope of authority of a state institution.
- **Indonesian Cabinet (*Kabinet Indonesia*):** appointed by the President, the Indonesian cabinet is composed of coordinating ministers, departmental ministers, state ministers and certain non-minister positions (attorney general, cabinet secretary, commander of the Indonesian Armed Forces, chief of the Indonesian National Police, chief of presidential staff, head of the national research and innovation agency, and head of the Nusantara capital authority). Both the state ministers and the departmental ministers head ministries with particular regulatory authority over assigned areas.
- **National Ministries, Departments and Bodies:** Implementation of Indonesia's laws and regulations are formulated and carried out by an array of ministries, bodies and agencies, many of which have a sector-specific authority (such as authority to regulate the oil and gas industry) or area-specific authority (such as authority to regulate land use). Some regulators – such as the Ministry of Trade or the Ministry of Industry – have authority over multiple sectors, and overlapping authority is common. Ministries are sub-divided into directorates general, which may have specific authority over a portion of the responsibilities of the ministry.

In addition to the ministries, there are also various national bodies, agencies and institutions including state auxiliary bodies that play important roles in formulating, supervising and implementing government policy.

The reporting lines of these bodies vary: some report directly to the President, others report to a minister and others report to the legislature. Generally, the various national agencies maintain their head offices in Jakarta but may also maintain regional offices. These regional offices should be viewed as distinct from any local government offices operating in the same region. However, the capital city of Indonesia is planned to move from Jakarta to *Ibu Kota Negara* (IKN) Nusantara starting in 2024 parallel with the further development of Nusantara, to which such plan has been determined as set forth under Law No. 3 of 2022 on Capital City.

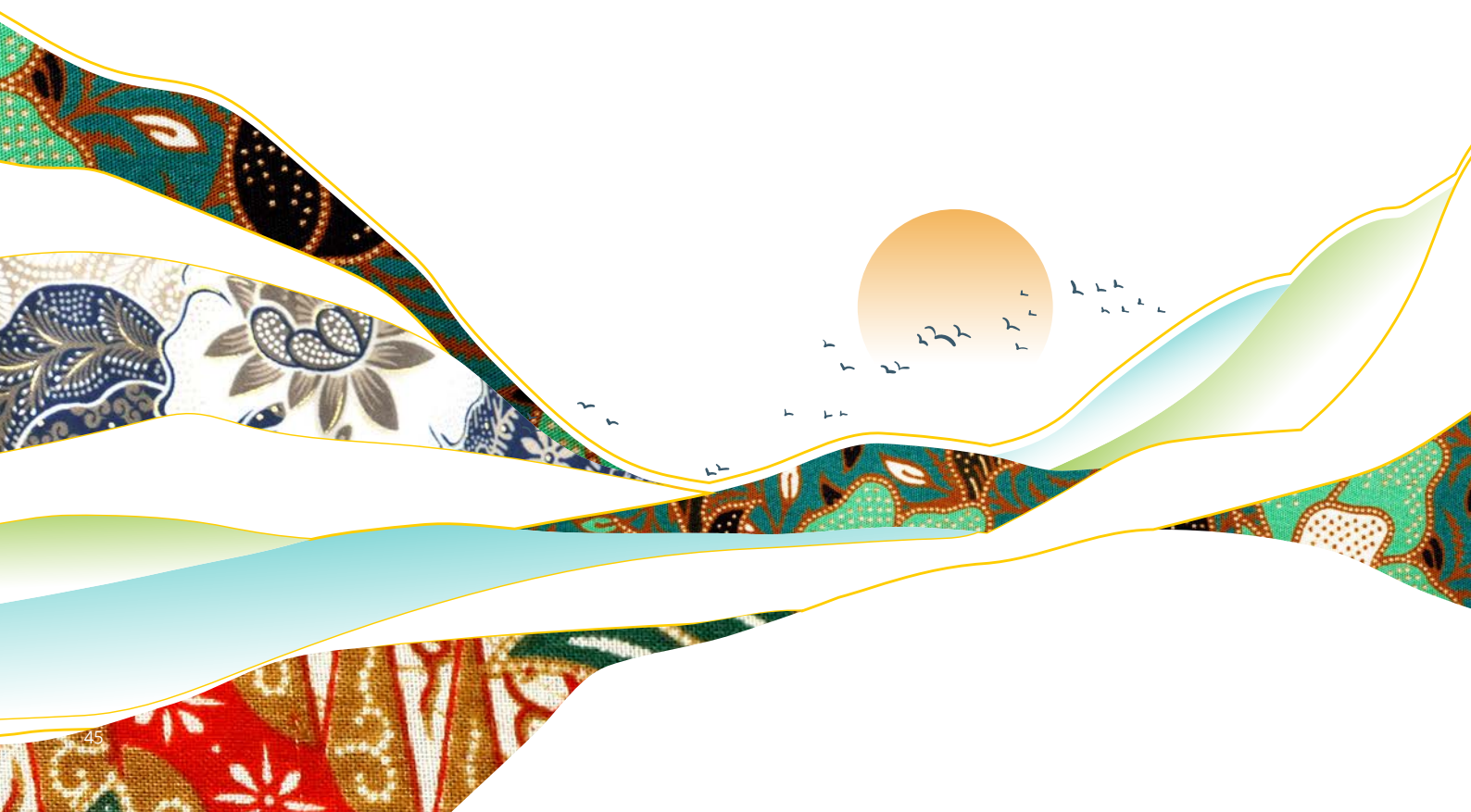
Local governments and local autonomy

The local government (*pemerintah daerah*) refers to both Indonesia's provincial governments and regency/municipal governments. Indonesia consists of 38 provinces (*provinsi*), with the most recent additional province being Southwest Papua. Each of these provinces has its own provincial parliament and governor (*gubernur*). Each province is further divided into regencies (*kabupaten*) and municipalities (*kota*), which also have their own parliaments and chief executives (regents (*bupati*) and mayors (*walikota*), respectively). In most aspects, regencies and municipalities are legally independent of the provinces. The head of a local government is entitled, subject to the approval of the regional parliament (*Dewan Perwakilan Rakyat Daerah*), to enact regional regulations which are independent from the national government.

Indonesia established regional autonomy based on laws passed in 1999 and which was amended in 2014 and further amended by Omnibus Law. Under such laws, the national government and the local governments share regulatory authority over all matters except for policies of foreign affairs, defence, justice, religion and fiscal and monetary which are reserved to the national government.

In addition, some laws and regulations provide that authority over certain sectors or affairs is retained at the national level. If there is a conflict between national and regional legislation, the legislation enacted by the national government will prevail, as it ranks above regional legislation in Indonesia's hierarchy of legislation.

The role of the provinces is primarily to coordinate internal matters among the regencies and municipalities and act as regional policymakers. In detail, regencies and/or municipalities have the same role as provinces which is aimed at formulating local policies and planning on a smaller scale. Nonetheless, if there is a contrary between the provision governed under the provinces and regencies and/or municipalities' regulation, the province's regulation shall prevail to ensure certainty and consistency in the application of such regulation. Further, the regional administration is frequently implemented through regional service agencies known as "*dinas*". This regional service agency or "*dinas*" is responsible for assisting the head of each respective region in conducting governmental activities in accordance with their respective divisions/related field.



B. Legal and regulatory overview of conducting business in Indonesia



1. Getting the business started

Indonesia has become a favoured investment destination since the country has a young workforce, abundant natural resources, and a growing local market. The Indonesian government has been working to attract more investment by expanding investment opportunities for foreign investors, including specific schemes for the development of Indonesian natural resources and the provision of public infrastructure.

Despite the government's objective of boosting foreign investment, the regulation of foreign direct investment includes several protections for local businesses, labour/workforce, goods and services, and requirements for minimum local ownership.

Under the applicable laws, a foreigner or foreign company may set up a presence in Indonesia by means of setting up a representative office (Rep-Office), or a limited liability company (known as a Foreign Direct Investment company – *Penanaman Modal Asing* or PMA company).

Any proposed foreign direct investments that are carried out through a PMA company may be conducted either by way of acquiring shares in an existing local company or establishing a new company.

Foreign investors may also carry out business in Indonesia through several types of representative offices, such as the foreign company representative office (KPPA), foreign trade company representative office (KP3A), construction service provider representative office, and foreign electrical power support representative office. We will discuss these in turn.

Foreign company representative office and foreign trade company representative office

The main purpose of a foreign company representative office is to market and promote the interests of its principal company, liaise with affiliates and engage in other non-profit activities (e.g., procuring goods, giving presentations and conducting market research). KPPA is prohibited by law from engaging in profit-making activities in Indonesia, including entering into any agreements/sale and purchase transactions for goods and commercial services with local companies or individuals.

On the other hand, the main purpose of KP3A is to market and promote the interests of the foreign trading company which acts as the principal of the KP3A. It is noteworthy that the KP3A is only available if the principal is a trading company. KP3A is prohibited from conducting direct trading and sales-purchase activities, including participating in tenders, signing any contracts, settling any claims, and conducting any activities related thereto.

An application for the establishment of a KPPA and KP3A can be conducted through an online system, namely the Online Single Submission System (OSS System). Both types of representative office are intended to market and promote the principal foreign company's interests, liaise with relevant affiliates and engage in other non-profit activities.

These representative offices could purchase items and enter into contracts but are restricted from making a profit by engaging in business activities in Indonesia.

Construction service provider representative office

A foreign construction company (*Badan Usaha Jasa Konstruksi Asing* or BUJKA) may establish its presence in Indonesia in the form of a representative office (*Badan Usaha Jasa Konstruksi Asing Representative Office* or BUJKA RO) in order to participate in and bid for potential projects and carry out construction services in Indonesia. BUJKA RO may be a profit-generating operation, which is different to a regular foreign company representative office or a foreign trade company representative office.

Prior to performing construction services, a BUJKA RO is required to obtain the relevant licenses through the OSS system. The BUJKA RO may only carry out construction services in a high-risk, high-tech, and/or high-cost market segment with large business entity qualifications. In addition, BUJKA RO must also enter into a joint operation with a local construction company (*Badan Usaha Jasa Konstruksi Nasional* or BUJKN) with a large business entity qualification for implementing any construction services in Indonesia. The portion of construction works that must be performed by the BUJKN as a joint operation partner are as follows:

- a. in terms of construction work and integrated construction work, a minimum of 30% of the work value must be carried out by the BUJKN, and 50% of the work must be performed in Indonesia; and
- b. in terms of construction consultancy, a minimum of 50% of the work value must be carried out by the BUJKN, and all works must be performed in Indonesia.

Foreign electrical power supporting services representative office

A foreign electrical power supporting services company may perform its business activity in Indonesia by way of establishing a representative office. Similar to BUJKA RO, the foreign electrical power supporting services representative office may also perform income-generating activities.

In performing its business activity, a foreign electrical power supporting services representative office is required to obtain Business Entity Certification and an Electrical Power Supporting Services Business License and shall only be engaged in high-cost business activities relating to consultation for electrical power plant, construction and installation of electrical power plant, and maintenance of electrical power plant, subject to the additional requirements as follows:

- a. May only carry out high-value electrical power supporting services activities such as construction and installation of electrical power plant with the minimum project value of IDR100 billion; and
- b. May only carry out high-value electrical power supporting services activities relating to consultation services for the installation of electrical power plant or maintenance of electrical power plant with the minimum project value of IDR10 billion.

Limited liability companies

In the context of investment, Indonesian companies are categorised as follows:

- a. Foreign capital investment company (PMA company): having foreign shareholding with a certain minimum capital requirement established by a minimum 2 (two) shareholders, entitled to fiscal incentives and other investment incentives, registered with the Ministry of Law and Human Rights (MOLHR) and the OSS System, licensed by the OSS Institution (currently the Institution is managed by BKPM) and/or other relevant sectoral authorities.
- b. Domestic capital investment company (PMDN company): having only domestic shareholding established by a minimum 2 (two) shareholders, entitled to fiscal incentives and other investment incentives, registered with MOLHR and the OSS System, licensed by the OSS Institution (currently the Institution is managed by BKPM) and/or other relevant sectoral authorities.

In practice, a foreign company intending to carry out business activities in Indonesia that are open for foreign investment would do so by establishing a PMA company or acquiring an equity stake in an Indonesian company. To carry out business in Indonesia, foreign companies must obtain sector-specific licenses, depending on the business activity. Each business may face additional requirements based on its specific industry and location.

State-owned enterprises

There are two types of state-owned enterprises (*Badan Usaha Milik Negara* or BUMN), which are:

- a. *Perseero* is a limited liability company with 51% or more of its shares owned by the national government, which is engaged in commercial activities for profit; and
- b. *Perum* is an entity wholly owned by the national government (without share capital), for the purpose of providing public services.

However, in practice, the nature between such two types of state-owned enterprises may be biased due to being assigned by the government to act as a pioneer in the less desirable business sector, implementer of public services, balance the power of the large private sector and develop small business/cooperatives.⁹⁵

They are subject to government regulations and policies, ensuring alignment with national interests. The Minister of State-Owned Enterprises oversees and manages these companies, ensuring they operate efficiently and in line with government expectations.

Regional-owned enterprises

Local governments are authorised to establish regional-owned enterprises (*Badan Usaha Milik Daerah* or BUMD). In practice, there are two forms of regional-owned enterprises, which are regional-owned companies 'for profit' (*Perusahaan Perseroan Daerah*) and companies carrying out a public function (*Perusahaan Umum Daerah*).

Village-owned enterprises

Indonesian traditional communities may individually or jointly form village-owned enterprises (*Badan Usaha Milik Desa* or BUMDes) to manage businesses, utilise assets, develop investment and productivity and provide services and/or other business activities to achieve the welfare of local communities. Village-owned enterprises are given more flexibility in managing their assets and business by enabling them to set up business units in the form of single-shareholder limited liability companies in accordance with their needs and goals. Such flexibility is given by the issued Omnibus Law that will be specifically discussed hereunder.

Public service agencies

An office or working unit within a government institution, both national and regional, may establish a public service agency (*Badan Layanan Umum* or BLU) to provide services to the public on a non-commercial basis, which will be in the form of sales of goods and/or services. Examples of BLU are the Indonesia Investment Agency (*Pusat Investasi Pemerintah* or PIP) and BLU Transjakarta, a BLU that was established to operate and manage Jakarta's bus rapid transit system.

⁹⁵ Under Indonesian company law concept, the main purpose and objective of a limited liability company is to generate profit and conduct business activities based on its KBLI (Indonesia Classification Business Code) as mentioned in Articles of Association. However, SOE companies which have a "Perseero" status, such may also have public service obligations as assigned by the government.

Positive Investment List

On 2 February 2021, President Jokowi enacted new Presidential Regulation No. 10/2021 as most recently amended by Presidential Regulation No. 49/2021 on Investment in Business Sectors (the Positive Investment List). The Positive Investment List is a government policy aimed at opening more sectors of the economy to foreign investment, and it significantly reduces the number of sectors that were previously closed or restricted to foreign investment, which were outlined in the Negative Investment List (as regulated under Presidential Decree No. 44/2016). The List allows for increased levels of foreign ownership in many sectors, sometimes up to 100%, which was previously capped at lower percentages.

Business sectors that are open to foreign investment under certain conditions or closed to foreign investment completely are primarily identified by the Positive Investment List. Business sectors that are not identified in the Positive Investment List are generally considered to be open to foreign investment without restriction unless another law and/or regulation provides otherwise.

Previously, the Negative Investment List summarised business activities that were closed or partly open to foreign investment. With the current Positive Investment List, the general principle is that all lines of businesses are 100% open to foreign investment except for those restricted or limited under the Positive Investment List.

Foreign ownership restrictions under the Positive Investment List:

- a. Business activities that are reserved for domestic investors (cooperatives and small-medium enterprises).
- b. Business activities that are open to foreign ownership with limitations;
- c. Business activities that are subject to special licensing requirements; or
- d. Business activities that are limited and closely monitored and regulated in separate laws and regulations in the field of control and supervision of alcoholic beverages.

The conditions for foreign investment imposed by the Positive Investment List include the imposition of a maximum amount of foreign shareholding, requiring a local partner, reserving certain areas for micro-, small- and medium-sized enterprises and cooperatives, and imposing special licensing requirements. Despite its objective to promote investment in Indonesia, the issued Omnibus Law also adds certain types of restricted sectors/business activities into the Positive Investment List due to their harmful nature.

The Omnibus Law restricts businesses from undertaking the following activities: (i) cultivating and producing class 1 narcotics; (ii) gambling/casinos; (iii) fishing certain types of fish species listed in Appendix I of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES); (iv) making use of and collecting any living/recently-dead coral (including natural coral) for building materials/lime/calcium/aquariums/souvenirs/jewelry; (v) manufacturing chemical weapons; and (vi) manufacturing industrial chemicals and ozone-depleting substances. Further, the Omnibus Law also prohibits private businesses from conducting certain business activities that may only be carried out by the central government.

The Positive Investment List acknowledges business sectors that are generally based on the Indonesian Standard Industrial Classifications (*Klasifikasi Baku Lapangan Usaha Indonesia* or KBLI). The KBLI have been developed with reference to, among others, the International Standard Industrial Classification of All Economic Activities (ISIC) of the United Nations and the ASEAN Common Industrial Classification. The KBLI is periodically updated, with the most recent version (as of this publication) having been enacted on 24 September 2020.

BKPM determines the appropriate business sector for a proposed investment as part of its review and processing of registrations and approvals. Some proposed business activities may not clearly fall into one category in the DPI (*Daftar Positif Investasi* or Positive Investment List) or KBLI; either multiple categories may appear to apply, or the business activity does not appear to fit in any category. In such cases, investors are well advised to seek a preliminary opinion from BKPM before lodging a formal application.

⁹⁶ Under Indonesian company law concept, the main purpose and objective of a limited liability company is to generate profit and conduct business activities based on its KBLI (Indonesia Classification Business Code) as mentioned in Articles of Association. However, SOE companies which have a "Persero" status, such may also have public service obligations as assigned by the government.

Aside from restrictions under the Positive Investment List, laws and regulations may have further restrictions and conditions on foreign involvement in certain business sectors. Such conditions may include special licensing regimes for foreign entities, capacity/output requirements or personnel requirements. Consequently, the legal feasibility of a proposed foreign investment should be assessed with reference to both the Positive Investment List and applicable sectoral regulations.

The Positive List also introduces 246 (two hundred forty-six) “Priority Sectors” consisting of several lines of businesses focusing on research and development, and involving a pioneer industry, such as metals, oil refinery, renewables and marine transportation.

Foreign business actors investing in the Priority Sector will be eligible to receive fiscal incentives (such as tax holidays, tax allowances and tax import-duty exemptions) and/or non-fiscal incentives, such as ease of submission of licenses, work permits, energy, raw-materials, labour and infrastructure subject to the prevailing laws and regulations.

Prohibition on nominee arrangements

Law No. 25/2007 on Investment as amended with Law No. 6 of 2023 on Enactment of Regulation of the Government in Lieu of Law Number 2 of 2022 on Job Creation into Law (the 2007 Investment Law), as further strictly restricts arrangements where a person holds shares in a company for the benefit of another person. Such arrangements are deemed null and void by law. Nominee arrangements involve an Indonesian individual or entity holding shares or ownership on behalf of a foreign party, essentially acting as a “proxy” owner to circumvent foreign ownership restrictions. This restriction applies both to PMA companies and to domestically owned companies. However, the main purpose of the restriction on nominee arrangements is to prohibit arrangements that might be made to circumvent Indonesia’s foreign investment restrictions, by having a domestic party hold shares on behalf of a foreign investor.

In the spirit of promoting beneficial ownership disclosure, the Government through Presidential Regulation No. 13/2018 on the Application of the Principle of Identifying the Beneficiary of the Corporate in the Framework of the Prevention and Eradication of the Crime of Money Laundering and the Criminal Action of the Financing of Terrorism, has required any form of entities (either limited liability company, foundation, association, cooperative, limited partnership, commercial partnership, and other forms of entities) to implement what so-called “know your beneficial ownership” principle. Any violation of this regulation may be imposed on sanctions based on prevailing laws and regulations.

Establishing a PMA company

A PMA company may only be established to carry out a particular “line of business” as stated in its articles of association upon obtaining investment licenses issued through the OSS system. Further, PMA companies shall be established with at least IDR10 billion issued and paid-up capital for each business activity (or as determined otherwise by the relevant regulation) and greater than IDR10 billion of investment value (excluding land and building). PMA companies are subject to foreign ownership threshold under the Indonesia Positive Investment List with reference to the KBLI.

Foreign investors need to carry out the following steps, amongst others, in order to establish a PMA company:

- Execute the deed of establishment and the articles of association of the PMA company before a public notary;
- Have the notary process the deed of establishment with the MOLHR through its electronic filing system, (*AHU Online*), and arrange for publication of the deed of establishment in the State Gazette (*Berita Negara Republik Indonesia*);
- Open an Indonesian bank account and deposit share capital in said account;
- Obtain a company’s Taxpayer Registration Number (*Nomor Pokok Wajib Pajak*) and Taxpayer Registration Certificate (*Surat Keterangan Terdaftar Wajib Pajak*); and
- Obtain a certificate of domicile (not applicable in DKI Jakarta).

Subsequent to the incorporation process, the company needs to obtain various licenses, permits and approvals necessary to enable it to commence commercial operations, employ personnel, commence construction, import capital goods and carry out other activities. These include Business Identification Number (*Nomor Induk Berusaha* or NIB), which serves as Company Registry Certificate (*Tanda Daftar Perusahaan* or TDP), Import Identify Number (*Angka Pengenal Impor* or API) and Customs Access (*Akses Kepabeanan*). This is aligned with the provision of the Omnibus Law that has ended the previous requirement for companies to obtain a separate TDP by revoking Law No. 3/1982 on Company Registration Obligation.

Prior to 2007, the now-revoked BKPM principal license would include a requirement that a portion of the PMA company's shares must be divested to Indonesian shareholders after a certain period (generally 15 (fifteen) years after the commencement of commercial operations). The 2007 Investment Law removed the general divestment requirement for a PMA company. However, a PMA company incorporated before the promulgation of the 2007 Investment Law may still be subject to the divestment requirement and companies operating in regulated industries (such as mining) may be subject to divestment requirements specific to their industry.

BKPM Regulation No. 4/2021 regarding Guidelines and Procedures for Investment Licensing and Facilities requires PMA companies to fulfil the divestment obligation stated in the previous approval/business license. The shares may only be divested to Indonesian citizens or 100% Indonesian-owned companies. There are two ways of conducting the divestment, namely by way of direct sale of shares or through the Indonesian capital market. Furthermore, the regulation opens up the opportunity to conduct a share buyback, subject to MOLHR approval and complying with prevailing laws and regulations.

There are exemptions for the mandatory divestment that may only be implemented after fulfilling the following requirements:

1. If the PMA company is not a 100% foreign-owned company, the Indonesian shareholder(s) is required to confirm that it is not interested in owning the shares; and
2. If the PMA company is a 100% foreign-owned company, the shareholders should state that they do not have any commitments/agreements to sell the shares to any Indonesian third party.

Figure 23: Timeline for the establishment and basic licensing of a PMA company

| No | Work Description | First Month | | | | Second Month | | | | Third Month | | | |
|----|---|-------------|---|---|---|--------------|---|---|---|-------------|---|---|---|
| | | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| 1 | Company name reservation | | | | | | | | | | | | |
| 2 | Drafting and preparing the draft Deed of Establishment (DOE) of the PMA Company | | | | | | | | | | | | |
| 3 | Finalising and executing the DOE of the PMA Company | | | | | | | | | | | | |
| 4 | Obtaining the ratification of incorporation of the PMA Company issued by MOLHR and arranging announcement of PMA Company's legal entity in the State Gazette | | | | | | | | | | | | |
| 5 | Investment database registration on the OSS system | | | | | | | | | | | | |
| 6 | Obtaining Business Identification Number (NIB) (including obtaining of Company Registration Certificate (TDP), General Importer Identification Number (<i>Angka Pengenal Importir – Umum/API-U</i>), and customs access (<i>akses kepabeanan</i>)). | | | | | | | | | | | | |
| 7 | Obtaining Taxpayer Identification Number (NPWP) | | | | | | | | | | | | |
| 8 | Opening Company's bank account (timeline and required documents would depend on the relevant bank) | | | | | | | | | | | | |
| 9 | Obtaining Taxable Entrepreneur Confirmation (<i>Surat Pengukuhan Pengusaha Kena Pajak - SPPKP</i>) | | | | | | | | | | | | |
| 10 | Obtaining Business License (not effective yet) | | | | | | | | | | | | |
| 11 | Fulfilment of commitments as set out in the Business License, including Operational/Commercial License (as necessary) | | | | | | | | | | | | |
| 12 | Obtaining Business License (effective) | | | | | | | | | | | | |

Note: In practice, the time required to complete the PMA's establishment and obtain all licenses will be subject to the availability of documents required by the relevant authority. The application shall be processed after the documents are deemed complete by the authority.

Omnibus Law

On 2 November 2020, the Indonesian government enacted the Omnibus Law – a much anticipated piece of Indonesian legislation that had been long awaited by various stakeholders, including Indonesian business owners who are seeking a more business-friendly environment to boost Indonesian economic growth and investment. The primary purpose of the Omnibus Law is to create greater job opportunities for Indonesians by promoting greater investment growth. Prior to the promulgation of the Omnibus Law, the regulatory framework for business and investment affairs included many instances where regulations overlapped with one another which resulted in slow economic growth and a lack of job opportunities.

The Indonesian government intends to make the Omnibus Law a single legal instrument that amends or removes all the provisions in several existing regulatory frameworks that hinder investment. The Omnibus Law seeks to amend, delete, and/or add any provisions in 78 (seventy-eight) existing laws that cover various sectors. The law comprises 15 (fifteen) Chapters with 186 (one hundred eighty-six) Articles which cover 10 (ten) primary “clusters” that deal with the following matters:

- a. Investment ecosystem and business improvement.
- b. Employment.
- c. Facilities, protection, and empowerment of cooperatives as well as micro, small and medium enterprises.
- d. Ease of doing business.
- e. Research and innovation support.
- f. Land acquisition.
- g. Economic zone.
- h. Central government investment and acceleration of national strategic projects.
- i. Government administration implementation to support job creation; and
- j. Imposition of sanctions.

With regards to the investment and licensing aspects which will directly impact business sectors, the Omnibus Law introduces substantial breakthroughs that will reduce the burden on businesses in carrying out their businesses in Indonesia. In terms of licensing requirements, businesses may expect a much simpler licensing regime. Unlike the previous regime, the requisite licenses for each business will be determined based on the risks and potential risks posed by the business activities. By taking health, safety, environment, and resources aspects into account, the Omnibus Law differentiates business risks into 3 (three) categories, as follows:

Low-risk business activities

Business activities that are classified as low-risk business activities will only be required to obtain a Business Identification Number (NIB) that serves as proof of registration to carry out business activities.

Medium-risk business activities

This category consists of medium-low-risk business activities and medium-high-risk business activities. Business activities that are classified as medium-low and medium-high risk business activities are required to obtain NIB and a Standard Certificate (*Sertifikat Standar*).

It is noteworthy, however, that the Standard Certificates for medium-low and medium-high business activities are different. The Standard Certificate for medium-low-risk business activities serves as a statement from the entrepreneur that it has fulfilled all requirements to conduct business activities, while the Standard Certificate for medium-high-risk business activities serves as a verification of the fulfilment of requirements to conduct business activities issued by the central/regional government.

High-risk business activities

Business activities that are classified as high-risk business activities are required to obtain NIB and a license. The license is granted by the central/regional government to carry out business activities. The license must be obtained prior to conducting the business activities

The risk-based licensing regime will streamline the complexity of licensing requirements under the preceding regulatory framework. Under this approach, not all business activities are required to obtain business licenses.

The Omnibus Law also streamlines licensing requirements in 15 (fifteen) sectoral laws and regulations. Currently, there are several different licenses that must be obtained by a single business to carry out its activities. Under the Omnibus Law, businesses will only be required to obtain a single business license (subject to the risk-based licensing regime explained above) granted by the central government to carry out their commercial activities. The sectors cover the following:

- a. Marine affairs and fisheries.
- b. Agriculture.
- c. Forestry.
- d. Energy and mineral resources.
- e. Nuclear.
- f. Industry.
- g. Trade, legal metrology (the application of legal requirements to measurements and measuring instruments), halal product guarantee and standardisation of suitability assessment.
- h. Public works and public housing.
- i. Transportation.
- j. Health, medicine, and food.
- k. Education and culture.
- l. Tourism.
- m. Religious affairs.
- n. Postal, telecommunications and broadcasting.
- o. Defence and security.

Other than business licensing streamlining, the Omnibus Law also presents investment-related breakthroughs that will be discussed separately in each relevant section hereunder. However, please note that many of the provisions introduced by the Omnibus Law will require follow-up implementing regulations to become fully effective. The Indonesian government has been working with various stakeholders to roll out approximately 44 (forty four) required implementing regulations, which are expected to be issued within 3 (three) months. In essence, messages from the Indonesian government are clear that the law and its implementing regulations are intended to accelerate and provide a more friendly investment and business climate to support further growth of the Indonesian economy.

On 25 November 2021, the Indonesian Constitutional Court rendered Decision No. 91/PUU-XVII/2020 ("MK Decision") in relation to a petition filed on 15 October 2020 for a formal judicial review of the Omnibus Law. The Constitutional Court has now ruled that the enactment of the Omnibus Law contravened the 1945 Constitution of the Republic of Indonesia due to legislative procedural errors. Therefore, the Court further ruled that the Indonesian Government is required to implement a corrective action to correct the flaws in the Omnibus Law.

The MK Decision further states that a revision must be completed by the Indonesian Government within 2 (two) years after the MK Decision was rendered or otherwise, the Omnibus Law shall be deemed permanently unconstitutional.

As such, it is understood that the Omnibus Law along with those implementing regulations that have been enacted to date will remain in force for the next 2 (two) years. Eventually, the implementation of Omnibus Law has finally been updated with the issuance of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation which was issued on 30 December 2022. As of 31 March 2023, Omnibus Law has been finalized as regulation by Law No. 6 of 2023 on Enactment of Regulation of the Government in Lieu of Law Number 2 of 2022 on Job Creation into Law.

Despite the fact that Omnibus Law aims to address regulatory complexities, providing a more conducive environment for economic growth, however it has sparked debate, particularly among labour groups and environmentalists.

Indonesian Company Law

An Indonesian limited liability company (*Perseroan Terbatas*) is a legal entity governed by the Company Law which is separate from its shareholders. Upon approval of the company's establishment by the MOLHR, the limited liability of the shareholders becomes effective. During the period from when the articles of association of the company are signed until prior to obtaining approval from the MOLHR, the founders of the company are considered to be partners and may still be held liable for the obligations of the proposed company. In practice, a newly established company will adopt any obligations of the founders shortly after the minister's approval is obtained and ratify such assumption of obligations in the first general meeting of shareholders of the newly established company.

The Company Law recognises the concept of "piercing the corporate veil", by which a shareholder may be held liable for fraud or other wrongful acts committed in the name of the company. A shareholder may be held liable for the company's acts if the requirements to form the company as a statutory body are not fulfilled; a shareholder directly or indirectly, with bad intention, utilises the company for personal interests; a shareholder is involved in an unlawful act committed by the company; or the shareholders, directly or indirectly, unlawfully use the assets of the company, which causes the assets of the company to become insufficient to settle the liabilities of the company.

By the governance of the Omnibus Law, a limited liability company may also be established by 1 (one) founder under certain requirements. The Omnibus Law adds new types of limited liability companies that are exempted from the minimum of 2 (two) shareholders' requirements. Regional-owned enterprises, village-owned enterprises, and companies that meet the criteria of micro-small enterprises may be formed by a single individual. As such, it is now allowable for an individual to form a single-shareholder legal entity in the form of a limited liability company if the business is classified as a micro and small enterprise by registering a Statement of Establishment to MOLHR. The criteria of micro and small enterprises will be based on the net worth and annual sales revenue of the business, including the number of shareholders. It is noteworthy, however, that when such a company is no longer classified as a micro and small enterprise and/or has more than 1 (one) shareholder, it shall be reclassified as an ordinary type of limited liability company.

Corporate governance

The activities of an Indonesian company are governed by three bodies, namely: the Board of Directors, the Board of Commissioners and the General Meeting of Shareholders. The Board of Directors is responsible for the day-to-day management of the company. The Board of Commissioners is responsible for the supervision of the management of the company and advising the Board of Directors. The General Meeting of Shareholders has all the authorities that are not given to the Board of Directors or Board of Commissioners within the limits provided in the Company Law and/or the articles of association.

Board of Directors

The Board of Directors shall serve as the management of the company. The Board of Directors shall consist of at least one member (except for a company whose line of business is in the collection and/or management of the public's funds. A company that issues acknowledgments of indebtedness to the public or is a listed company shall have at least 2 (two) members of the Board of Directors).

Members of a Board of Directors shall be appointed for a certain period and may be re-appointed. If there is a change in the composition of the Board of Directors (either by way of a new appointment, replacement or dismissal), the Board of Directors shall notify the Ministry of Law and Human Rights no later than 30 (thirty) days from the GMS date approving such appointment, replacement or dismissal. Furthermore, the Board of Directors is also required to report his/her shares ownership and/or their families in the respective company and other company, to be later registered in the Special Register of the company.

In addition, specific industry and sectoral regulations may also require a minimum number of members of the Board of Directors in a particular company, for example, an insurance company would need to have at least 3 (three) directors and one of whom shall be a director specifically in charge of compliance matters.

Board of Commissioners

The Board of Commissioners shall be responsible for the supervision of the company's management policies, and course of management in general, including with respect to the company as well as its business activities, and provide advice to the Board of Directors. The Board of Commissioners shall consist of at least 1 (one) member. The articles of association of a company may stipulate the presence of an independent commissioner who is selected from a person who is not affiliated with any of the shareholders, Board of Directors and other members of the Board of Commissioners.

Members of the Board of Commissioners shall be appointed for a certain period and may be re-appointed. If there is a change in the composition of the Board of Commissioners (either by way of a new appointment, replacement or dismissal), the Board of Directors shall notify the MOLHR no later than 30 (thirty) days from the GMS date approving such appointment, replacement or dismissal. Furthermore, the Board of Commissioners is also required to report his/her shares ownership and/or their families in the respective company and other company, to be later registered in the Special Register of the company.

Similar to the above, specific industry and sectoral regulations, such as those applied in the insurance sector, may also require a minimum number of members of the Board of Commissioners (i.e., a minimum 3 (three) commissioners, half of whom shall be independent commissioners, for an Indonesian insurance company) which need to be complied with.

Corporate social responsibility

Corporate Social Responsibility (CSR) is mandated under several legislative frameworks, and CSR rules are particularly stringent for companies operating within natural resources sectors, such as mining, oil and gas, and plantations. CSR in Indonesia seeks to balance economic growth with social welfare and environmental sustainability, encouraging companies to contribute positively to society. The enforcement of CSR varies, with ongoing efforts to strengthen regulatory frameworks and ensure effective implementation across sectors. Furthermore, such companies are also required to include a report on the implementation of the CSR program in the company's annual report and such CSR report must be disclosed to the shareholders.

Capitalisation and shareholding structure of a private company

The Company Law initially provides that the minimum authorised capital of an Indonesian company is IDR50 million (approximately USD3,565) and at least 25% of such authorised capital must be fully paid-up. That requirement, however, has been updated by the Omnibus Law and Government Regulation No. 8/2021 regarding the Company Authorized Capital and Registration for Establishment, Change, and Dissolution of Companies Classified as Micro and Small-Scale Enterprise, which sets out that the authorised capital of a limited liability company shall be based on the agreement of the company's founders. As such, the founders will have flexibility in determining the authorised capital when establishing a limited liability company depending on the company's needs and objectives. Certain sectors, however, may impose higher capital requirements. For a PMA company, the minimum issued and paid-up capital is IDR10 billion or its equivalent value, while the minimum total investment value is greater than IDR10 billion or its equivalent value, including working capital for one year, machinery and others, excluding land and buildings. The funding realisation consists of: (i) capital; (ii) retained earnings (applicable for business expansion); and (iii) loan. Please note that BKPM may require higher capital for PMA companies depending on their proposed investment.

The share capital may be paid up in the form of money and/or in other forms which shall be specified based on a reasonable value determined in accordance with market prices or by an expert (appraiser) not affiliated with the Company. The shares paid up in the form of immovable property must be announced in 1 (one) or more Newspapers within a period of 14 (fourteen) days after the deed of establishment is signed or after the General Meeting of Shareholders resolves on the relevant subscription.

The capital of a company may be increased upon approval of the general meeting of shareholders and such increase shall be reported to the MOLHR. All shares issued for the increase of capital must first be offered to each of the existing shareholders in proportion to their ownership of shares with the same classification (pre-emptive rights).

A company may also make a reduction of capital. Reduction of capital may be made upon approval from a general meeting of shareholders. Such general meeting of shareholders shall be communicated to all creditors by the Board of Directors by an announcement in one or more newspapers within a period of no later than 7 (seven) days from the date of such general meeting. Within a period of 60 (sixty) days from the date of the announcement, the creditors may submit written objections to the resolution to reduce capital together with the reasons thereof to the company (copied to the Minister of Law and Human Rights), and the company shall respond within 30

(thirty) days thereafter. The capital reduction constitutes an amendment of articles of association which must have approval from the Minister of Law and Human Rights. The capital reduction may be made by way of the withdrawal of shares or a reduction in the nominal value of shares.

The Company Law requires that every limited liability company shall have at least 2 (two) shareholders. The company's paid-up capital shall be divided into shares, which reflect the portion of the company's ownership.

The value of shares must be stated in Rupiah and shall have a nominal value that can be issued. All shares issued shall be recorded in a shareholder register which should be maintained by the Board of Directors and such relevant shareholders shall be given evidence of share ownership (a share certificate). In addition, the Board of Directors shall also make and keep a special register that contains information regarding shares in the company or in other companies owned by the members of the Board of Directors and Board of Commissioners together with their families and the date when such shares were obtained.

A share shall give the owner the right to attend and cast one vote in the general meeting of shareholders (although it is possible for the creation of shares that do not give the owner any voting rights) and receive payment of dividends and the remainder of assets from liquidation.

2. Joint ventures

Incorporated joint ventures involving a foreign investor may be established as a new PMA company (in the case of 'greenfield' projects and new business operations) or through the foreign investor acquiring a stake in an existing company.

The parties to the incorporated joint venture will typically enter into a joint venture agreement or shareholders' agreement to supplement the terms of the company's articles of association. There are no particular requirements for the agreement except that its terms must not contravene the applicable laws, particularly the mandatory corporate governance requirements of the Company Law, the applicable foreign investment regulations, or matters of public policy. It is increasingly common for the agreements to be in dual-language (English and Bahasa Indonesia) due to the requirements of Law No. 24/2009 in conjunction with Presidential Regulation No. 63/2019 and for such agreements to be governed by Indonesian law (even where a choice of foreign law clause would be enforceable). Generally, such an agreement will include an arbitration clause, with parties tending to select regional arbitral forums.

Indonesian state-owned enterprises have exhibited a strong preference for BANI arbitration (domestic arbitration). Foreign investors acquiring a stake in an existing joint venture established by domestic investors may find no joint venture or shareholders' agreement in place among the existing domestic shareholders, which may be comfortable only relying on the articles of association.

Joint ventures remain a strategic option for foreign investors wishing to leverage local expertise while tapping into the growing Indonesian market. Investors should focus on finding the right local partners and staying abreast of regulatory changes to maximize success.

3. Mergers and Acquisitions (M&As)

The Company Law regulates mergers, consolidations, acquisitions and splits of companies. Mergers generally are permitted with the consent of 75% of the shareholders with the voting rights. Some protection for minority shareholders is provided, particularly with respect to the share sale price, which must be “fair.” In case of a merger, unless the surviving company retains its name and management, the merged entity must adopt a new name and management.

Mergers of limited liability companies are possible where one or more companies are merged into a single surviving company (with the simultaneous and automatic dissolution of the other company or companies). In a consolidation, two or more companies merge into a new entity and each of the original companies is automatically dissolved; in an acquisition, an individual or legal entity takes over all or generally more than 50% of the shares of a company, resulting in a transfer of control.

Under Law No. 5/1999 regarding Restriction of Monopoly Practices and Unfair Business Competition in conjunction with KPPU Regulation No. 3/2023 regarding the Assessment of Merger, Consolidation, or Acquisition of Shares and/or Assets Which may Result in Monopolistic Practices and/or Unfair Business Competition (the Competition Law), a company is required to report mergers, consolidations or acquisitions to the Business Competition Supervisory Commission (*Komisi Pengawas Persaingan Usaha* or KPPU), so long as the transaction meets the criteria set out below:

- a. The combined value of the assets of the relevant business actors would be more than IDR2.5 trillion (or IDR20 trillion for banks);
- b. The combined value of the turnover of the relevant business actors would be more than IDR5 trillion;
- c. There is a change of control;
- d. The transaction is not between affiliated business actors; and
- e. The transaction is between business actors who have assets and/or turnover in Indonesia.

The business entity has an obligation to notify KPPU after the merger, consolidation, or acquisition becomes effective (or obtains the approval of the Minister of Law and Human Rights for a private company, or OJK approval for a public company pursuant to OJK Regulation No. 74/POJK.04/2016 as amended by OJK Regulation No. 58/POJK.04/2017 and OJK Regulation POJK.04/2024). The business entity also has a right to consult with KPPU before the merger, consolidation, or acquisition becomes effective (pre-evaluation), should the company suspect that it meets the threshold as mentioned above.

The notification must be submitted at the latest 30 (thirty) days after the merger, consolidation, or acquisition becomes effective. KPPU has the authority to impose monetary fines from IDR1 billion to IDR25 billion on a business entity that does not fulfil the applicable reporting obligations.

The M&A procedures differ significantly between publicly listed companies and limited liability companies, emphasizing the impact of mandatory disclosure requirements, and protections offered to the minority shareholders. Understanding these distinctions is crucial for navigating the M&A landscape effectively.

Due diligence

Conducting due diligence on Indonesian companies has proven to be rather difficult considering the lack of easy access to, or reliable public records of, constitutional corporate documentation, encumbrances on corporate assets, share capital or land ownership and related encumbrances. For corporate document data and share ownership, it is still possible to purchase it at the Directorate General of General Law (*Administrasi Hukum Umum* or AHU), Ministry of Law and Human Rights. In addition to this, non-public company financial reports cannot be accessed, and there is also no obligation to submit financial reports to the government regularly, except for certain sectors, including financial services. The financial reports that have been submitted are also not available to the public. Even though Indonesian companies are required to publish their articles of association in the State Gazette (*Berita Negara*), which is a matter of public record, the available information is frequently incomplete and may omit, among other things, records of share transfers completed after the company's establishment. In short, a search of public records may not be reliable as the records of the changes of (i) company's name, (ii) its shareholders, (iii) its directors or commissioners, or amendment to the articles of association are not updated regularly. Public records can, however, establish some historical information about a company in relation to the foregoing matters with the exception of encumbrances and liens.

Performing due diligence on an Indonesian company is also complicated by the seemingly scattered data management, lack of information technology maturity for source of truth data. Often times, the company has several data sets due to multiple systems and data recordings. Countless licenses, permits and approvals required to conduct business in Indonesia and the related reporting requirements also add to the complication. Even though the said requirements are commonly viewed as administrative in nature, in many cases, the penalty for failing to comply includes the warning letter, administrative fines, temporary suspension, or revocation of license. Furthermore, the terms of a license may impose various obligations and conditions to be performed by the license holder, some of which frequently cannot be verified by documentary evidence.

Acquisitions of private companies

Performing an acquisition of a private Indonesian company primarily involves compliance with the Company Law and the foreign investment regulations. There may be approvals that have to be obtained prior to performing an acquisition. It is important to note, that in certain cases, the approval needed for the acquisition may differ, depending on the type of business sector of the company. For example, acquisition of a private banking institution will require approval from Indonesian Financial Service Authority (commonly known as the OJK Banking, which serves as supervisor of Indonesia Banking industry).

Further, the Company Law imposes various requirements in connection with the direct change of control of an Indonesian company (including public notice requirements and a requirement that employees be notified).

In the event that the target of a foreign buyer is a PMDN company, the process of acquisition involves conversion to a PMA company. This conversion raises issues similar to those faced by parties that intend to establish a new PMA company. These issues include assessing whether the type of business activities of the target is eligible for foreign investment in accordance with the DPI and, if so, whether there are any restrictions involved. The conversion of a PMDN company to a PMA company would be a condition to complete the acquisition.

Acquisitions of public companies

Acquisitions of Indonesian public companies (known as "public companies" or *perusahaan terbuka*, which have the "Tbk." suffix following their corporate name) are subject to regulations promulgated by the Indonesian Financial Services Authority – Capital Market (commonly known as the OJK Capital Market, which serves as Indonesia's capital markets regulator) and, for listed companies, the rules of the Indonesia Stock Exchange (IDX). By law, a public company is defined as a company that has at least 300 shareholders and issued capital of at least IDR3 billion, or such other number of shareholders and issued capital that may be stipulated under government regulations.

Acquisition of a public company must also comply with the relevant provisions referred to in the Company Law. Additional regulatory requirements may apply for the acquisition of a company in a regulated sector, such as banking, insurance, or oil and gas.

Defining an acquisition

The capital markets regulations define an acquisition of a public company as any direct or indirect action that results in a change of control over the public company. A controlling party is defined as:

- A party that owns more than 50% of a company's shares; or
- A party that has the ability to control the company directly or indirectly (e.g., by way of appointing or dismissing the BOD or BOC of the company or amending the articles of association of the company).

Under OJK Regulation No. 9/POJK.04/2018 as amended by OJK Regulation No.58/POJK.04/2020 regarding the Acquisition of Public Company (OJK Regulation No. 9/2018), the ability to control the company directly or indirectly could be evidenced by:

- An agreement with other shareholders that shows possession of more than 50% of the voting rights;
- A document/information providing evidence of the authority of a shareholder to control the financial and operations policy of the publicly listed company based on the articles of association/agreement;
- A document/information providing evidence of the authority to appoint or dismiss most members of the BOD and BOC;
- A document/information providing evidence of the power to control the majority voting rights in the BOD and BOC meetings; and/or
- A document/information providing other means to exercise control over a publicly listed company.

The Company Law provides that the acquisition of an Indonesian company can be executed through either the sale and purchase of shares from an existing shareholder (or shareholders) or through the acquirer's subscription to newly issued shares (through a capital increase or rights issue). Unlike acquisition of an Indonesian company, the acquisition of a public company requires the implementation of a Mandatory Tender Offer (MTO), particularly when there is a change of control in the public company.

Under OJK Regulation No.9/POJK.04/2018, any action whether direct or indirect, that results in change of control in public company will fall within criteria of acquisition. A controller is a Party who, directly or indirectly: (a) holds more than 50% of the shares with voting rights that are fully paid in the public company; or (b) has the ability to determine, directly or indirectly, by any means, the management and/or policies of the public company. Under the Regulation, if an individual or legal entity acquires shares that impacts change of control, an MTO must be conducted. The purpose of the MTO is to provide a fair opportunity for minority shareholders to sell their shares at terms and prices equivalent to those offered to the majority shareholders.

Negotiation and disclosure

An acquisition of a public company is typically initiated by negotiations between the potential acquirer and either the controlling shareholders of the target company (in the case of an acquisition of existing shares) or the BOD of the target company (in the case of an acquisition of newly issued shares).

A prospective acquirer who initiates such negotiations for the purpose of acquiring a public company and has decided to disclose the negotiation, is required to make an announcement in at least one nationally circulated Indonesian language newspaper and to convey such announcement directly to the target company, OJK and, if the company is listed, the IDX. The announcement could also be conducted through the IDX website and conveyed such announcement directly to the target company and OJK.

Under OJK Regulation No. 9/2018, the announcement must include at least the following information:

- The name of the target company;
- An estimate of the number of shares that is proposed to be acquired;
- The identity of the prospective acquirer, including its name, address, phone number, email, business activity and the potential acquirer's reason for pursuing the acquisition;
- The amount of any securities in the target which are already owned by the prospective acquirer (if any);
- The purpose of control;

- Any plan, agreement or determination among parties to cooperate in an organized group to act as the potential acquirer (e.g., acting as a consortium);
- The proposed method and procedure for the negotiation; and
- Negotiation material.

If following the announcement of negotiations, no agreement is reached, the relevant parties must announce the termination of negotiations in at least one nationally circulated Indonesian language newspaper and convey such announcement directly to the target company, OJK and, if the company is listed, the IDX. The announcement could also be made through the IDX website and convey such announcement directly to the target company and OJK.

Shareholder approval

The proposed terms of the transaction will require the approval of the target's shareholders to the extent required by laws and regulations in the capital market sector and the company's articles of association.

Unless the articles of association provided a higher threshold:

- An amendment to the articles of association of a public company, or an increase in authorized capital, requires the approval of 2/3 of the shareholders with valid voting rights in attendance at the shareholders meeting; and
- An acquisition, merger, encumbrance, or sale of substantially all the assets of a public company requires the approval of 3/4 of the shareholders with valid voting rights in attendance at the shareholders' meeting.

Because the existing shareholders of a company have pre-emptive rights in respect of any new issue of shares, if the acquisition is proposed to be conducted through the issue of new shares, existing shareholders will have to agree to waive their pre-emptive rights, or to transfer their right to acquire the newly issued shares, to an extent that allows the acquisition of a controlling interest by the proposed acquirer.

Capital markets regulations specify the procedures for convening a meeting of the shareholders of a public company, including related formalities and notice requirements. (as well as the procedures for convening electronic general meetings of shareholders for Indonesian public companies).

Announcement of a successful acquisition

A successful acquirer is required to announce the acquisition in at least one nationally circulated Indonesian language newspaper or the IDX website and to convey the result to OJK within one working day after the completion of the transaction. Under OJK Regulation No. 9/2018, such announcement should include at least the following information:

- The number of shares which were acquired, name of the shareholder whose shares are acquired by the acquirer, acquisition price per share, total value of the acquisition and total ownership of the shares;
- The identity of the acquirer, including its name, address, telephone, email, business activity, structure of the shareholders, BOC, and BOD, as well as the capital structure;
- The acquirer's reason for pursuing the acquisition;
- If applicable, a statement that the new controlling party is an organized group;
- The beneficiary of the acquirer;
- The nature of the affiliate relationship; and
- Description of the approval from the authorized party.

Mandatory tender offer

Following a change in the controlling party of a public company, the new controlling party is required to conduct a mandatory tender offer for the remaining shares of the company, subject to the following exceptions:

- Any shares owned by the shareholder from whom the new controlling party acquired the shares to effect the acquisition;
- Any shares that the new controlling party has separately offered to purchase on the same terms and conditions as were agreed with the predecessor controlling party;
- Shares owned by any other party who also conducted a mandatory tender offer or voluntary tender offer for shares of the same public company at the same time (i.e., another potential acquirer);
- Shares owned by any shareholder who owns at least 20% of shares of the public company; and
- Shares owned by any other controlling shareholder.

The new controlling party is required to announce the mandatory tender offer along with necessary supporting documents to OJK and the target company within two days after the announcement of the successful acquisition.

Moreover, if any additional information and/or amendments to the initial announcement are requested by OJK, the additional information and/or amendments must be submitted no later than five working days after receipt of the request.

OJK will review the initial announcement and will determine whether the new controlling party is permitted to disclose the information to the public. The new controlling party is required to announce information disclosure for the purpose of the mandatory tender offer in a nationally circulated Indonesian language newspaper within two working days after receiving written confirmation from OJK, authorising the new controlling shareholder to disclose the information.

Following the publication of the notice of the mandatory tender offer, the shareholders of the target company have 30 (thirty) days to accept or reject the offer at the price stipulated. The process of acceptance by the shareholders is proscribed by regulation, with all share transfers and payments being effected through the buyer's and seller's respective securities companies or custodian banks. The offeror is required to acquire any shares in respect of which the tender offer has been accepted within the offering period (the 30 (thirty) days period following the public notice of the tender offer). Payments must be received from the offeror within 12 (twelve) days of the end of the offering period.

Free float requirement

In the event that the acquisition results in a controlling party owning more than 80% of the issued capital of the target company (except, in each case, where the company is taken 100% private), then the new controlling party is required to divest or re-float sufficient shares, or to cause the company to issue new shares, to reduce its shareholding to below 80%. The shareholding shall be reduced within two years of the initial acquisition.

Voluntary tender offer

A voluntary tender offer is an alternative way for potential acquirers to acquire a controlling stake in a target company by way of purchase or exchange with other securities. The offer can be made by any party (whether an existing shareholder or not) and is typically made through the media, meaning that an offer will be made to the public at large through newspapers or magazines, television, radio, and other electronic media, or letters brochures, and other media distributed to more than 100 (one hundred) parties. The party who intends to conduct a voluntary tender offer is required to convey a voluntary tender offer statement to the target company, OJK, any other party who has also announced a voluntary tender offer concerning the same target company but whose tender period has not ended yet and, for listed companies, the IDX.

Additionally, the party who intends to conduct a voluntary tender offer is also required to announce such statement in at least two Indonesian language newspapers, one of which is nationally circulated, on the same day as the submission of the voluntary tender offer statement to OJK.

A voluntary tender offer statement will become effective on the occurrence of the following, whichever is earlier:

- OJK issuing a written approval of the voluntary tender offer.
- Where OJK has not requested, and the potential offeror has not proposed, any changes to the voluntary tender offer statement, 15 (fifteen) days having elapsed from the date the voluntary tender offer statement is received by OJK; or
- Where OJK has not requested, and the potential offeror has not proposed, any changes to the voluntary tender offer statement, 15 (fifteen) days having elapsed from the date of last changes submitted by the potential offeror or based on OJK's request.

A voluntary tender offer must commence within two working days upon the voluntary tender offer statement becoming effective. The period of a voluntary tender offer is at least 30 (thirty) days and may be extended up to 90 (ninety) days, unless otherwise approved by OJK.

4. Infrastructure

Indonesia has substantial infrastructure needs and has therefore instituted large-scale legal and institutional reforms (including unbundling and liberalization) to encourage private investment and increased transparency in the infrastructure procurement process. Among the various initiatives, the Indonesian government has established a public-private partnership ("**PPP**") scheme, with numerous projects now in various stages of development. With PPP scheme, opportunity for private sector along with the Government and State-Owned Enterprises/Regional-Owned Enterprise to be actively involved in infrastructure delivery in Indonesia is opened. Further, on 18 February 2020, the Indonesian government enacted Presidential Regulation No. 32/2020 on Infrastructure Financing through Limited Concession Rights, as amended by Presidential Regulation No. 66/2024, which introduces an alternative scheme for financing public infrastructure through utilisation of existing assets that are currently being operated by the central government and/or state-owned enterprises.

In accordance with Indonesian laws and regulations, infrastructure is categorized and governed by sector or type (for example, roads, railways, electricity, telecommunications, water supply and sanitation – including solid waste, etc.), with a specific ministry or regulatory body assigned to regulate a particular sector or sectors. State-owned enterprises also play a main role in these sectors (although in most cases the legal monopolies and quasi-regulatory powers these enterprises previously enjoyed have been eliminated and the private sector may participate in infrastructure development in Indonesia without being obliged to enter into joint ventures with state-owned enterprises).

Procurement regulations

Indonesia's public procurement rules have been the subject of extensive reforms, both in terms of improving procurement procedures and accommodating the enhanced fiscal authority of local governments under principles of regional autonomy.

The regulations extend to the procurement of goods and services by the national and local governments, state-owned legal entities (such as public universities) and state-owned enterprises or regionally owned enterprises that are financed, wholly or partially, from state or regional budgets. Presidential Regulation No. 16/2018 on Government Procurement of Goods/Services in Indonesia as amended by Presidential Regulation No. 12/2021 is the base for the procurement of goods and services by the Government, while Minister of State-Owned Enterprises Regulation No. PER-2/MBU/03/2023 of 2023 on Guidelines for Governance and Significant Corporate Activities of State-owned Enterprises is the base for procurement of goods and services by State-Owned Enterprises.

As for privately funded projects, Indonesian law does not provide any specific regulation on the definition and mechanism to procure service providers. The procurement process will typically refer to the respective procuring entity's guidelines/regulations. Fundamentally, it is possible for the Indonesian public procurement regulations to be referred to even where the procuring body is not directly a governmental institution. In the field of infrastructure, the general procurement regulations are especially relevant in traditional state-financed modes of infrastructure delivery, as well as in cases where the project structure may not be deemed to fall within the PPP program and therefore has an impact on the state budget.

Competitive public tender is mandatory, except for limited cases. While the Indonesian public procurement regulations govern general requirements, certain areas or sectors may have particular regulatory requirements and may be subject to specific government procurement guidelines.

Public-Private Partnerships (PPP) regulatory framework

In recent years, the Indonesian government has acknowledged the urgency for using the PPP scheme to meet the infrastructure financing gap in Indonesia. Based on the Indonesia PPP Book 2023, the government's main target under the 2020–2024 National Medium-Term Development Plan (RPJMN) is to achieve average GDP growth of 6% and allocate IDR 6,445 trillion, or roughly 6.2% of GDP, for infrastructure spending. By comparison, the government's finance ability can only provide IDR 2,385 trillion, or roughly 37% of the total amount needed for investment. Due to a lack of money, the government must come up with creative financing solutions by enticing the private sector to engage in infrastructure through the Public Private Partnership (PPP) scheme.

Significant improvements have been made to the legal and institutional framework for PPP projects in Indonesia, with the Indonesian government expressing its policy commitment to improve risk allocation for infrastructure projects and support competitive bidding from the private sector. For example, projects procured under the PPP regulations may be developed on a solicited or unsolicited scheme but in all instances, the selection of winning bidders would be initiated through an open tender process and such projects are designed to allocate risks to a party to manage the risks. This contrasts with the various Build-Own-Transfer, Build-Own-Operate and other privatisation schemes conducted by Indonesia in the 1980s and 1990s, where many projects were initiated through direct negotiation with the government.

In this regard, Presidential Regulation No. 38/2015 on Public-Private Partnership for Infrastructure Procurement and the newly enacted regulation Ministry of National Development Planning Agency Regulation No. 7/2023 on the Implementation of Public-Private Partnership in The Provision of Infrastructure (revoking the latest Ministry of National Development Planning Agency Regulation No. 4/2015 as amended by Ministry of National Development Planning Agency Regulation No. 2/2020 on Procedures for the Implementation of Public-Private Partnership Scheme in the Provision of Infrastructures) are the bases for PPP implementation in Indonesia (PPP Regulations). Under the PPP Regulations, the types of infrastructure which are eligible for implementation as a PPP include:

- a. Transportation;
- b. Road infrastructure;
- c. Water resources and irrigation;
- d. Drinking water;
- e. Centralized wastewater management system;
- f. Local wastewater management system;
- g. Hazardous and toxic waste management system;
- h. Telecommunications and informatics;
- i. Electricity;
- j. Oil & gas and renewable energy, including bio-energy;
- k. Energy conservation;
- l. Urban facilities economy infrastructure;
- m. Education, research, and development facilities;
- n. Sports, art, and cultural facilities;
- o. Areal;
- p. Tourism;
- q. Health;
- r. Correctional/prison;
- s. Public housing;
- t. State building;
- u. Industrial ecosystem; and
- v. Battery-powered electric vehicle.

Except the list of sectors above, the enactment of Bappenas Regulation No. 7/2023 also provide some changes in the PPP Implementation in Indonesia, including:

- a. PPP Process Simplification:** The simplification of the process is made in the planning and preparation stages. In the planning process, the GOI only conducts (i) PPP identification, (ii) determination of financing scheme, (iii) budgeting plan preparation. In addition, the simplification is also made in the content of pre-feasibility study (planning stage) and feasibility study (preparation stage).road infrastructure;
- b. Existing IBE Utilization:** The winning bidder of the IBE may determine a limited liability company that has been established before the PPP Procurement begins to act as the PPP IBE. This may be applied by the bidding winner of the IBE for Small Scale PPP.
- c. Return of Investment:** If the previous regulation prohibit the combination of several return of investment (e.q. Availability Payment and User Charge), the new regulation stipulates different provisions. The new regulation permits the combination of several return of investment scheme by considering clarity regarding the allocation of PPP project risks.
- d. Small Scale PPP:** The special treatments for the Small Scale PPP are (i) the feasibility study is more simplified and (ii) the winning bidder may use the existing IBE. The criterias of Small Scale PPP are (i) Infrastructure provision plan with a relatively simple structure and/or scope, (ii) planned technical solutions using proven technologies and/or those that have been applied in similar projects., (iii) the projects do not require Viability Gap Funding, (iv) maximum PPP period of 10 (ten) years.

e. PPP Agreement Amendment: The new regulation makes clear on the provisions restricted to be changed in the agreement amendment after it has been signed by the parties. The restrictions shall be the amendment (i) does not change the project structure, (ii) does not change the predetermined bidding parameters, (iii) does not change the financial viability of the project, (iv) does not reduce the Services, (v) does not change the risk allocation, (vi) does not increase the government's obligations under the PPP Agreement.

f. Financial Close Duration: The new regulation amends the provisions regarding the limitation of the period for conducting financial close no later than 12 months and can be extended a maximum of 2 (two) times with a maximum period of 6 (six) months each.

Other than the PPP regulation above, the Indonesian Parliament has passed new laws for specific sectoral infrastructure which are intended to streamline and provide clarity on the procurement and private sector development and participation for projects in these sectors, including:

- a. Law No. 17/2019 regarding Water Resources (as amended by the Omnibus Law);
- b. Law No. 38/2004 regarding Roads (as amended by Law No. 2/2022 regarding Second Amendment of Law No. 38/2004 regarding Roads and the Omnibus);
- c. Law No. 23/2007 regarding Railways (as amended by the Omnibus Law);
- d. Law No. 17/2008 regarding Maritime Transportation/Shipping (as amended by the Omnibus Law);
- e. Law No. 18/2008 regarding Waste Management;
- f. Law No. 1/2009 regarding Aviation (as amended by the Omnibus Law); and
- g. Law No. 30/2009 regarding Electricity (as amended by the Omnibus Law).

Subject to the relevant sectoral laws and regulations, infrastructure projects may be procured by ministries, institutions and agencies of the Indonesia national government or a local government. A PPP project may also be procured by a state-owned enterprise or regional-owned enterprise where such an entity has been appointed to provide a public infrastructure service. Examples include Indonesia's state-owned electricity company, PT PLN (*Persero*), and the regional-owned water supply companies, *Perusahaan Daerah Air Minum* or PDAMs. The procuring party is generally referred to as the Government Contracting Agency ("**GCA**").

Based on the tender results, the winning bidder (or a new company established by the winning bidder) and the GCA will enter into a Cooperation Agreement (*Perjanjian Kerjasama*) to govern and regulate the implementation of the PPP project. The term "Cooperation Agreement" is a general term used to apply to the main project agreement between the public and the private sector. Depending on the sector and project type, the form of agreement will follow a power purchase agreement, a water purchase agreement, a concession agreement or some other type of agreement.

The Cooperation Agreement must include terms and conditions regarding, among other things, the scope of work and duration of the project, provision of a performance bond, an initial tariff and adjustment mechanism, rights and obligations including risk allocation, service performance standards, sanctions, dispute resolution mechanisms, force majeure conditions, asset ownership status and the terms for returning the project assets back to the GCA at the end of the project term. Additionally, the governing law must be Indonesian law. The Cooperation Agreement may be executed in more than one language and, in case of an inconsistency between the two languages; the prevailing language shall be Indonesian as stipulated under Presidential Regulation 38/2015. The terms of the Cooperation Agreement may also be subject to additional sector specific requirements.

Institutional framework to support PPP

In order to promote and support PPP in Indonesia, the government provides supporting facilities to the private sector through the use of various funds and financing facilities.

For instance, in order to address difficulties arising from land acquisition for PPP projects by the private sector, the Indonesian government has sought to provide financial support for the said private land acquisition as well as to clarify laws and regulations on both public and private land acquisition – including by passing Law No. 2/2012 on Land Acquisition for the Public Interest (as amended by the Omnibus Law), that is intended to reduce uncertainty in land acquisition for infrastructure development. Government Regulation No. 19/2021 on Implementation of Land Acquisition for the Public Interest (which revokes the previous regulation, i.e., Presidential Regulation No. 71/2012) is the implementing regulation.

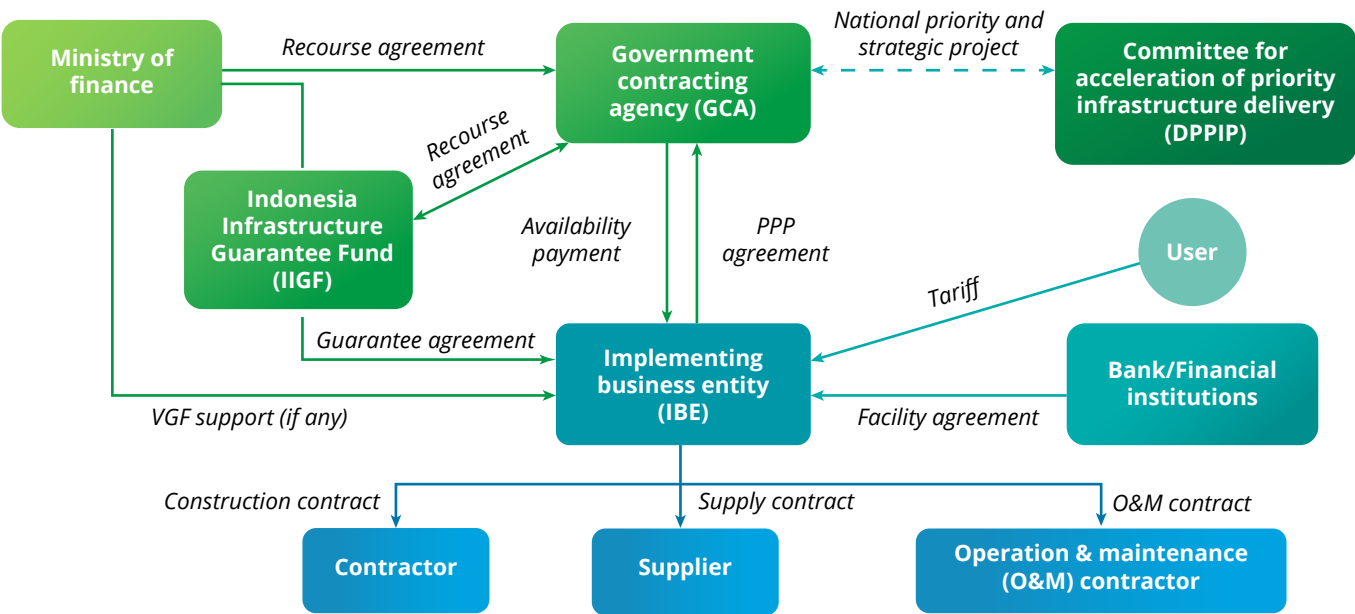
In late 2009, the Ministry of Finance established PT Penjaminan Infrastruktur Indonesia (Persero), or PII, which has become known as the Indonesia Infrastructure Guarantee Fund (IIGF) pursuant to the PPP Regulations and Government Regulation No. 35/2009 on State Participation for Establishment of a Limited Liability Company for Infrastructure Guarantees as lastly amended by Government Regulation No. 55/2020 on Second Amendment of Government Regulation No. 35/2009 on State Participation for Establishment of a Limited Liability Company for Infrastructure Guarantees. IIGF has been mandated by the Ministry of Finance to provide a “single window” for providing government guarantees for infrastructure PPP projects in order to mitigate any project risks of the private sector, thus improving the creditworthiness, bankability and quality of infrastructure projects in the country (such as, in respect of the financial obligations of GCAs under the applicable Cooperation Agreement). The IIGF was established with support from the World Bank to provide such guarantees.

Government guarantees provided by IIGF are entered into between IIGF, as guarantor, and the private company appointed to carry out the project (the project company), as beneficiary. Under the terms of the guarantee agreement, the project company is permitted to assign the benefit of the guarantee to its lenders, and IIGF will enter into a form of direct agreement (a consent letter) with the project company and its lenders to enable this. If the guarantee is called, IIGF will become entitled to compensation for the amount disbursed under the terms of a recourse agreement entered between the GCA and IIGF. The recourse agreement is intended, among other things, to encourage a thorough evaluation by the GCA of the risk allocation under the Cooperation Agreement and the GCA's performance of the terms of the Cooperation Agreement after it is signed.

The Indonesian government also established the state-owned enterprise, PT Sarana Multi Infrastruktur (Persero) or PT SMI, which is a non-banking financial institution focusing on infrastructure financing. Both IIGF and PT SMI have provided inputs and advice to potential GCAs in connection with project preparation and structuring, for example, in providing project implementation advice to the relevant GCA, preparation of pre-feasibility studies of the project, conducting of market sounding exercises and supporting the GCA in the tender process for its PPP project. For example, PT SMI has been appointed by the Ministry of Finance to spearhead the progress of some of the current noteworthy PPP projects in Indonesia – namely, the Umbulan Water Supply PPP Project and the Soekarno-Hatta International Airport Railway PPP Project.

Another institution within the PPP framework, PT Indonesia Infrastructure Finance (IIF) was established to provide alternative financial assistance to finance PPP projects. Since IIF's establishment, it has received a significant equity investment from Sumitomo Mitsui Banking Corporation. The synergy of the current institutional support framework is illustrated in **Figure 24**.

Figure 24: The synergy of institutional support framework



Source: Deloitte analysis.

Land Value Capture

The Government of the Republic of Indonesia enacted Presidential Regulation Number 79 of 2024 on Financing Infrastructure Provision Through Management of Increased Land Value Capture (“PR 79/2024”) on August 12th, 2024. According to consideration of PR 79/2024, in order to encourage the implementation of national development that is sustainable, it is necessary to optimize alternative financing schemes for infrastructure development so as to reduce the burden on the State/Regional Revenues and Expenditures Budget. One of the schemes as the alternative fund with territorial base for infrastructure financing in an area is through value capture which resulted from the impact of infrastructure provision in an area which known as land value capture scheme.

PR 79/2024 regulates about Management of Increased Land Value Capture/*Pengelolaan Perolehan Peningkatan Nilai Kawasan* (“LVC”). LVC means alternative financing for area-based infrastructure provision and/or within a zoning radius/corridor that allows infrastructure provision to be funded from the proportion of value increase on the impact of value creation initiatives carried out by the Central Government, Regional Government, and/or business entities that are obtained from the beneficiaries as well as the results of area development. The aim of LVC is to create a value benefit cycle in connection with infrastructure provision, which consists of value creation, value capture, and value financing. The objectives of LVC including: (i) realization of sustainable development implementation; (ii) increased quantity, quality and efficiency of Infrastructure services resulting in value enhancement;; (iii) creation of new sources of funding to finance an Infrastructure Provision; (iv) creating an investment climate that is attractive, conducive, and guarantees legal certainty; (v) encouraging the society to participate in financing infrastructure provision through the application of the beneficiary pays principle; and (vi) encouragement of awareness and initiative from the Regional Government with the potential for infrastructure provision through LVC.

The cycle of LVC including:



The Implementation of LVC is conducted by:

- a. District/city Regional Government for each LVC in the relevant district/city administrative area; and
- b. Regional Government of the Special Capital Region province of Jakarta in connection with LVC in the administrative area of the Jakarta.

The Authority of Head of Regional Government to Conduct LVC

| | |
|--|--|
| a. Approve the LVC feasibility study; | g. approve the provision of incentives and disincentives in relation to the implementation of LVC; |
| b. Establish the LVC manager; | h. obtain periodic reports in connection with the progress of LVC implementation from the LVC manager; |
| c. Determine the source of LVC Funds and delineate the value catchment area; | i. facilitate any public consultation in connection with the preparation of the LVC Feasibility Study; |
| j. Establish operational funds and sources of operational funds for LVC managers; | j. facilitate coordination with relevant stakeholders to support the implementation of LVC; and |
| k. Establish operational funds and sources of operational funds for LVC managers; | k. facilitate the resolution of strategic issues in connection with the implementation of LVC. |
| l. Determine or approve the distribution of funding support for infrastructure provision whose funds are sourced from LVC funds; | |

Planning

Each economic corridor/economic zone whose development will be supported by LVC must be equipped with a LVC Feasibility Study. The Head of Regional Government assigns the Regional Agency or Regional-Owned Enterprise to prepare LVC feasibility study. Preparation of LVC feasibility study may be prepared by (i) area manager in connection with economic corridor/economic zone and (ii) initiator of infrastructure provision in connection with infrastructure provision which will apply LVC, with the assistance from Regional Agency or Regional-Owned Enterprise based on assignment from Head of Regional Government. The function of LVC feasibility study including:

- a. The basis for making policies related to the implementation of LVC;
- b. The basis for strategic planning to determine the capture area;
- c. A reference in measuring the increase in value that can be captured;
- d. A reference in measuring the increase in value that can be captured; and
- e. A reference for identifying funding in relation to infrastructure provision.

Area Value Creation

The creation of area value is carried out with value creation initiatives, whether carried out by the Central Government, Regional Governments, and/or business entities that have an impact on value increasing. The value creation initiatives may in the form of (i) implementation of certain government policies and (ii) infrastructure provision.

The implementation of certain government policies including:

- a. Change of spatial plan; and/or
- b. Land consolidation.

The infrastructure provision may be conducted with several schemes:

- a. Financing originating from the State Revenues and Expenditures Budget, including financing in the form of forwarding foreign loans/ grants;
- b. Financing originating from the Regional Revenues and Expenditures Budget, including regional debt financing consisting of regional loans, regional bonds, and/or regional sukuk;
- c. Financing carried out by public service agencies/*badan layanan umum* and/or State/Regional-Owned Enterprise that organize infrastructure provision;
- d. Financing through PPP scheme and/or limited management rights cooperation;
- e. Financing through the area manager, in the case of area-based development managed by the area manager;
- f. Financing sourced from LVC fund; and/or
- g. Other financing schemes in accordance with the provisions of laws and regulations.

Area Value Capture

Value capture of the area is conducted by mapping and measuring the value increasing that has been or will be generated as a result of the value creation enjoyed by the beneficiaries and capturing the value increasing. Value capture of the area will be used for value financing. Value capture of the area in the form of: (i) LVC fund and/or (ii) area development results.

Area Value Financing

Area value financing is conducted by redistributing the LVC fund and the area development results obtained from the beneficiary.

LVC Fund Management

The LVC fund is intended to provide funding for area development, infrastructure provision, and/or improvement of facilities and infrastructure and public services. The provision of LVC funds is based on the existence of a Funding Support Agreement between the LVC Manager and the parties implementing the infrastructure provision. The use of LVC fund may in the form of:

- a. Support repayment of any financing that has been entered into by the Regional Government in connection with the provision of infrastructure, including to pay principal, interest, and/or rewards on regional loans, regional bonds, and regional sukuk;
- b. Funding support to business entities that organize infrastructure provision in accordance with the provisions of laws and regulations;
- c. Funding support to the government contracting agency and/or the implementing business entity, in the event that the Infrastructure Provision is carried out with government cooperation scheme with business entities;
- d. Funding support to the area manager, in the event that the infrastructure provision is organized by the area manager;
- e. Funding support to the recipient of the infrastructure provision organizer, in the event that the infrastructure provision is carried out with a scheme government assignment in accordance with the provisions of laws and regulations; and/or
- f. Other forms of payment in accordance with the provisions of laws and regulations.

Funding support sourced from the LVC Fund can be provided for infrastructure provision, either alone or in conjunction with an return of investment mechanism and/or other support. The mechanism of return on investment may in the form of:

- a. Payment of Infrastructure services by users in the form of tariffs;
- b. Availability payment from Central Government/Regional Government;
- c. Other forms as long as they do not conflict with laws and regulations.

Other support may in the form of:

- a. Viability gap fund for infrastructure provision from Central Government; and/or
- b. Other support or incentive.

Area Development Results Management

The area development results that have been handed over to the Regional Government can be determined by the Head of Regional Government to be managed by the LVC Manager or other parties in accordance with the provisions of laws and regulations. For the result from horizontal integration of infrastructure provision and property business, managed based on the provisions in the cooperation agreement underlying the implementation of infrastructure provision.

Use of Land Value Capture in Existing or Future Infrastructure Projects

The implementation of LVC in existing or future infrastructure projects should take into account the following criteria:

- a. Infrastructure provision that is being carried out the preparation of a feasibility study of the infrastructure development and will be applied LVC, then the preparation of the LVC feasibility study is made in accordance with PR 79/2024;
- b. Infrastructure provision that has been carried out the preparation of a feasibility study and is undergoing infrastructure development, which is then identified as having the potential for LVC application and will be applied LVC, then the preparation of an LVC feasibility study is made to measure the increased value that can be captured in accordance with PR 79/2024;
- c. Infrastructure provision that has been built and identified as having the potential for LVC application and will be applied LVC, an LVC feasibility study is prepared to measure the increase in value that can be captured in accordance with this Presidential Regulation.

Concession scheme (assets recycling)

Asset's recycling is a measure that enables the Government or State-Owned Enterprises to fund necessary infrastructure investments through proceeds made from sale or lease of their assets to private sector. In Indonesian regulatory framework, Presidential Regulation No. 32/2020 on Infrastructure Financing through Limited Concession Scheme (as amended by Presidential Regulation 66/2024) has introduced a concept of Limited Concession Scheme ("**LCS**") as one of the asset recycling schemes that can be implemented by Government and State-Owned Enterprises.

Presidential Regulation No. 32/2020 is an enabling regulation which allows private sector investment in operations of existing assets owned by the State or state-owned enterprises. For example, the government can grant private sector investors a 'limited concession' for the operation of a brownfield toll road. The granting of such operational right is dubbed as LCS. Aside from benefitting from the operation of a commercial asset, private sector investors participating in LCS will also partake in the financing of new infrastructure. Private sector investors will be required to pay a premium to compensate the State or state-owned enterprises for the granting of the 'limited concession'. In this way, the government or state-owned enterprises will be able to deploy funding for development of new infrastructure assets.

To provide clarity on LCS, Presidential Regulation No. 32/2020 elaborates the categories of infrastructure assets that can be offered to the private sector through LCS, namely:

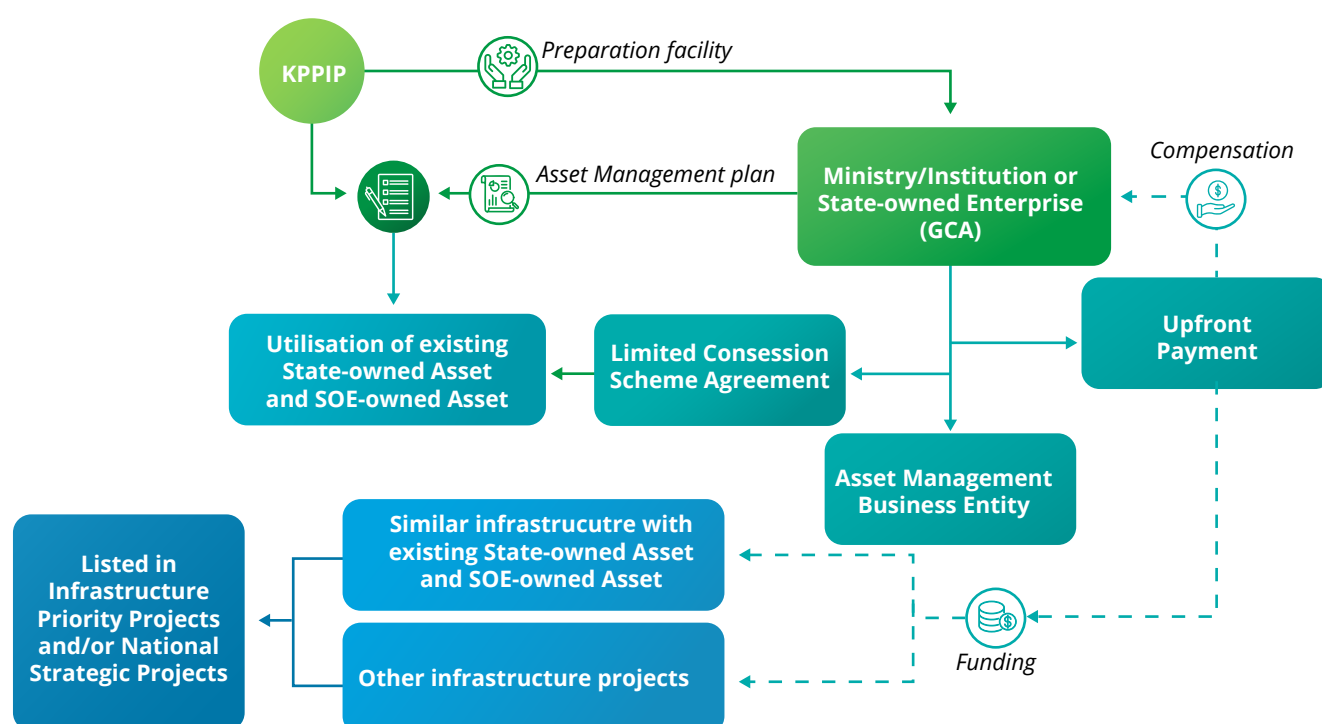
- a. Transportation (seaport, railway, airport, and bus terminal);
- b. Toll road;
- c. Water resources;
- d. Drinking water supply system;
- e. Wastewater treatment system;
- f. Waste management system;
- g. Telecommunications and information system;
- h. Electricity;
- i. Oil, gas, and renewable energy;
- j. Health;
- k. Regional infrastructure;
- l. Tourism;
- m. Government office building; and
- n. Housing

Further, Presidential Regulation No. 32/2020 sets out the minimum criteria for public assets to be privately operated through LCS, where such asset:

- Have been fit for operation either partially or fully;
- Require partners for the improvement of commercial value and/or operational efficiency in accordance with generally accepted international standards;
- Have a useful life of infrastructure assets of at least 10 (ten) years;
- For BMN, shall be recorded in the financial statements of ministries/agencies which have been audited based on government accounting standards in the previous period; and
- For State-Owned Enterprises' assets, shall be recorded in audited books for at least 3 (three) consecutive years based on the guidelines for the statement of Indonesian financial accounting standards.

The minister/head of agency acting as user of the relevant State asset or the president director of the state-owned enterprise will be assisted by the Committee for Acceleration of Priority Infrastructure Delivery (KPPIP) in carrying out the planning process. The output of this planning process is an Asset Management Plan which acts as a pipeline of assets that are available to be offered for LCS. In the case of assets recorded as State owned, there shall be a competitive tender process to be carried out in offering LCS assets to pre-qualified investors. At this stage, the minister/head of agency as the asset owner will carry out the transaction process. Once the transaction process has been concluded, the government, through a Public Service Agency (BLU) under the Ministry of Finance will take over the assets and enter into an agreement with the winning bidder. In the case of assets recorded as state-owned enterprise owned, the president director will carry out the transaction in accordance with selection procedures applicable for such state-owned enterprise. After conclusion of the selection process, the state-owned enterprise will enter into an agreement with the winning bidder. Specific for this type of transaction, the state-owned enterprise and winning bidder may establish a special purpose company. The project structure of LCS is illustrated in **Figure 25**.

Figure 25: LCS project structure



Source: Deloitte analysis.

Under Presidential Regulation No. 32/2020, LCS is beneficial for the asset owner as the scheme will reduce the risk which may incur when the Government or State-Owned Enterprises utilize the respective asset by themselves. On the other side, as an alternative to conventional funding, the implementation of LCS is the way for Government to build much-needed infrastructure without plunging into more debt, while maintaining or potentially improving existing infrastructure service delivery.

On the flip side, it is highly likely that maturation of Presidential Regulation No. 32/2020 will depend on several factors, including overarching regulations and investment restrictions. Prior to Presidential Regulation No. 32/2020, the Government has established regulatory framework for utilisation of state/ Region Owned Assets and PPPs and this creates overlap in regulation of similar matters which could potentially be a stumbling block in its implementation.

For State-Owned Enterprises, asset recycling can also be implemented through strategic partnership cooperation scheme. Under Minister of State-Owned Enterprises Regulation No. 7/2021, strategic partnership cooperation scheme is conducted between State-Owned Enterprises and its partner to achieve mutual objectives where such cooperation will be conducted pursuant to the most optimal benefits for the State-Owned Enterprises. Strategic partnership cooperation schemes can be conducted either by the State-Owned Enterprises as partners or the State-Owned Enterprises as parties who seek partners. Partnership in which State-Owned Enterprises as a party that seeks for a Partner shall be carried out based on the Standard Operating Procedures issued by the Board of Directors.

5. Good Corporate Governance implementation

Implementation of Good Corporate Governance principles is governed through Article 4 of Law No. 40/2007 (as amended) and its elucidation on Limited Liability Companies and Article 15 of Law No. 25/2007 (as amended) on Investment which emphasises the responsibilities of good corporate governance from both Limited Liability Companies' and investors' perspectives. Good corporate governance pillars include ethical behaviour, accountability, transparency, and sustainability.⁹⁶ Complementary to these regulations, the Coordinating Minister for Economic Affairs, stated that good corporate governance is an important pillar of the market economy as it relates to investors' confidence both in the companies as well as in the overall business environment. Its implementation leads to sustainable economic growth and stability, moreover it is also expected that it will support the efforts of the government in establishing a clean and credible government.

In implementing Good Corporate Governance, companies in Indonesia can refer to the General Guidelines for Indonesian Corporate Governance from the National Committee on Governance (KNKG) and International Finance Corporation (IFC). The National Committee on Governance has established the Corporate Governance Sub-Committee which reviews and revises the existing national code of corporate governance to be applicable to current circumstances. The IFC, which is a member of the World Bank Group, assists to address various challenges companies face in emerging markets by strengthening their governance practices. These manuals are not legally binding on companies but provide fundamental guidance and reference to implement good corporate governance.

There are three important topics mentioned in these manuals: (i) Risk Management, (ii) Internal Control, and (iii) Internal Audit. Risk Management, Internal Control, and Internal Audit become three main areas that need to be covered in the duties of the Board of Commissioners (BOC) and Board of Directors (BOD).

Risk management

According to the Indonesia Corporate Governance Manual prepared by the IFC, successful risk management is central to the success of all companies. In risk management, both BOC and BOD are responsible for:⁹⁷

- Determining the nature and level of risks that a company is willing to take in order to achieve the company's strategic goals.
- Ensuring that risks are assessed and mitigated properly.

⁹⁶ "Pedoman Umum Governansi Korporat Indonesia (PUG-KI) 2021". National Committee on Governance. 2021.

⁹⁷ "Indonesia Corporate Governance Manual 2nd Ed". International Finance Corporation. 2018.

BOD implements risk management systems while BOC is responsible for monitoring and reviewing implementation. Based on *Pedoman Umum Governansi Korporat Indonesia* (PUG-KI) 2021 published by the National Committee on Governance (KNKG), it is recommended that:⁹⁸

- The Board of Directors leads the implementation of risk management to be utilized by all levels of management in creating and protecting value for the corporation, by setting an example and being a role model in terms of risk control and management in business and operational activities in order to instill, strengthen and develop a risk-aware culture based on compliance and effective internal control.
- The Board of Directors discloses a) the main risks faced by the corporation and their management; and b) whether there are material exposures to environmental or social risks and, if so, how it manages or intends to manage such risks.
- The Board of Directors ensures the suitability of the internal control system and risk management framework with the characteristics of the needs and business processes of the corporation so that the internal control process and risk management of all types of risks faced by the corporation, including risks faced by the corporation, including communication and reporting on risks, risk management, auditing, and their effectiveness, can be carried out effectively in line with the expectations of stakeholders.
- The Board of Directors ensures risk governance processes in Information Technology including disruption, cyber security, disaster recovery, to ensure that all key risks are identified, managed and reported to the Board of Commissioners.

To assist BOC in monitoring and reviewing the implementation of risk management systems, the BOC should establish a Risk Policy Committee, which is recommended for all companies (OJK CG Guidelines). The Risk Policy Committee has responsibility for assisting the BOC in setting the risk governance structure, determining and evaluating levels of the company's risk tolerance, and monitoring key risk indicators & results regularly as well as reviewing the adequacy and effectiveness of risk management and internal control systems.

In implementing risk management, most companies in Indonesia refer to guiding framework of ISO 31000:2018 Risk Management and/or COSO Enterprise Risk Management 2017. Nationally, Indonesia National Standardization Body (BSN) launched Indonesia National Standard (SNI) 8615:2018 ISO 31000:2018 Risk Management Guide.

Internal control

Referring to the Internal Control – Integrated Framework (Committee of Sponsoring Organisations of the Treadway Commission 2013), internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.⁹⁹ The establishment and maintenance of an effective internal control system are required in risk management.

Based on *Pedoman Umum Governansi Korporat Indonesia* (PUG-KI) 2021 issued by the National Committee on Governance:¹⁰⁰

- The BOD periodically reviews the appropriateness of the design and operational effectiveness of the corporation's governance, risk management, internal control and compliance systems and reports the implementation and results of the review to the shareholders through the Corporation's annual report.
- Periodic reviews conducted by the Board of Directors specifically consider:
 - a. Any changes since the last periodic review of the nature and scope of significant risks and the corporation's ability to respond to changes in its business and external environment;
 - b. The scope and quality of ongoing monitoring of risk and internal control systems, the role of the internal audit function and other assurance providers;
 - c. The scope and frequency of communication of the results of the above monitoring to the Board of Commissioners (or to the Audit Committee) which enables the Board of Commissioners to thoroughly assess the condition of internal control and its effectiveness in managing risk;
 - d. The occurrence of any failures or deficiencies in internal control discovered during the period under review and the extent of any contingencies that have, could, or may occur in the future, that have a material impact on the corporation's financial condition or performance; and
 - e. The effectiveness of internal controls relating to financial reporting and compliance with applicable laws and regulations.

⁹⁸ "Pedoman Umum Governansi Korporat Indonesia (PUG-KI) 2021". National Committee on Governance. 2021.

⁹⁹ "Internal Control—Integrated Framework". Committee of Sponsoring Organizations of the Treadway Commission. 2013.

¹⁰⁰ "Indonesia's Code of Good Corporate Governance". National Committee on Governance. 2006.

- The BOD ensures that the corporation has a function whose role is to keep abreast of changes in various applicable laws and regulations related to its business and laws and regulations in general, and has a system to ensure the corporation's compliance with applicable laws and regulations and internal corporate regulations.

Internal audit

Internal Audit is responsible for ensuring the adequacy and effectiveness of internal control that is implemented within the company to protect the company from losses. This function evaluates the control environment, assesses risks and aspects in risk management, communicates findings to the BOC (through the Audit Committee) and BOD, and provides recommendations to improve the company.

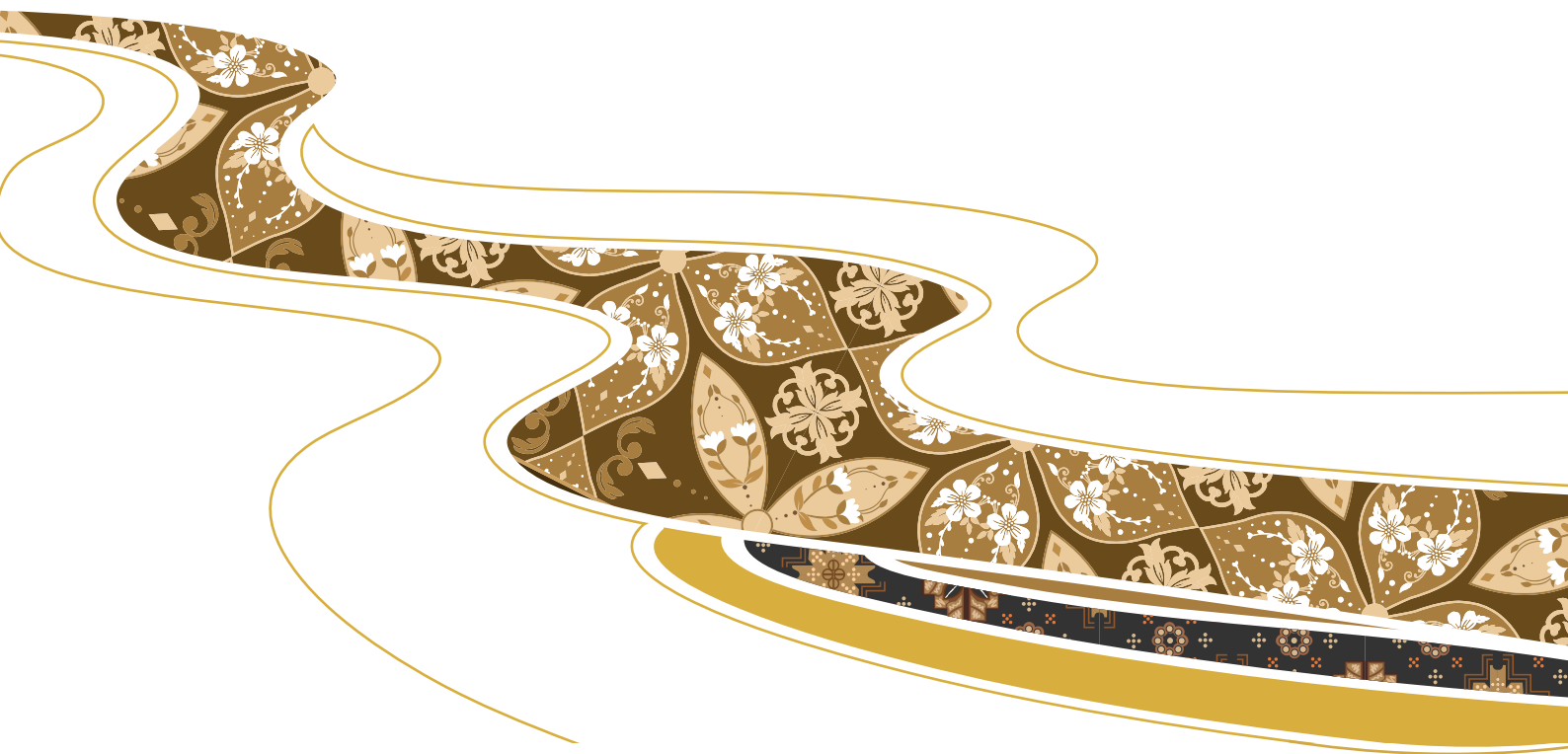
According to the Indonesia Corporate Governance Manual prepared by the IFC, Internal Audit provides assurance to the BOC and BOD as follows:¹⁰¹

- The efficiency and effectiveness of operations for the overall entity, divisions, subsidiaries, operating units, and business functions.
- The risk management framework (including risk identification, risk assessment, response, and monitoring).
- The internal control environment, including the safeguarding of assets and soundness and integrity of reporting processes.
- Compliance with regulations, policies, and procedures.

As mentioned previously, findings are communicated by Internal Audit to BOC through the Audit Committee. The Audit Committee is one of the BOC Committees which is mandatory for issuers and public companies (OJK) and recommended for other companies (OJK CG Guidelines). It has responsibility for assisting the BOC in ensuring the appropriateness of financial reports that are presented, adequacy and effectiveness of internal control structure, internal and external audits in accordance with applicable audit standards, and audit findings are followed up by management.

Internal Audit practice, both globally and in Indonesia specifically, rely on IIA's Standard for Professional Practice on Internal Auditing (SPPIA) which is universally accepted as the leading standard in ensuring the responsibilities of internal auditors and the internal audit activity. IIA also recognises COSO Internal Control — Integrated Framework (2013) as the leading standard for determining what constitutes effective internal control.

¹⁰¹ "Indonesia Corporate Governance Manual 2nd Ed". International Finance Corporation. 2018.



6. Capital market

Indonesia Stock Exchange (IDX)

IDX organizes and provides the system and the facilities to connect the seller and the buyer of shares for trading purposes. IDX determines the regulations concerning the members, listings, trading, clearing, settlement and other matters related to stock exchange activities. A proposed IDX regulation must be approved by OJK before becoming effective. IDX is also required to maintain an inspection unit assigned to periodically investigate members and their activities on the IDX.

The prospective listed company may list its shares on the Main Trading Board, the Development Trading Board, the Acceleration Trading Board, or the newly New Economic Board as enacted by the Board of Director of IDX Decree Number KEP-00083/BEI/11-2022 of 2022 on Rule Number I-Y on the Listing of Shares and Equity Securities Other than Shares Issued by Listed Companies on the New Economic Board.

The following table summarises the differences in the requirements for listing on the four boards:

| No | Matters | Main Trading Board | Development Trading Board | Acceleration Trading Board | New Economic Board |
|----|------------------------------|---|--|---|---|
| 1 | Type of Entity | Limited Liability Company | Limited Liability Company | Limited Liability Company | Limited Liability Company |
| 2 | Operational Period | 36 months (affirmed that the operational period refers to commercial operations confirmed by the company receiving business income). | 12 months (affirmed that the operational period refers to commercial operations proven by the existence of business income). | Having commercially performed operational activities as proven by having booked business income during the past fiscal year. | 36 months (affirmed that the operational period refers to commercial operations confirmed by the company receiving business income). |
| 3 | Financial statements | <ul style="list-style-type: none"> Have been audited for at least 3 years Audited Financial Statements for the last 2 years and the latest interim Audited Financial Statements (if any) which have obtained an Unqualified Opinion (<i>opini tanpa modifikasi</i>). | Have been audited for at least 12 months and the latest interim Audited Financial Statements (if any) which have obtained an Unqualified Opinion (<i>opini tanpa modifikasi</i>). | Have been audited for at least the last 12 months or since the establishment for the company which has been established for less than 1 year shall acquire the Unqualified Opinion (<i>opini tanpa modifikasi</i>). | <ul style="list-style-type: none"> Have been audited for at least 3 years. Audited Financial Statements for the last 2 years and the latest interim Audited Financial Statements (if any) which have obtained an Unqualified Opinion (<i>opini tanpa modifikasi</i>). |
| 4 | Capital | <ul style="list-style-type: none"> Net Tangible Assets ("NTA") min. IDR250 billion; or Cumulative Profit Before Tax for the last 2 years min. IDR100 billion & Market Capitalisation min. IDR1 trillion; or Revenue min. IDR800 billion & Market Capitalisation min. IDR8 trillion; or Total Assets min. IDR2 trillion & Market Capitalisation min. IDR4 trillion; or Cash Flow from Operating Activities 2 years min. IDR200 billion & min. Market Capitalisation IDR4 trillion. | <ul style="list-style-type: none"> NTA min. IDR50 billion; or Cumulative Profit Before Tax for the last 2 years min. IDR10 billion & Market Capitalisation min. IDR100 billion ; or Revenue min. IDR400 billion & Market Capitalisation min. IDR400 billion; or Total Assets min. IDR250 billion & Market Capitalisation min. IDR500 billion; or Cash Flow from Operating Activities 2 years min. IDR20 billion & min. Market Capitalisation IDR400 billion | <p>For small scale asset:</p> <ul style="list-style-type: none"> Total assets (or other equivalent terms) no more than IDR 50 billion; and Shall not be controlled by controller of issuers/ public companies that are not small or medium enterprises; and/or companies with assets more than IDR 250 billion. <p>For medium scale asset:</p> <ul style="list-style-type: none"> Total assets (or other equivalent terms) from IDR 50 billion to IDR 250 billion; and Shall not be controlled by controller of issuers/ public companies that are not small or medium enterprises; and/or companies with assets more than IDR 250 billion. | <ul style="list-style-type: none"> NTA min. IDR250 billion; or Cumulative Profit Before Tax for the last 2 years min. IDR100 billion & Market Capitalisation min. IDR1trillion; or Revenue min. IDR800 billion & Market Capitalisation min. IDR8 trillion; or Total Assets min. IDR2 trillion & Market Capitalisation min. IDR4 trillion; or Cash Flow from Operating Activities 2 years min. IDR200 billion & min. Market Capitalisation IDR4 trillion. |
| 5 | Total number of shareholders | > 1,000 | > 500 | > 300 | > 1,000 |

| No | Matters | Main Trading Board | Development Trading Board | Acceleration Trading Board | New Economic Board |
|----|---|--|---|---|--|
| 6 | Minimum number of shares owned by minority shareholders | 300 million shares and meet the requirements: <ul style="list-style-type: none"> At least 20% of total issued shares which have equity value before initial public offering of less than IDR500 billion; At least 15% of total issued shares which have equity value before initial public offering from IDR500 billion up to IDR2 trillion; or At least 10% from issued shares which has equity value before initial public offering of more than IDR2 trillion. | 150 million shares and meet the requirements: <ul style="list-style-type: none"> At least 20% of total issued shares which have equity value before initial public offering of less than IDR500 billion; At least 15% of total issued shares which have equity value before initial public offering from IDR500 billion up to IDR2 trillion; or At least 10% from issued shares which have equity value before initial public offering of more than IDR2 trillion. | At least 20% of total issued shares | 300 million shares and meet the requirements: <ul style="list-style-type: none"> At least 20% of total issued shares which have equity value before initial public offering of less than IDR500 billion; At least 15% of total issued shares which have equity value before initial public offering from IDR500 billion up to IDR2 trillion; or At least 10% from issued shares which has equity value before initial public offering of more than IDR2 trillion. |
| 7 | Share Price | IDR100 | IDR100 | IDR50 | IDR100 |
| 8 | Independent Commissioner | At least 30% of the Board of Commissioners. | At least 30% of the Board of Commissioners. | At least 30% of the Board of Commissioners, with leniency of fulfilment as follows: <ul style="list-style-type: none"> 6 (six) months transition for issuers having medium-scale assets. 1 (one) year transition for issuers having small-scale assets. | At least 30% of the Board of Commissioners. |
| 9 | Corporate Secretary | √ | √ | Leniency of fulfilment as follows: <ul style="list-style-type: none"> 6 (six) months transition for issuers having medium-scale assets. 1 (one) year transition for issuers having small-scale assets. | √ |
| 10 | Audit Committee and Internal Audit Unit | √ | √ | Leniency of fulfilment as follows: <ul style="list-style-type: none"> 6 (six) months transition for issuers having medium-scale assets. 1 (one) year transition for issuers having small-scale assets. | √ |
| 11 | Remuneration and Nomination Committee | √ | √ | Leniency of fulfilment as follows: <ul style="list-style-type: none"> 6 (six) months transition for issuers having medium-scale assets. 1 (one) year transition for issuers having small-scale assets. | √ |

PT Kustodian Sentral Efek Indonesia (KSEI)

KSEI, which is domiciled in Jakarta, offers central custody and settlement services of IDX transactions, under an agreement with IDX. It serves custodian banks, securities companies and other related parties. KSEI is one of the Self-Regulatory Organization (SRO) along with PT Bursa Efek Indonesia (BEI) and PT Kliring Penjaminan Efek (KPEI).

PT Kliring Penjaminan Efek (KPEI)

KPEI is one of the Self-Regulatory Organizations (SRO) engaging in Clearing and Underwriting under the supervision OJK. As a Clearing and Underwriting Institution, KPEI guarantees clearing and underwriting services for regular, fair and efficient exchange transaction settlements as well as other services based on the provisions stipulated by the OJK. KPEI is owned by IDX.

Financial Services Authority (OJK)

As of 1 January 2013, OJK began regulating the capital markets, insurance companies, securities companies and multi-finance companies. In addition, OJK began monitoring banks on 1 January 2014.

OJK was established to serve as a “one-stop” regulatory body for both bank and non-bank financial institutions, covering banking, capital markets, insurance and other financial services sectors and its authority is intended to be broader than its predecessors. OJK is authorised to investigate corruption in the financial services sector, administer penalties, conduct investigations and initiate prosecutions and has the power to revoke licenses. OJK is also intended to play a central role in consumer protection in the financial services industry, address consumer service complaints and make legal claims on behalf of consumers.

OJK is expected to cooperate with other government agencies, such as the Ministry of Finance and Bank Indonesia. Following the transfer of Bank Indonesia's authority to supervise commercial and Sharia banks to OJK at the end of 2013, Bank Indonesia's main task is to supervise the stability of the monetary and payment systems.

In light of the COVID-19 pandemic situation, the Indonesian government has enacted Government Regulation in Lieu of Law No. 1/2020 on State Financial Policy and Financial System Stability for Managing the Corona Virus Disease Pandemic 2019 (COVID-19) and/or in Dealing with Threats that Harm the National Economy and/or Financial System Stability (which was later amended by Law No. 7 of 2021), focusing on the implementation of state budget for handling COVID-19 pandemic and facing threats that endanger national economy and financial system stability.

To support the stability of the national economy and financial system during COVID-19, and the mandate of the laws, OJK has issued several regulations, among others related to countercyclical regulations, the general meeting of shareholders mechanism for public companies, the electronic general meeting of shareholders (e-GMS), material transaction and alteration of business activities, and written order from OJK to the banking institution for handling financing problems due to pandemic, in which OJK has further announced that the banking credit restructuring policy for the impact of COVID-19 ended on 31 March 2024. Although Indonesia has declared to be free from COVID-19, but several practices during COVID-19 are still being implemented (e.g. the e-GMS).

Bond market

The Indonesian bond market consists primarily of government bonds and corporate bonds. Domestic issuances of asset-backed securities are permitted under a specific regulatory regime. Additionally, the government has issued regulations to allow the issuance of municipal bonds.

The national government has issued various bonds with short-, medium- and long-term maturities in both Rupiah and foreign currencies. National government bonds consist of Indonesian Sovereign Bonds (*Surat Utang Negara*) and State Sharia Securities (*Surat Berharga Syariah Negara*, commonly known as SBSN), as bonds issued under Sharia principles in either Rupiah or a foreign currency. Issues of SBSN have utilised a sukuk ijarah sale and leaseback structure.

Corporate bonds primarily consist of conventional corporate bonds, Medium Term Notes (commonly known as MTN), corporate *Sukuk* and convertible bonds. Corporate issuers also regularly tap the international capital markets through offshore bond issuances through offshore special purpose entities.

Municipal bonds (bonds issued by the local governments) are intended to be implemented in accordance with regional autonomy principles and to facilitate the funding of regional infrastructure projects. Municipal bonds are intended to have a maturity of one-year or more, to be denominated in Rupiah and be offered to the Indonesian public through the domestic capital markets. The bonds may be secured by collateral consisting of the regional project to be funded by the bond issuance. No guarantee is available from the national government for these bonds.

Capital market regulation allows for the issuance of debt securities without public offerings under certain circumstances. The enactment of OJK Regulation No. 30/POJK.04/2019 on the Issuance of Debt and/or *Sukuk* Securities without Public Offerings will regulate the legal framework that addresses these matters.

Recently, Indonesia has updated its bond market regulations with a focus on expanding sustainable finance through the enactment of OJK Regulation No. 18 of 2023 which covers the issuance and requirement for sustainable debts securities and sukuk, replacing OJK Regulation No. 60 of 2017 on the Issuance and Requirements of Green Bond. This new regulation broadens the scope of sustainable finance to include among others not only environmental projects, but also social aspects, as well as allowing the issuance of sustainable debts securities and/or sukuk both with or without public offering.

Information disclosure

Public companies that intend to issue securities and/or are considering listing on the IDX are required to submit financial statements and other disclosure documents to OJK and make them available to the public. OJK, as the capital markets regulator, sets out the minimum standards for a public company's financial statements, which include annual and mid-year financial statements and quarterly reports on the use of funds.

Financial Statements shall be prepared in accordance with Indonesian Financial Accounting Standards (*Pernyataan Standar Akuntansi Keuangan* or PSAK) established by the Indonesian Institute of Accountants (*Ikatan Akuntan Indonesia* or IAI), and other generally accepted accounting practices in the Indonesian capital markets, and include Balance Sheet, Income Statement, Statement of Changes in Stockholders Equity, Cash Flow Statement and Notes to Financial Statements.

Consolidated financial statements are to include all subsidiary companies controlled by the parent company. Control is deemed to exist when the parent company directly owns, or indirectly owns through subsidiaries, more than 50% of the voting shares of a company, or if the parent company meets one of the following conditions:

- The company holds more than 50% of voting rights by virtue of an agreement with other investors;
- The company has the power to direct and determine financial and operational policies based on the articles of association or an agreement;
- The company has the power to appoint or dismiss a majority of the members of company management; or
- The company has the power to direct the majority of voting rights in a management meeting.

Subsidiaries should, however, be excluded from consolidation if:

- Control is intended to be temporary because the subsidiary's shares are acquired and held with a view to their subsequent disposal in the near future; or
- The subsidiary company is under severe long-term restrictions which significantly impairs its ability to transfer funds to the holding company.

Each Indonesian public company is also required to disclose any occurrence that may affect the value of the company's stock, by providing public notice and notice to OJK, within two working days of the occurrence. Occurrences requiring disclosure include but are not limited to:

- Merger, share purchase, consolidation or establishment of a joint venture company.
- Stock split or dividend.
- Income from the extraordinary dividend.
- Acquisition or loss of an important contract.
- Significant new product or innovation.
- Change in control or significant change in management.
- Call for the purchase or redemption of debt securities.
- Sale of a material amount of securities to the public or in a private placement.
- Purchase, or loss from the sale of, a material asset.
- Relatively important labour disputes.
- Important litigation against the company and/or the company's directors or commissioners.
- An offer to purchase securities of another company.
- Replacement of the company's auditor.
- Replacement of a trustee of the company's debt obligations.
- A change in the company's financial year; and
- Other information or material facts.

Private placement

In Indonesia, selling of securities in a private placement may be carried out by way of direct negotiation between the company and certain investors. A domestic capital markets transaction may constitute a private placement if the transaction is not offered to Indonesian citizens through the mass media, is offered to 100 parties or less and sold to 50 parties or less.

Private placement of equity of a public company could be conducted through a capital increase without pre-emptive rights of existing shareholders, under the following conditions are fulfilled:

- Financial balance corrections;
- Other than financial balance corrections;
- Issuance of Bonus Shares that:
 - Takes in the form of Share Dividends resulting from Profit Balance which is transformed into capital and/or
 - Do not take the form of Share Dividends resulting from share premiums (*agio saham*) or other equity elements which transformed into capital.

The company is also required to secure approval from the GMS, with also taking into account the GMS attendance and decision quorum for the capital increase.

The primary purpose of the capital increase is to improve the financial position of a company that is experiencing one of the following conditions:

- A bank that has received a loan from Bank Indonesia or another government institution in the amount equal to more than 100% of the company's paid in capital or another condition that may result in the restructuring of the bank by the government institution.
- A non-bank company that has negative net working capital and has obligations greater than 80% of the company's assets at the time the general meeting of shareholders approves the capital increase; or
- The company is in default or is unable to avoid default on its obligations to a non-affiliated lender, and such lender has agreed to accept shares or convertible bonds of the company in settlement of the loan.

The capital increase in purpose for other than financial balance corrections can be performed for a maximum of 10% of the total issued and fully paid-up shares or paid-up capital as set out under the amendment to AOA that has been notified to and received by the MOLHR.

Initial Public Offering (IPO) process

A company that intends to carry out an initial public offering in Indonesia must submit a registration statement and supporting documents to OJK. The issuer is responsible for the completion and correctness of the information that is disclosed in the said documents (except for specific information such as the offering price and the registration's effectiveness date, which may not be determined at the time of submission). After submitting the registration statement, the issuer may be requested to submit additional information and/or amend the registration statement to meet the prevailing requirements under the laws and regulations.

The issuer is required to announce a summary of the prospectus for the IPO in at least 1 (one) Indonesian nationally circulated daily newspaper within 2 (two) working days from the receipt of permission to do so from OJK and is required to provide OJK with the relevant announcement evidence within 2 (two) working days of the same.

An issuer may also conduct an offer by using a preliminary prospectus (for purposes of book building), with written authorisation from OJK.

Effectiveness of registration statement

The registration statement from the issuer will become effective as follows:

- a. Based on the passage of time:
 - 45 (forty five) days since the complete registration statement is received by OJK, where all criteria relating to a registration statement for a public offering have been fulfilled; or
 - 45 (forty five) days since the date of the last amendments were delivered to OJK or the last date of any requirements from OJK having been fulfilled.
- b. Based on a statement from OJK that there is no further change and no additional information needed.

After the registration statement is effective, the issuer is under the obligation to:

- a. Provide the required prospectus as a part of a registration statement to the public or prospective buyers.
- b. Submit the prospectus and supporting documents through OJK's system called SPRINT ("*Sistem Perizinan dan Registrasi Terintegrasi*"); and
- c. Announce if there is any change and/or addition to the summary prospectus in at least 1 (one) nationally circulated newspaper within 1 (one) working day of the effectiveness of the registration statement and submit such evidence to OJK within 2 (two) working days after its announcement.

Period of Public Offering, Allotment, and Public Offering Report

The issuer must conduct the public offering process at the latest 2 (two) working days following from when the registration statement is effective; the public offering period is to be within 1 (one) to 5 (five) working days and the allotment of shares must be accomplished within 2 (two) working days after the end of the period of the public offering. Thereafter, the distribution of such shares must be conducted within 1 (one) working day after the date of allotment.

The underwriter or the issuer must submit a report regarding the public offering to OJK within 5 (five) working days from the share allotment date. Thereafter, the underwriter or the issuer (if the issuer is not using an underwriter) is required to appoint a public accountant to conduct a specific examination of the public offering, which must be received by OJK within 30 (thirty) days from the end of the public offering period.

If the offered shares will be listed on the IDX, the listing must be conducted within 1 (one) working day after the share allotment date.

Rights issue

In the event that an Indonesian public company intends to increase its capital, the existing shareholders of the said public company have a pre-emptive right to acquire a portion of the newly issued securities in proportion to the percentage of their respective current shareholdings.

In the event that the public company issues warrant, the total number of warrants and circulated warrants cannot exceed 35% of the total paid-up capital at the date the registration statement is submitted.

Rights issues include a stand-by buyer which has the obligation to purchase any remaining shares that are not purchased by the existing shareholders or the public, at the same price and on the same terms. The party which acts as a stand-by buyer must provide financial statements (for a company) or checking account statement (for an individual) that shows positive earnings and its capability to act as a stand-by buyer.

7. Banking and lending

Bank Indonesia is the central bank of Indonesia. Under Law No. 23/1999 regarding Bank Indonesia as lastly amended by Law No. 4/2023 on The Development and Strengthening of the Financial Sector ("**Bank Indonesia Law**"), Bank Indonesia is an independent state agency free from interference from the government and/or other parties unless expressly provided otherwise by law. Bank Indonesia's primary objective is to achieve the stability of the value of Rupiah, maintain the stability of the payment system, and help maintain financial system stability in order to support sustainable economic growth. The Bank Indonesia Law further regulates that in the purpose to achieve the aforementioned objective, Bank Indonesia has the following tasks:

a. Determining and implementing monetary policy in a sustainable, consistent, and transparent manner

In the context of determining and implementing monetary policy, Bank Indonesia is authorised to:

1. Manage interest rates;
2. Manage exchange rates;
3. Manage liquidity;
4. Manage foreign exchange traffic;
5. Manage the state foreign exchange reserves;
6. Regulate, supervise and develop money market and foreign exchange market; and
7. Establish and implement other monetary policy.

In implementing the above said authorities, Bank Indonesia shall conduct:

1. Regulation, supervision, examination, and imposition of sanctions;
2. Accountable and transparency policy communication; and
3. Policy coordination with the government, authorities and relevant stakeholders.

b. Regulating and maintaining smooth payment system

In regard to regulate and maintain smooth payment system, Bank Indonesia has the authority to:

1. Implement and provide approval and licenses for the implementation of payment system services;
2. Require payment system service providers to submit reports on their activities; and
3. Determine the use of payment instruments.
4. To submit reports on their activities.
5. Determine the use of payment instruments.

c. Establishing and implementing macroprudential policy

In order to establish and implement the macroprudential policy, Bank Indonesia has the authority to conduct:

1. Macroprudential regulation;
2. Macroprudential supervision, including examination and imposition of sanctions;
3. Regulation and development of inclusive financing and sustainable finance;
4. Provision of funds for banks in order to perform the function of lender of the last resort;
5. Reverse repo (repurchase agreement) and/or purchase of state securities owned by the Indonesia deposit insurance corporation at the time when the Indonesia deposit insurance;
6. Corporation requires liquidity; and
7. Coordination with the relevant authorities.

Since 1 January 2014, Bank Indonesia's role as the primary regulator of the banking industry has been assumed by OJK. Notwithstanding the above and as indicated in the above, the Indonesian government has amended certain laws and regulations governing Bank Indonesia with a view to streamlining its respective roles and functions to better cater to and respond to the adverse impacts caused by COVID-19 pandemic. In relation to that, the Omnibus Law transfers certain authorities in banking affairs from Bank Indonesia to OJK and the central government. Under the Omnibus Law, the authorities to set the requirement to establish a bank, which were previously held by Bank Indonesia, are now assumed by OJK. Further, based on the previous regulatory regime, the provisions dealing with the maximum foreign ownership of Islamic banks are regulated under Bank Indonesia Regulations as a non-government independent institution. The Omnibus Law, however, shifts this mandate to the government (i.e., the government shall govern the maximum foreign ownership of Islamic Bank through laws and regulations regarding investment prepared by the government). Therefore, other than re-aligning the regulatory framework, the Omnibus Law will also centralise the authorities to set foreign ownership conditions of Islamic banks to the central government.

Further, on 12 January 2022, the Indonesian government finally enacted the Law No. 4 of 2023 on The Development and Strengthening of the Financial Sector ("PPSK Law"), the long-awaited "legal umbrella" in the financial sector to address the fundamental challenges of the Indonesian financial sector and build a dynamic, strong, independent, sustainable, and just national economy. PPSK Law amends, deletes, and/or stipulates new provisions under various existing laws and regulations related to financial sector ecosystem, including laws and regulations related to Bank Indonesia, OJK, Banking, Sharia Banking, Insurance, etc. As the Law No. 21 of 2011 on OJK ("Law 21/2011") has regulated the scope of OJK supervision in financial services activities including banking, derivative finance, carbon exchange, capital market, insurance, guarantee, pension fund, and financial services related institutions, the PPSK Law amends provisions set out under Law 21/2011 by adding new roles to carry out regulation and supervision in the ITSK sector as well as digital financial assets and crypto assets. Moreover, OJK will also carry out the licensing, regulation, and supervision of cooperatives operating in the financial services sector, where

further provisions regarding this matter will be set out under a forthcoming OJK regulation.

Bank categorisation based on its core capital

Initially, OJK prescribed the categorisation of banks under OJK Regulation No. 6/POJK.03/2016 on Business Activities and Office Network Based on Core Capital of Banks ("**OJK Regulation 6/2016**") into 4 (four) categories (previously referred to as *Bank Umum berdasarkan Kegiatan Usaha* or "**BUKU**"), ranging from BUKU 1 (the smallest category) to BUKU 4 (the largest category) – and such categorisation determines the business activities that the bank under each category is allowed to engage in (e.g. foreign-exchange-related activities, treasury-related activities, region/worldwide scope of activities, etc). However, OJK Regulation No. 12/POJK.03/2021 on Commercial Banks ("**OJK Regulation 12/2021**") has replaced the BUKU categorisation and provides a new set of categorisations in the form of *Kelompok Bank berdasarkan Modal Inti* ("**KBMI**") as follows:

- a. BMI 1 (can be equivalent to BUKU 1 and BUKU 2): banks with core capital amounting to IDR6 trillion (six trillion Indonesian Rupiah);
- b. KBMI 2 (can be equivalent to BUKU 3): banks with core capital of more than IDR6 trillion (six trillion Indonesian Rupiah) up to IDR14 trillion (fourteen trillion Indonesian Rupiah);
- c. KBMI 3 (can be equivalent to BUKU 3 and BUKU 4): banks with core capital more than IDR14 trillion (fourteen trillion Indonesian Rupiah) up to IDR70 trillion (seventy trillion Indonesian Rupiah); and
- d. KBMI 4 (can be equivalent to BUKU 4): banks with core capital more than IDR70 trillion (seventy trillion Indonesian Rupiah).

Single presence policy and shareholding restrictions

Based on OJK Regulation No. 39/POJK.03/2017 on Single Ownership in Indonesian Banking ("**POJK 39/2017**"), Single Ownership is a condition whereby a party can only be a controlling shareholder of one bank. A controlling shareholder under POJK 39/2017 is a legal entity, individuals, and/or a business group that:

- a. Owns 25% or more of the total shares issued of a company or bank and has voting rights; or
- b. Owns less than 25% of the total number of shares issued in a company or bank and has voting rights, but the individual/entity concerned can be proven to have exercised control of the company or bank, either directly or indirectly.

As noted above based on Article 2 Paragraph 1 POJK 39/2017, each party can only be a controlling shareholder in one bank. However, the above provisions on the controlling shareholder in one bank do not apply to the following:

- Controlling shareholder of two respective banks that conduct business activities with different principles, namely conventional and Sharia principles; and
- Controlling shareholder of 2 banks, one of which is a joint venture bank.

In the event that the said party purchases shares of other banks so that they become a controlling shareholder in more than one bank, the said parties must fulfil the provisions under Article 2 Paragraph 1 of POJK 39/2017. This can be achieved by way of:

- Merger or consolidation - the controlled bank shall be merged or consolidated with the controlling bank;
- Establishing a holding company in the banking sector; or
- Establishing a holding function, which aims and is intended to directly control and consolidate all activities of its (bank) subsidiaries.

Based on OJK Regulation No. 56/POJK.03/2016 ("**POJK 56/2016**") regarding Commercial Bank Ownership, the maximum amount of bank share ownership for each category of shareholder is as follows:

- 40% of a bank's capital, for the category of the shareholders in the form of a legal entity and non-banking financial institution(s);
- 30% of a bank's capital, for the category of shareholders in the form of a legal entity non-financial institution(s); and
- For individual shareholders 20%.

The above maximum amount of share ownership does not apply to the central government and any institution that has been established to manage and/or rescue a bank.

Prospective controlling shareholders who are foreign citizens and/or legal entities domiciled abroad must meet the following additional requirements:

- a. Have a commitment to support the development of the Indonesian economy by owning shares in the bank;
- b. Obtain recommendations from the supervisory authority of the country of origin for legal entities of financial institutions; and
- c. Has ranked at least: (i) one level above the lowest investment grade, for a financial institution legal entity; (ii) two levels above the lowest investment rating for a non-bank financial institution legal entity; and (iii) three levels above the lowest investment rating for a non-financial institution legal entity.

Offshore financial obligations

Indonesia regulates several reporting and filing obligations for Indonesian companies which obtain debt financing from sources outside Indonesia. The scope of these obligations varies from regulation to regulation, but generally loans, notes, bonds and finance leases would be reportable obligations, as would guarantees in some cases.

The said requirements include reporting obligations to Bank Indonesia regarding the company's annual offshore borrowing plan, along with transaction-specific reporting requirements to Bank Indonesia and the Ministry of Finance. With respect to transaction-specific reports, the Indonesian obligor is required to include copies of the underlying transaction documents and thereafter to provide periodic reports on the realization of the loan (i.e., drawings and repayment) in the first report.)

These reporting requirements are administrative in nature and are imposed on the borrower. There are penalties that may be imposed on a borrower that fails to comply.

In addition, there have been several court cases where a borrower's failure to comply has resulted in a court invalidating the underlying loan agreement. Even though these decisions have been criticised as incorrect applications of the regulations, lenders are well advised to verify submission of the requisite reports as conditions precedent to the first drawdown and to require completion of all periodic reports (as either conditions subsequent or pursuant to the general undertakings).

Foreign exchange-drawdown via onshore account

Bank Indonesia Regulation No. 16/10/PBI/2014 on the Receipt of Foreign Exchange from Export Proceeds and Withdrawal of Foreign Exchange from Foreign Debt (as amended by Bank Indonesia Regulation 17/23/PBI/2015 and Bank Indonesia Regulation Number 7 of 2023 on Foreign Exchange Export Proceeds and Foreign-Exchange Import Payments), as well as Bank Indonesia Circular Letter No. 18/5/DSTA/2016 (in each case, as amended from time to time) provides that (among other things) debtors are required to have their offshore loans disbursed via foreign exchange onshore banks and require information and to provide reports (along with supporting documents (i.e. a copy of incoming transfer and/or SWIFT message)) evidencing that the loan withdrawal has been completed through a foreign exchange onshore bank on offshore loans to Bank Indonesia.

Each disbursement of an offshore loan in cash shall be made through a foreign exchange onshore bank and reported to Bank Indonesia at the latest on the 15th day of the following month after the disbursement of the loan is made. Offshore loans subject to this requirement are those arising from non-revolving loan agreements which are not for the purpose of refinancing or related to debt securities. Any discrepancy between the loans disbursed and the total loan commitments shall be explained by the borrower in writing to Bank Indonesia.

Failure of Indonesian borrowers to withdraw offshore loans via foreign exchange onshore banks as governed under these regulations is sanctioned with a penalty amounting to 0.25% of the nominal value of each loan withdrawal not made through a foreign exchange onshore bank, up to a maximum amount of IDR50,000,000. If the borrower is not able to submit supporting documents evidencing the loan withdrawal through a foreign exchange bank by the end of the relevant reporting month, then it will be considered not withdrawing through a foreign exchange bank (and hence the above sanction may be applied).

Limitations on Rupiah transactions

Pursuant to Bank Indonesia Regulation Number 6 of 2024 on Money Market and Foreign Exchange Market (Bank Indonesia Regulation 6/2024), banks and/or other parties as determined by Bank Indonesia are prohibited from conducting certain transactions, including provision of Rupiah transfer abroad, non-deliverable forward transaction on foreign exchange against rupiah abroad, purchase of bonds issued by foreign parties in Rupiah, etc. However, there are several exclusions to this prohibition which permits banks to conduct transaction with foreign parties using Rupiah (e.g. in the case of credit/facility provision, it shall be for certain economic activities in Indonesia, etc.).

Borrower's hedging ratio, liquidity ratio, and credit rating requirement

Bank Indonesia Regulation No. 16/21/PBI/2014 on Application of Prudent Principles in Managing Foreign Debt of Non-Bank Corporation, dated 29 December 2014, as lastly amended by Bank Indonesia Regulation No. 18/4/PBI/2016, sets out the requirements for a non-bank corporation having offshore loans to apply prudent principles by applying hedging ratio, liquidity ratio and credit rating requirements.

This regulation took effect on 1 January 2015, and generally provides that a non-bank corporation intending to receive an offshore loan must have:

- a. Hedging ratio of at least 25%;
- b. Liquidity ratio of at least 70%; and
- c. Credit rating of at least "BB-" (double B minus) - however these requirements do not apply to (among others) refinancing, infrastructure project financing (on certain conditions), and trade credit.

The above requirements do not apply to trade credit. Further, the credit rating requirement does not apply to (1) refinancing or (2) offshore loan from bilateral or multilateral financing entity in relation to infrastructure project financing.

The borrower will need to submit a report and supporting documents in relation to the fulfilment of hedging ratio, liquidity ratio and credit rating.

Highlights of Law No. 4/2023 on the Development and Strengthening of Financial Sector (PPSK Law)

• Bank Sharia Unit Spin-Off

As Law No. 21 of 2008 on Sharia Banking stipulates that conventional bank are mandatory to implement spin-offs in the event that the Sharia Business Unit (*Unit Usaha Syariah* or UUS) have 50% of the total asset values of the relevant parent banks or within 15 (fifteen) years upon the enactment of the law (i.e., by 2023), PPSK Law negates the provision for the specific period of sharia unit spin-off of the Sharia Banking Law and amends it to no specific limits. The regulation stipulates that if after fulfilling certain requirements set by OJK, the conventional bank will be required to spin-off the UUS to become a Sharia Bank. In addition, OJK may also request the UUS spin-off under the framework of bank consolidation. Further provisions regarding spin-off, consolidation and sanctions that can be imposed upon banks that do not carry out the required spin-off is set out under OJK Regulation No. 12 of 2023 on Sharia Business Unit.

• Technological innovations within the financial sector

The PPSK Law defines Technological Innovations Within the Financial Sector (*Inovasi Teknologi Sektor Keuangan* or ITSK) as technology-based innovations that impact products, activities, services and business models related to digital financial ecosystem. The scope of ITSK includes payment systems; settlement of securities transactions; investment management; risk management; collection and/or distribution of funds; market support; activities related to digital financial assets, including crypto assets; and other digital financial services activities.

According to the PPSK Law, BI and OJK will regulate and supervise the implementation of ITSK in accordance with their respective scopes of authority, by taking into account the following principles:

- a. The balance between efforts to encourage innovation with risk mitigation;
- b. Economy integration and digital finance;
- c. Efficiency and sound business practices;
- d. Consumer protection; and
- e. Coordination of regulation and supervision between authorities.

• Digital Rupiah

On 30 November 2022, Bank Indonesia issued White Paper, a high-level design of digital Rupiah development, which provides a framework for the testing and implementation of the digital currency. Considering its extensive implications, this national-scale initiative requires synergistic efforts in its formulation and implementation. As Law No. 7 of 2011 on Currency only recognises Rupiah in the physical form of notes and coins, PPSK Law has added a new type of currency, named digital Rupiah, a blockchain-based currency. Digital Rupiah will be backed, issued, circulated, and organised by Bank Indonesia, and will be treated as legal tender in Indonesia. It is noteworthy that the governance of digital Rupiah must take the following aspects into account:

- a. Provision of digital Rupiah as legal tender in Indonesia;
- b. The effectiveness of the implementation of Bank Indonesia's duties in maintaining monetary stability, payment system and financial system;
- c. Support for technological innovation and digital economic and financial inclusion;
- d. The development of a nationally integrated digital economy and finance; and
- e. Utilisation of digital technology that can ensure the security of data and information systems as well as the protection of personal data.

Furthermore, in conducting the digital Rupiah planning, Bank Indonesia is required to coordinate with the government. Further provisions regarding the issuance of digital Rupiah will be set out under a forthcoming BI regulation.

It would be interesting to see the outcome of this proposed regulatory roll-out in light of the Omnibus Law and PPSK Law and its impacts on the current Indonesian financial institutions landscape.

8. Oil and Gas & Coal and Mineral Mining

A. Oil and Gas

Indonesia became a net importer of oil in late 2004 and voluntarily suspended its OPEC membership in January 2009 but reactivated it again in January 2016. However, Indonesia decided to suspend its membership once more in November 2016, reflecting the fact that oil production had been declining since the 1990s.

In recent years, the Indonesian government has attempted to encourage further investment in the oil and gas sector, including for development of deep water and non-conventional oil and gas resources, and also downstream infrastructure (refineries, petrochemical plants and pipelines), through various incentives and most recently providing alternative to the cost-recovery production sharing contracts mechanism for upstream oil and gas sector in form of gross-split production sharing contracts. Other than cost-recovery and gross-split production sharing contracts, the Indonesian government is basically open to other typical cooperation arrangements in the upstream oil and gas sector based on Minister of Energy and Mineral Resources Regulation No. 8/2017, as lastly amended by Minister of Energy and Mineral Resources Regulation No. 12/2020 on Gross-Split Production Sharing Contracts.

Under Indonesian law, oil and gas activities are separated into downstream and upstream sectors. The law stipulates that upstream activities consist of exploration and exploitation, consisting of drilling and completion of wells, facilities construction of transporting, storing, and processing to separate as well as refining the oil and gas in the field, while on the other side, the downstream activities cover the processing, transporting, storing and trading. The Minister of Energy and Mineral Resources has general authority over Indonesia's energy sector. Specifically, in the oil and gas sector, the Special Task Force for Upstream Oil and Gas Activities (*Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi* or SKK Migas) is the regulatory body overseeing upstream activities and the executor, on behalf of the Indonesian government, over the Production Sharing Contracts (PSCs) and other types of cooperation arrangement. For the downstream sector, the Down Stream Oil and Gas Regulatory Body (*Badan Pengatur Hilir Minyak dan Gas Bumi* or BPHMIGAS) is the regulatory body.

Under the latest Omnibus Law, business licensing requirements for the oil and gas sector have now been revised. It now specifies the same scope of activities but requires both upstream and downstream oil and gas business activities to be implemented based on business licensing organised by the central government. The Omnibus Law also allows businesses to engage in downstream oil and gas business activities upon the fulfilment of business licensing requirements set by the central government and accordingly, the businesses that have fulfilled such business licensing requirements may be able to engage in processing, transportation, storage and/or commercial activities, such as buying, selling, exporting, and importing (depending on the activities that are being targeted). Nevertheless, the shift towards a licensing-based regime aims to streamline the bureaucracy and expedite the overall licensing process within this sector as

the relevant licensing processes will be integrated electronically (i.e. Online Single Submission system) as further implemented under the Ministry of Energy and Mineral Resources Regulation Number 5/2021 on Standards for Business Activities and Products During the Implementation of Risk-Based Business Licensing Within the Energy and Mineral Resources Sector ("**MEMR Regulation 5/2021**") which sets out various standards that apply to business activities and products during the implementation of risk-based business licensing within the energy and mineral resources sector (including the oil and gas sector).

Acquiring an oil and gas company

Acquisition or transfer of shares of an oil and gas company in Indonesia shall be conducted by obtaining prior approval or submitting written notification to the relevant institution (herein, Minister of Energy and Mineral Resources), taking into account the type of the business action upstream or downstream activity). For instance, Minister of Energy and Mineral Resources Regulation No. 48/2017 on the Monitoring of the Mineral and Energy Resources Activities stipulates that shares acquisition in the upstream activities is subjected to a prior approval from the relevant Minister whereas shares acquisition in the downstream activities are only required to submit written notification by attaching the Articles of Association (including its updated notification receipt/approval from the Ministry of Law and Human Rights) of the relevant company to the relevant Minister Energy and Mineral Resources by way of the Directorate General of Oil and Gas.

Regulatory framework development in oil and gas sector

As the holding of oil and gas regulatory framework in Indonesia, Law No. 22/2001 on the Oil and Natural Gas is currently on the list of National Legislation Programs (*Program Legislasi Nasional* or Prolegnas) to be amended. One of the critical discourses is on the transformation of SKK Migas, as the replacement of the previous government body namely Executive Agency for Upstream Oil & Gas Business Activities (Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi or BP Migas), for becoming a ministry-dominated model (under certain ministry) or national oil company dominated model (under Pertamina as state-owned oil and gas company) or independent body (specific for upstream oil and gas business). It is essential to follow developments regarding SKK Migas, because currently SKK Migas plays a vital role in the supervision and representation of the Indonesian government in the upstream oil and gas sector.

B. Coal and Mineral Mining

There was a high level of regulatory uncertainty following the promulgation of Law No. 4/2009 on Mineral and Coal Mining (the 2009 Mining Law). Nevertheless, in the period immediately after the law's issuance, the industry had been driven by strong demand for thermal coal for domestic and regional power generation, as well as for coking coal and various other commodities feeding the development of Asia's industrial capacity and public infrastructure. In 2012, the situation changed, with the overall demand for commodities dampening. Significantly lower coal prices resulted in many Indonesian miners lowering production targets and focusing on increasing efficiency.

The Indonesian government lastly passed Law No. 3/2020 on Amendment of Law No. 4/2009 on Mineral and Coal Mining (the 2020 Mining Law) which introduced several changes, including but not limited to mining areas determination, centralisation of authority for mineral and coal management, re-arrangement of licensing matters, investments and divestment obligations, and continuation of operations of Contracts of Work and Coal Contracts of Work holders.

To encourage downstream activities, the latest Omnibus Law offers a new incentive in the form of a 0% royalty for miners who increase the value of coal by establishing downstream processing (i.e. by way of coal upgrading, coal briquetting, coking, coal liquification, coal gasification, coal slurry/coal water mixture). Currently, most coal mining business activities in Indonesia are carried out merely by 'digging, transporting, and selling' raw coal. As such, this new incentive is expected to incentivise miners to process coal through downstream activities before selling it to end-user customers. Following the enactment of the Omnibus Law, the Indonesian government has also enacted Government Regulation Number 25/2021 on the Organization of the Energy and Mineral Resources Sector ("**GR 25/2021**"), which stipulates that such 0% royalty will be granted under the following conditions:

- a. Through a consideration of energy independence (*kemandirian energi*) and the fulfillment of various requirements relating to industrial raw materials; and
- b. Through a consideration of volumes of coal utilised during the activities that increase the added value of domestic coal.

As a side note, such activities, amounts, requirements and procedures that relate to the granting of a 0% royalty rate shall first require approvals from the Minister of Finance.

It is noteworthy as well that Government Regulation No. 96/2021 on the Implementation of Business Licenses in the Field of Mining and Coal Mining was issued to overhaul previous implementing regulation regime prior to the regime of Law 3/2020 and Omnibus Law. Thus, the previous Government Regulation No. 23/2010 (including its amendment) is not applicable anymore.

Contracts of Work

Before 2009, mining agreements known as Contracts of Work (*Kontrak Karya*) or Coal Contracts of Work (*Perjanjian Karya Pengusahaan Pertambangan Batubara*) were primarily made by international investors with the Indonesian government. These agreements were generally intended to provide an overall regulatory framework and fiscal regime for the mining activities of the investor, based on Indonesia's then prevailing 1967 Basic Mining Law. The "Contract of Work" system, which retained some characteristics of traditional mining concession agreements found in other developing countries, is now being phased out. New mining projects shall be conducted under a licensing system, which applies both to mining projects developed by domestic investors and those developed by foreign investors. Before 2009, a separate licensing system (the issuance of mining authorisations (*Kuasa Pertambangan* or KP) was available but restricted to domestic mining companies. KPs were required to be converted to mining business licenses.

The 2009 Mining Law provided that existing Contracts of Work were to remain effective until their expiry but their terms (other than those relating to state revenues) had to be amended by January 2010 to become in line with the 2009 Mining Law. As of to date, many Contracts of Work have been converted into mining business licenses.

Controversial differences between the terms of Contracts of Work/Coal Contracts of Work and the 2009 Mining Law regime include a significant reduction in the maximum size of the mining area and potentially more stringent share divestment requirements and restrictions on the retention of contractors, among other issues.

However, the 2020 Mining Law guarantees that Contracts of Work and Coal Contracts of Work can be extended upon meeting certain statutory requirements (specifically as to an increase in tax and non-tax state revenues). In connection with the extension period itself, if the Contract of Work/Coal Contract of Work has not been previously extended, the extension can be made 2 (two) times each for a maximum period of 10 (ten) years. If the Contract of Work/Coal Contract of Work has previously received its first extension, then such Contract of Work/Coal Contract of Work can receive its second extension for a maximum period of 10 (ten) years. The abovementioned extensions are made in the form of IUPK for the Continuation of Operations of Contracts of Work/Coal Contracts of Work.

Applications for extension of the Contract of Work/Coal Contract of Work (together with all the necessary administrative requirements and documentation), will have to be submitted to the Minister of Energy & Mineral Resources (MEMR) at the earliest 5 (five) years and the latest 1 (one) year prior to the expiration date of the respective Contract of Work/Coal Contract of Work.

Mining business licenses

Commercial mining in areas that are not in state reservation areas is authorised by a Mining Business License (*Izin Usaha Pertambangan* or IUP) while mining in state reservation areas is authorised by a Special Mining Business License (*IUP Khusus* or IUPK). Based on the 2020 Mining Law, the authority to issue mining-related licenses is centralised with the national government. However, Presidential Regulation No. 55/2022 on the Delegation of the Granting of Business Licenses in the Field of Mining and Coal Mining jo. Government Regulation No. 96/2021 on the Implementation of Business Licenses in the Field of Mining and Coal Mining, the central government has the right to delegate its authority to provincial governments, for example in the case of delegation to provincial governments for issuing Community Mining License (*Izin Pertambangan Rakyat* or IPR) and Authorisation Letter for Rock Mining (*Surat Izin Penambangan Batuan* or SIPB).

IUPs with respect to non-metal minerals or rocks are obtained by means of an application, and IUPs with respect to metal minerals or coal is obtained by means of a tender and competitive bidding process.

All IUPK licenses issued to private enterprises are also obtained by means of a tender and competitive bidding process. Nevertheless, state-owned enterprises and regional-owned enterprises are given priority for such licenses.

Based on the mining activity stages, a designated license will be granted either for exploration or operation production stage, and the holder of an exploration license is basically guaranteed an upgrade to a production license as a continuation of the mining business activity providing the fulfilment of the administrative, technical, environmental and financial requirements according to prevailing laws and regulations.

The use of domestic manpower, goods and services is required to be prioritised by the license holders. There are also specific restrictions on the retention of mining service providers (i.e. contractors). They must also develop a corporate social responsibility program, including a program to develop and empower the local community, which is to be established in consultation with the national government, the local government and the local community.

Under the 2020 Mining Law, an IUP(K) for “integrated” metal mineral mining and coal mining shall be valid for 30 (thirty) years and guaranteed with an extension for a period of 10 (ten) years, after fulfilling the requirements in accordance with applicable laws and regulations, among others based on the criteria as stated in Government Regulation No. 96/2021.

Previously, the 2009 Mining Law required IUP and/or IUPK for exploration holders to report any minerals and coal that were accidentally mined while such IUP and/or IUPK for exploration holders were engaging in any exploration and feasibility studies. Such reports were required to be submitted to the relevant license issuers prior to the imposition of production royalties. Such provisions have no longer been incorporated under the 2020 Mining Law.

Further, holders of IUP and IUPK are required to utilise dedicated mining roads during their mining activities. These roads may either be constructed by themselves or in cooperation with other IUP or IUPK holders which have already constructed mining roads or other parties that are in possession of mining roads. This provision reflects current practice.

However, similar to the oil and gas sector, business licensing of the mining sector has also been changed into a risk-based business licensing regime due to the enactment of MEMR Regulation 5/2021. It should be noted that risk-based business licensing for any business activities that are categorized under the energy and mineral resources sector (including the mining sector) should be processed through the Online Single Submission system commencing 2 July 2021.

Amendment of Government Regulation No. 96/2021 on the Implementation of Business Licenses in the Field of Mining and Coal Mining (“**GR 25/2024**”). Under GR 25/2024, the annual element of Work Plans and Funding Budgets (*Rencana Kerja dan Anggaran Biaya* – “**RKAB**”) as originally featured under the framework of Regulation 96/2021 has been removed. In line with this removal, the MEMR has also enacted MEMR Regulation No. 10 of 2023 on Procedures for the Drafting, Submission and Approval of Work Plans and Funding Budgets, and Procedures for the Reporting of the Implementation of Mineral and Coal-Mining Business Activities (“**MEMR Regulation 10/2023**”) which mandates that the validity period for RKAB breaks down into one year for the exploration phase and three years for the production-operation phase. RKAB that had already been approved or those that were in the process of being approved prior to the enforcement of MEMR Regulation 10/2023 will remain valid or will continue to be processed.

Other addition from GR 25/2024 is related to the 10 (ten) year extensions of IUP and/or IUPK (which previously granted for SoE) for mining operation-production activities are also now available to SoE subsidiaries that have secured relevant IUP and/or IUPK.

Acquiring a mining company

Mining business licenses cannot be directly transferred to another party unless that party is an affiliated party (meaning at least 51% of its shares are owned by the transferor). In addition, subject to government approval, a state-owned enterprise may transfer a portion of a mining area for production to an affiliated party (again being where at least 51% of its shares are owned by the transferor). Nevertheless, indirect acquisitions of mining business licenses through the acquisition of a license holder have become the practice. Such indirect transfers may be permitted after completion of exploration, with notification to the appropriate regulators under the 2009 Mining Law.

Uncertainty regarding the process for completing such indirect acquisitions remains, although past cases indicate that the following will be required:

- a. Recommendation letter for approval of the investment from the governmental authority that issued the IUP held by the mining company in question; and
- b. Authorisation letter from the Minister of Energy and Mineral Resources (or a director general on the Minister's behalf) in respect of the investment.

Moreover, if the target company is a PMDN (local owned) company, and the acquirer is foreign, the parties must complete the requirements for conversion to a PMA (foreign capital investment) company.

Contrary to the 2009 Mining Law, the 2020 Mining Law allows the transfer of IUP/IUPK, subject to MEMR approval. The minimum requirements to obtain such approval include (i) IUP/IUPK holders must have completed their exploration activities, which can be evidenced by the availability of resources and reserves data; and (ii) IUP/IUPK holders must fulfil the administrative, technical, environmental and financial requirements.

Under the 2020 Mining Law, similar provisions apply to the transfer of IUP/IUPK. IUP/IUPK holders are prohibited from transferring share ownership without MEMR approval. The minimum requirements to obtain such approval include (i) IUP/IUPK holders must have completed their exploration activities, which can be evidenced by the availability of resources and reserves data; and (ii) IUP/IUPK holders must fulfil the administrative, technical, environmental, and financial requirements. Further detailed requirements related to IUP/IUPK transfers is currently regulated under Ministry of Energy and Mineral Resources Decree 221.K/HK.02/MEM.B/2021.

Mining processing/refining business licenses

The 2020 Mining Law has given clarity to the dualism of the licensing regime for stand-alone/non-integrated mining smelters/processing/refining companies by regulating that licenses for this type of company will only be issued by the Ministry of Industry.

Having stand-alone/non-integrated smelters provides structuring flexibilities between the mining asset and the smelting asset given that those two assets can be held by different stakeholders/project sponsors and with a different set of capital and financing structures (including security package) and, indirectly, avoid "divesting" the smelting asset when a mining company requires to meet its mandatory divestment obligations.

Divestment requirements

The 2020 Mining Law stipulates that a foreign-owned IUP(K) holder company is required to gradually divest 51% (fifty one percent) of its shares to the central government, regional government, state-owned enterprise, regional-owned enterprise, and national private entity. In the event that direct divestment cannot be implemented after the gradual divestment procedures, such divestment can be carried out through an initial public offering of the mining company on the Indonesian Stock Exchange.

2020 Mining Law does not specifically provide detailed timing requirements for such divestment, however, its latest implementing regulation under Government Regulation No. 96/2021 on the Implementation of Business Licenses in the Field of Mining and Coal Mining regulates that the holders of IUP(K) is obliged to divest its shares under the following framework:

It is noteworthy as well that in the event of increase in the capital of holders of IUP(K) after the shares divestment is carried out, the divested shares cannot be diluted into less than the amount of shares with shares divestment obligation.

In line with the share divestment obligation for IUP(K) holders, the CoW and CCoW holders are obliged to implement share divestment

| No | Type | Shares divestment requirements (Since production activity started) |
|----|--|--|
| 1 | Holders who carry out mining activities by using open pit mining method and not integrated with processing and/or refining facilities or mining and/or utilisation activities | <ul style="list-style-type: none"> • 10th year: 5% (five percent) • 11th year: 10% (ten percent) • 12th year: 15% (fifteen percent) • 13th year: 20% (twenty percent) • 14th year: 30% (thirty percent) • 15th year: 51% (fifty one percent) |
| 2 | Holders who carry out mining activities by using open pit mining method and are integrated with processing and/or refining facilities or mining and/or utilisation activities | <ul style="list-style-type: none"> • 15th year: 5% (five percent) • 16th year: 10% (ten percent) • 17th year: 15% (fifteen percent) • 18th year: 20% (twenty percent) • 19th year: 30% (thirty percent) • 20th year: 51% (fifty one percent) |
| 3 | Holders who carry out mining activities by using underground mining method and not integrated with processing and/or refining facilities or mining and/or utilisation activities | <ul style="list-style-type: none"> • 15th year: 5% (five percent) • 16th year: 10% (ten percent) • 17th year: 15% (fifteen percent) • 18th year: 20% (twenty percent) • 19th year: 30% (thirty percent) • 20th year: 51% (fifty one percent) |
| 4 | Holders who carry out mining activities by using underground mining method and are integrated with processing and/or refining facilities or mining and/or utilisation activities | <ul style="list-style-type: none"> • 20th year: 5% (five percent) • 21st year: 10% (ten percent) • 22nd year: 15% (fifteen percent) • 23rd year: 20% (twenty percent) • 24th year: 30% (thirty percent) • 25th year: 51% (fifty one percent) |

based on Minister of Energy and Mineral Resources Regulation No. 9/2017 as lastly amended by Minister of Energy and Mineral Resources Regulation No. 43/2018 on Procedures for Divestment and Mechanism for the Determination of Divested Share Prices for Minerals and Coal-Mining Business Activity.

Construction

Construction business regime following the issuance of the Omnibus Law and its implementing regulations

To reduce longstanding impediments and improve the ease of doing business in Indonesia, on 2 February 2021 the Indonesian Government issued a series of implementing regulations following the enactment of the Omnibus Law. The Omnibus Law amends 76 laws across a wide range of business sectors, including construction business, and the implementing regulations thereof consist of 45 Government regulations and 4 Presidential regulations.

With respect to the construction sector, Government Regulation No. 14/2021 ("**GR 14/2021**") regarding the amendment of Government regulation No. 22/2020 ("**GR 22/2020**") on implementing regulations of Law Number 2/2017 on Construction Services (12 January 2017) (the "**Construction Services Law**") shall be the implementing regulation that serves the objective of the Omnibus Law, which is intended to amend matters set forth under the Construction Services Law, namely amongst others, capital requirements, licensing and sustainable construction.

We also note that on 23 April 2020, six months prior to the enforcement of the Omnibus Law, the Indonesian Government passed a long-awaited implementing Construction Services regulation, which was GR 20/2020.

GR 22/2020 introduced significant changes to the implementation of the Construction Services Law. The following regulations have been revoked and are no longer applicable:

- a. Government Regulation No. 28/2000 on the Business and Role of the Construction Services Community (30 May 2000), as lastly amended by Government Regulation No. 92/2010 (29 December 2010);
- b. Government Regulation No. 29/2000 on the Implementation of Construction Services (30 May 2000), as lastly amended by Government Regulation No. 54/2016 (22 November 2016); and
- c. Government Regulation No. 30/2000 on the Implementation of Construction Services Supervision (30 May 2000).

Construction services classification

Under the Construction Services Law, Construction Services are defined as construction consultation services and/or construction work services, which include the following activities:

1. **Construction consultancy services**, which means the whole or part of activities that includes assessment, planning, design, supervision and construction management.

Construction consultancy services are divided into two classifications, namely:

- a. General construction consultancy services that cover architecture, engineering, integrated engineering, landscape architecture, and urban planning; and
- b. Special construction consultancy services that cover scientific and technical consultancy, and technical testing and analysis.

2. **Construction work services**, which means the whole or part of activities that includes construction, operation, maintenance, demolition and building re-construction.

Construction work services are divided into two classifications, namely:

- a. General construction work services that cover building construction and civil construction.
- b. Special construction work services that cover installation, special construction, prefabricated construction, construction finishing, equipment rental and preparation.

3. **Integrated construction work services** mean the combination of construction consultation and construction work. These cover building construction and civil construction.

It should be noted that a provider of construction consultancy services is not permitted to carry out another classification (i.e. construction work services or integrated construction work services). With this in mind, we were made to understand that a provider of construction services company shall engage in only one type of construction service business and cannot carry out other work outside of the type of construction service business in which it engages, except for a provider of integrated construction work services, which may also perform construction services.

In terms of business size, GR 22/2020 also defines the type of work to which a construction services company may provide clients with the services. A small-sized construction services company may only provide low-risk, simple technology, and low-cost construction services, while the mid-sized ones may only provide medium-risk, medium technology and/or medium-cost construction services. Similarly, the large construction services company may only provide high-risk, high technology and high-cost construction services. These sizes of construction services companies correspond to the capital requirements they are required to comply with.

Capital requirements

Under Government Regulation No. 5/2021 on Implementation of Risk-Based Business Licensing ("**GR 5/2021**"), the mandatorily required capital for construction services companies has been amended subject to the types of business activities. Noting that GR 5/2021 is also an implementing regulation of the Job Creation Omnibus Law that serves the purposes of the Omnibus Law in the construction sector. Under GR 5/2021, minimum capital requirements comprise:

1. A small-sized construction services company carrying out general construction consultancy services shall be at least IDR100 million, and for companies carrying out general construction work shall be at least IDR300 million.
2. A medium-sized construction services company carrying out general construction consultancy services shall be at least IDR250 million, and for companies carrying out general construction work shall be IDR2 billion.
3. A large construction services company carrying out general construction consultancy services shall be at least IDR500 million, and for the ones carrying out general construction work shall be at least IDR25 billion, while for companies carrying out integrated construction work shall be IDR25 billion.

Furthermore, GR 5/2021 sets out capital requirements for foreign construction service representative offices ("**Representative Office**"), under which the minimum capital requirement for a Representative Office carrying out general construction consultancy services shall be IDR2 billion, and for Rep Offices carrying out general construction work shall be at least IDR35 billion.¹⁰²

Representative Office of Foreign Construction Services business entity (BUJKA RO)

A foreign construction services company (BUJKA) may establish a Representative Office ("**BUJKA RO**") in order to bid for potential projects and develop construction projects in Indonesia. Unlike a foreign company representative office (*Kantor Perwakilan Perusahaan Asing* – "**KPPA**") or a foreign trade company representative office (*Kantor Perwakilan Perusahaan Perdagangan Asing* – KP3A), a BUJKA RO may generate profit. Consequently, the regulatory requirements for establishing such BUJKA RO are comparable to the establishment of a licensed Indonesian construction services company (i.e., BUJK PMA), although there are some differences.

BUJKA RO may only perform Construction Services in the high-risk, high-tech, and/or high-cost market segments. In addition, BUJKA RO must also enter into a joint operation with a local construction company ("**BUJKN**") for carrying out any construction services in Indonesia.

Under the Construction Services Law, BUJKN that can be the local partner in a joint operation is required to fulfil the following criteria:

1. Having large-scale qualifications; and

¹⁰² In order to carry out construction business activities in Indonesia, a foreign construction services company (*Badan Usaha Jasa Konstruksi Asing* – "**BUJKA**") is required to establish a local presence, either by means of setting up a foreign investment company (*Penanaman Modal Asing* – "**PMA**") or a Representative Office ("**RO**").

2. Holds construction business license (IUJK).

In essence, based on the relevant laws and regulations, BUJKA RO is required to fulfil the following:

- a. Be in the form of a business entity having a qualification equivalent to high qualification;
- b. Obtain a license for foreign construction service business entity representative;
- c. Form joint operation with a national large qualification construction service business entity which has a business license in every construction service business activities in Indonesia;
- d. Employ more Indonesian employees than foreign employees;
- e. Occupy Indonesian citizen as the highest leader of the BUJKA RO;
- f. Prioritise the use of domestic material and construction technology;
- g. Have high, sophisticated, efficient, and environmentally sound technology, as well as taking local wisdom (*kearifan lokal*) into consideration;
- h. Perform the technology transfer process; and
- i. Perform other obligations in accordance with the prevailing laws and regulations.

In addition, it is noteworthy that Minister of Public Works and Public Housing (“**MoPWP**”) Regulation No.9/2019 (“**MoPWP Reg 9/2019**”) provided additional criteria, namely as follows:¹⁰³

- a. Is a limited liability company (established in Indonesia); and
- b. Is a state-owned enterprise (BUMN), regional-owned enterprise (BUMD), or privately-owned enterprise (BUMS) which is 100% owned by an Indonesian citizen and/or national business entity.

Work sharing requirements

There is no clear guideline on work share requirements under the Construction Services Law and its implementing regulations related to construction. However, Article 33 of MoPWP Reg 9/2019 previously provides the portion of construction works that must be performed by the BUJKN as a joint operation partner, namely as follows:

1. In terms of construction work services and integrated construction work services, a minimum of 30% of the work value must be carried out by the BUJKN, and 50% of the work must be performed in Indonesia; and
2. In terms of Construction Consultation, a minimum of 50% of the work value must be carried out by the BUJKN, and all works must be performed in Indonesia.

However, as previously mentioned, it should be noted that MoPWP Reg. No. 9/2019 has been revoked and can only be used as a reference until the new regulation is issued.

9. Intellectual Property Rights (IPR)

Indonesia has undertaken substantial legislative reforms in an effort to improve the legal framework protecting intellectual property rights since the late 1980's. This process of reform accelerated when Indonesia ratified the Trade Related Aspects of Intellectual Property Rights

¹⁰³ MoPWP Reg 9/19, which provides a general regime for licensing procedures and general obligations of BUJKA with respect to its business operations and construction services that are carried out in Indonesia, has been revoked by MoPWP Regulation No.17/2019. In order to avoid the absence of law, the MoPWP issued Circular Letter No.22/ 2019 (“**CL 22/19**”). CL 22/2019, however, does not provide a clear guideline for the implementation of construction activities in Indonesia. It only provides guidelines for the application of new, extension or revocation (as applicable) of existing IUJK or IPBUJKA.

Agreement (TRIPs), as stipulated under Law No. 7/1994, which established Indonesia's membership in the World Trade Organization.

Laws and regulations have been promulgated to implement the various conventions and treaties to which Indonesia is party and to establish international standards of intellectual property protection. However, despite such legislative developments, infringement of intellectual property rights is still common, particularly in the terms of piracy and trademark counterfeiting, and Indonesia remains on the US Trade Representative's "Watch List".

International treaties

Since 1979, Indonesia has been a party to the Paris Convention for the Protection of Intellectual Property and the Convention establishing the World Intellectual Property Organization (WIPO). In 1997, Indonesia became a party to the Patent Cooperation Treaty, the Berne Convention for the Protection of Literary and Artistic Works, the Trademark Law Treaty, and the WIPO Copyright Treaty, as well as to the WIPO Performances and Phonograms Treaty in 2005. The Indonesian government has also entered into various bilateral agreements with countries for the protection of copyright.

Characteristics of IPR:

Exclusivity

The principle of exclusivity for the holder of intellectual property rights is to prevent unauthorized commercial duplication, imitation, or exploitation of their intellectual property asset during the designated protection period. This principle, however, allows the rights holder to confer permission to third parties for the use of said intellectual property via a licensing agreement.

Territoriality

Most intellectual property rights are protectable solely within the jurisdiction of formal registration, thereby lacking transnational applicability. For example, a trademark registered in Indonesia does not extend its protective scope to other jurisdictions unless it is similarly registered therein.

The principle of territoriality empowers each sovereign state to formulate intellectual property laws tailored to its own legal system. The Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement establishes a framework and sets minimum standards for the protection of intellectual property rights among member nations of the World Trade Organization, underscoring the principles of territoriality and national treatment. Notably, this principle is not universally applicable; for instance, copyright in literary works is automatically conferred upon creation, thereby negating the necessity for registration for purposes of protection and enforcement.

Transferability

Intellectual property rights are transferable and may be assigned to another individual or entity through mechanisms such as assignment, sales contracts, licensing agreements, or inheritance.

Trademarks

Pursuant to Law No.20/2016 regarding Trademark and Geographic Indication as amended by the Omnibus Law ("**Trademark Law**") a trademark is a distinguishable sign utilized in the commerce of goods and services. In Indonesia, trademark protection is granted on a first-to-file basis, whereby the applicant who first registers a trademark in Indonesia acquires priority and exclusive rights to utilize said trademark, irrespective of prior usage or ownership claims.

Indonesian trademark applications shall be submitted to the Minister of Law and Human Rights electronically or non-electronically in the Indonesian language for approval. Foreign applicants may also register trademarks by appointing a local Intellectual Property consultant as a proxy. The approved application shall be published in the Official Trademarks Report (or a proper substitute) which shall be valid for 10 (ten) years. Such registration may also be renewed for consecutive 10 (ten) year periods. It is noteworthy to add that renewal of the trademark must be filed within 6 (six) months before the expiry of the trademark. Failure to renew such trademark application within this stipulated period may result in the loss of rights to the trademark, thereby rendering it available for registration by third parties.

Moreover, a trademark application may be denied if it is submitted in bad faith, particularly if it is deemed substantially similar to an existing registered trademark. Furthermore, the application must not contravene the state ideology, applicable religious tenets, prevailing laws and regulations, or public order. The trademark must also not mislead regarding its quality, type, size, or intended use.

To eliminate the time constraints that are often problematic for businesses when registering their trademarks, the Omnibus Law now shortens the designated time for the Directorate General of Intellectual Property (**DGIP**) to perform substantive examination. Previously, the DGIP takes up to 150 (one hundred and fifty) days to perform substantive examination. This is now to be reduced to a maximum period of 30 (thirty) days - provided that there is no opposition by a third party. If a registration is opposed, the DGIP is required to complete the substantive examination within 90 days, which is almost twice as fast as the current regime.

Under the Omnibus Law, there is no deadline for collecting a trademark certificate that has been issued. Currently, the applicant must collect the issued trademark certificate no later than 18 (eighteen) months from its issuance, or otherwise the registered trademark will be withdrawn and annulled.

Additionally, the Omnibus Law sets new criteria for trademarks that cannot be registered. A trademark cannot be registered if it has a functional form. While the law does not clearly define "functional form," it is generally understood to refer to shapes or forms commonly used in design, such as a simple straight line.

Copyright

Pursuant to Law No.28/2014 regarding Copyright ("**Copyright Law**"), an author's work must show originality in the field of science, arts or literature to obtain the protection of copyright. Once copyright has been obtained, the author, copyright holder, or other beneficiaries of copyright have the exclusive rights to publish or reproduce a work or allow a third party to do the same. The Copyright Law also recognises "moral rights" and "related rights". Moral rights consist of the exclusive right of the author to make changes or amendments to the work, and to alter the name associated with the work and the titles of the work. The rights associated with a third party to reproduce or broadcast the copyrighted material are known as related rights.

The MOLHR oversees the registration of copyright through the General Register of Works and provides for the official announcement of such registrations. Even though the registration is not required for the creation of copyright, the name that is registered in the General Register of Works and named officially by the MOLHR is deemed to be the author of the work.

The length of protection of copyright varies, for:

- a. Copyright on books and other written works: the copyright is valid for the lifetime of the author and a period of 70 (seventy) years after their death.
- b. Copyright on computer programs, cinematographic works, photographic works, databases and the related rights of a licensed agent and a sound recording producer: the copyright is valid for 50 (fifty) years, the related rights of the broadcasting institution are valid for twenty-five years, and moral rights are protected indefinitely.

Patents

Law No.13/ 2016 regarding Patents as amended by the Omnibus Law ("**Patents Law**") provides protection for regular patents and simple patents. A patent shall be granted for a novel invention, which has an inventive aspect and is capable of industrial application. Like a patent, a simple patent is given for a novel invention, which is a development of a product or a process that may already exist.

Patents can be obtained for equipment or products (including chemical compounds and micro-organisms) and processes (where a product is manufactured, including non-biological and microbiological processes), and a simple patent can be obtained for certain tangible inventions. Patents cannot be obtained for:

- a. Inventions that are deemed contrary to public order, morality and the existing laws and regulations;
- b. Surgical methods;
- c. Scientific and mathematical methods;
- d. Plants and animals (other than micro-organisms); or
- e. Essential biological processes for the production of plants and animals (other than non-biological and micro-biological processes).

Patent applications shall be submitted to the Patent Office. If the patent is granted by the Patent Office, it is recorded in the General Register of Patents and announced in the Official Patent Gazette. A patent is valid for 20 (twenty) years from the date of the filing of the application and a simple patent is valid for ten years. Neither of these terms can be extended.

Patent Holders are permitted to grant licenses to other parties based on a license agreement. The license agreements must be registered and announced in the Official Gazette of Patents.

With regards to a simple patent, the Omnibus Law extends the criteria that must be fulfilled to grant a simple patent. A current simple patent must have 'practical use' to be registered with the DGIP and will only be granted for 1 (one) invention.

The Omnibus Law also streamlines the statutory time period prior to evaluating and determining whether a simple patent registration application is accepted or not. Currently, it takes at least 157 (one-hundred and fifty-seven) days from application submission before the Patent Office may evaluate the application. But now it may only take as little as 28 (twenty-eight) days from application submission before the Patent Office may evaluate such application. Further, the Omnibus Law requires the Patent Office to decide whether a simple patent registration application is acceptable no later than 6 (six) months from the application date which is twice as faster as the 12 (twelve) months period in the current regime.

Trade secrets

Pursuant to Law No. 30/2000 regarding Trade Secrets ("**Trade Secrets Law**"), trade secret means information that is not publicly known about technology and/or business that has an economic value that can be exploited in business activities, and that is kept secret by the owner. Trade secrets may include production methods, processing methods, sales methods, and other pieces of information that meet the statutory criteria. A trade secret is protected for an indefinite period so long as the information/trade secret has not become publicly known.

Holders of a trade secret have the sole rights to use their respective trade secrets and to prohibit or permit third parties from using their trade secrets. The trade secret and any transfer of the same shall be registered with the Directorate General of Intellectual Property Rights of the MOLHR; the registration is with respect to administrative data only and does not include the substance of the trade secret. As stipulated under the Trade Secrets Law, a change in ownership of a trade secret shall also be announced in the Gazette of Trade Secrets. Rights to a trade secret may be transferred by way of inheritance, grant, will or testament, written agreement or any other process acceptable by law.

Industrial designs

Pursuant to Law No. 31/2000 regarding Industrial Design ("**Industrial Design Law**") an industrial design refers to the creation of forms concerning shape, configuration or composition of lines, colours or mixtures of both to create a two- or three-dimensional form used as a product, consumer good or industrial commodity.

Industrial design rights are to be registered and announced in the Official Gazette of Industrial Designs. Any third party wishing to use the industrial design must obtain approval from the industrial design rights holder. The term of protection is 10 (ten) years from the date of filing.

Enforcement of Intellectual Property Rights

The owner of intellectual property rights can seek relief through civil and/or criminal proceedings in the case of counterfeiting or other infringements. Civil remedies include injunctive relief, damages, and possibly a court order to hand over goods to the legitimate intellectual property owner. Criminal sanctions of imprisonment and/or fines are also imposed for the infringement of intellectual property rights.

Intellectual Property (IP)-based Financing Scheme

The government has enacted Government Regulation No. 24 of 2022 on the Implementing Regulation of Law No. 24 of 2019 on Creative Economy (“**GR 24/2022**”). GR 24/2022 provides an IP-based financing scheme through bank financial institutions and non-bank financial institutions (“**Lenders**”), of which creative economy entrepreneurs shall propose the financing scheme by fulfilling the requirements for the submission of the IP-based financing scheme which consist of: (i) financing proposal; (ii) own a creative economy business; (iii) have a contract relating to the intellectual property of creative economy products that will be pledged as the security; and (iv) have an intellectual property certificate (recordation or registration letter).

Upon receiving the abovementioned requirements from the creative economy entrepreneurs, the Lenders will undertake several measures such as (i) verification of the creative economy business; (ii) verification of the relevant intellectual property certificate (or registration letter) that will be used as security; (iii) assessment of the intellectual property assets that will be used as collaterals; (iv) disbursement of the funds to the relevant creative economy entrepreneurs; and (v) receipt of financing refunds from creative economy entrepreneurs in accordance with the relevant agreements.

For the implementation of such IP-based financing, the relevant intellectual property assets shall be utilised as collaterals. On this, such object shall be implemented in the form of (i) fiduciary security over intellectual property; (ii) contracts/agreements in creative economy businesses; and/or (iii) collection rights in creative economy businesses. Intellectual property assets that can be used as collaterals are those that have been commercialised and registered with the Directorate General of Intellectual Property.

In taking security over intellectual property assets, the Lenders will have the right to conduct an assessment over the intellectual property assets through cost approach, market approach, revenue approach, and/or other assessment approaches in accordance with the applicable assessment standards. On this, such assessment shall be conducted by the intellectual property appraiser which is licensed and competent in the field of intellectual property valuation. GR 24/2022 also provides dispute resolution options. If a dispute of such IP-based financing arises, it may be resolved through the court or by way of an out-of-court settlement, which must be approved by OJK.

10. Personal Data Protection (PDP)

Overview

Recognising the need for a unified and singular approach to personal data protection (“**PDP**”) due to the Indonesia’s PDP regulatory landscape, which is relatively more fragmented, the Government has enacted on 17 October 2022 as Law No. 27 of 2022, the Personal Data Protection (“**PDP Law**”). The enactment of PDP Law aims to guarantee the data protection rights of every individual. Briefly, the PDP Law applies to every person, public entity, organisation, or institution carrying out a defined set of actions both within and outside the jurisdiction of the Republic of Indonesia. Looking ahead, this legislation is expected to increase the competitiveness of Indonesia’s information and communication technology (ICT) sector and encourage the overall growth of the digital economy.

The PDP Law defines personal data as any electronic and/ or non-electronic data that may directly or indirectly identify a person – whether in isolation or in combination with other information. Personal data is divided into the following categories:

- General data covers for a person’s full name; gender; nationality; religion; marital status; and/or other personal data that may identify a person;
- Specific data consists of a person’s health data and information; biometric data; genetics data; criminal record; children’s data; personal financial data; and/or other data in accordance with the laws and regulations. A data subject is defined as any individual with associated personal data.

Under the PDP Law, data subject has been granted several rights among others (i) right to be informed; (ii) right to rectification; (iii) right to access; (iv) right to erasure; (v) right to withdraw; (vi) right to avoid automated decision-making; (vii) right to restrict processing; (viii) right to object; (ix) right to data portability. In this context, personal data processing covers the following actions relating to data: acquisition and collection; processing and analysis; storage; corrections and updates; appearance, announcement, transfer, dissemination, or disclosure; and removal or annihilation.

Upon the enactment of this PDP Law, personal data controllers, personal data processors, and other parties related to the personal data processing, must adjust to the provisions of Personal Data processing based on this Law by this year. The government is presently engaged in the drafting of the implementing regulation for the PDP Law, a critical step toward ensuring more comprehensive measures for Personal Data Protection in Indonesia. This implementing regulation, which will take the form of a government regulation, is expected to be finalized and enacted by October 2024. The move marks a significant milestone in Indonesia's ongoing efforts to strengthen legal frameworks around data protection, reflecting a commitment to align with global standards and address the evolving challenges of the digital age.

In addition, all provisions of prevailing laws and regulations prior to the enactment of PDP Law that regulates PDP shall remain valid as long that it does not conflict with the provisions of this Law, i.e., (i) Law No. 11 of 2008 on Electronic Information and Transaction as amended by Law No. 19 of 2016 ("**Law 11/2008**"); (ii) Government Regulation No. 71 of 2019 on Administration of Electronic Transaction and System ("**GR 71/2019**"); (iii) Minister of Communication and Informatics (MoCI) Regulation No. 5 of 2020 on Private Electronic System Providers as amended by MoCI Regulation No. 10 of 2021 ("**MoCI Reg. 5/2020**"); and (iv) Minister of Communication and Informatics Regulation No. 20 of 2016 on Personal Data Protection on Electronics System ("**MoCI Reg. 20/2016**"). This shall also refer to other sectoral laws and regulations that stipulate personal data protection, such as health, banking, real estate, and capital market sectors, among others:

- a. Law No. 36 of 1999 on Telecommunication as partially amended by Law No. 6 of 2023 on Enactment of Regulation of the Government Regulation in lieu of Law Number 2 of 2022 regarding Job Creation into Law;
- b. Law No. 7 of 1992 on Banking as amended by Law No. 10 of 1998, Law No. 4 of 2023 and Law No. 6 of 2023 on Enactment of Regulation of the Government Regulation in lieu of Law Number 2 of 2022 regarding Job Creation into Law;
- c. Law No. 8 of 1995 on Capital Market as amended by Law No. 6 of 2023 on Enactment of Regulation of the Government Regulation in lieu of Law Number 2 of 2022 regarding Job Creation into Law;
- d. Law No. 14 of 2008 on Disclosure of Public Information;
- e. Law No. 17 of 2023 on Health; and
- f. Law No. 23 of 2006 on Civil Administration as amended by Law No. 24 of 2013.

Key principles on Personal Data Protection

The key principles of data protection and governance in the current Indonesian PDP laws and regulations are as follows:

• Key roles in data processing

In PDP Law, there are 3 (three) key roles in data processing, as follows:

- i. Data subject: an individual to whom personal data is attached to;
- ii. Data controller: any person, public agency and international organisation that acts individually or jointly in determining objectives and exercising control over personal data processing; and
- iii. Data processor: any person, public agency, and international organisation acting individually or jointly in processing Personal Data on behalf of the Data Controller.

Person shall mean individual or corporation (an organised collection of people and/or wealth, both legal entities or non-legal entities).

Public agency shall mean executive, legislative, judicial and other bodies whose main functions and duties are related to the administration of the state, whose funds are partly or wholly sourced from the State Revenue and Expenditure Budget and/or Regional Revenue and Expenditure Budget, or non-governmental organisations as long as part or all of the funds are sourced from the State Revenue and Expenditure Budget and/or Regional Revenue and Expenditure Budget, public donations, and/or overseas. International organisation shall mean organisations that are recognised as subjects of international law and have the capacity to conclude international treaties.

• Principles of personal data processing

Firstly, the collection of personal data should be limited, specific, legally valid, appropriate, and transparent. Secondly, personal data processing should guarantee the rights of the data subject, and be accurate, complete, up-to-date, accountable, clearly proven, and fit for purpose. Thirdly, personal data processing shall be carried out by protecting the security of personal data from unauthorized access, disclosure and alteration, as well as misuse, destruction, and/or loss of personal data. Fourth, personal data processing shall be carried out by notifying the purpose and processing activities, as well as failure of personal data protection. Finally, personal data should be destroyed and/or deleted after the retention period ends, or at the request of the data subject.

• Consent or transparency

Personal data controller shall obtain the basis for personal data processing activities, including but not limited to:

- i. Explicit approval from data subject (or their guardian if the data subject is a child or person with disability) for one or more specific purposes which conveyed by the personal data controller to the data subject;
- ii. Fulfilment of obligation which set under relevant agreement and/or regulations;
- iii. Fulfilment of legal obligation of the data controller in accordance with laws and regulations;
- iv. Fulfilment of vital interest's protection of data subject;
- v. In carrying out duties in the context of public interest, public services, or exercising the authority of the data controller based on laws and regulations; and/or
- vi. Fulfilment of other legitimate interests by taking into account purposes, needs, and balance of interests of the data controller and data subject.

Such explicit consent or approval clause from the data subject mentioned above must also be included in any agreement relating to the processing of personal data, or the agreement will be deemed null and void.

• Visual data processing

An installation for the purposes of visual data processing may be made in public places and/or facilities for the purposes of security, disaster prevention, and traffic management. However, the installation must inform users that the visual data processing or processing device has been installed in the area and cannot be used to identify any individuals.

• Response periods

The relevant response period that data controllers are to account for is 3 (three) days for rights to access; withdrawal of consent; processing restrictions; and data repair or correction.

• Data breach notification

In the event of personal data breach, the data controller must notify the data subject and the agency that will be responsible for PDP within 3 (three) days and issue a public notice if there is an impact on public interest. The PDP Law impose penalties on personal data breaches in a form of administrative sanctions. Further, data controllers will be held accountable for their personal data processing and must demonstrate their commitment to the implementation of the personal data protection principles. Further provisions relating to the procedures for the imposition of the administrative sanctions will be regulated in the upcoming government regulation.

• International data transfer

Pursuant to Article 56 of PDP Law, a data controller may transfer personal data to other personal data controllers and/or personal data processors outside the jurisdiction of the Republic of Indonesia in accordance with the provisions stipulated under PDP Law. Data controller must ensure that the country of domicile of the personal data controller and/or the personal data processor that receives the transfer of personal data has a personal data protection level that is equal to or higher than those that are regulated under PDP Law. If not, the data controller must ensure that there is adequate and binding personal data protection as well as obtain approval from the data subject. Further provisions on cross-border data transfer will be regulated in the upcoming government regulation as implementing regulation of PDP Law.

• Data Retention

Data processors may only hold onto personal data for a stipulated period of time. Following that, the data must be deleted unless otherwise required by law or requested by the respective data subject. The PDP Law does not specify a fixed retention period; however, Article 15 of the MoCI Reg. 20/2016 states the retention period of stored personal data as a minimum of five years unless stipulated otherwise.

• Data storage

Data, records, and/or statements received by a corporation in carrying out its activities (including contracts), whether in written or other forms of media that can be seen, read, or heard, are classified as corporate documents, and regulated under the Corporate Documents Law.

Certain types of corporate documents – for example, supporting documents (such as contracts) used for the bookkeeping process – must be stored for a period of 10 (ten) years from the end of a financial year. If these documents are destroyed before this period is over, all risks arising from the destruction of the relevant documents shall be borne by the company.

The data storage period of 10 (ten) years is also clearly stipulated in Taxation Law, which applies to all records and documents that form the basis for bookkeeping, including the results of any data processing that is conducted electronically or online.

• Transitional provisions

Upon enactment of the PDP Law, organisations have been given a two-year period to comply with all relevant personal data processing provisions. During the period, they are required to carry out the following set of key actions:

- i. Prepare a personal data processing framework to serve as a guideline for compliance with the provisions of the PDP Law;
- ii. Conduct a review of all activities carried out within the organisation in relation to personal data processing;
- iii. Conduct a review of existing personal data processing and protection policies to ensure compliance with the provisions of the PDP Law;
- iv. Conduct a review of all existing contracts and obtained consent in relation to personal data processing;
- v. Assess and review the gaps between existing personal data processing and protection policies, and the provisions of the PDP Law; and
- vi. Develop a data retention.

In addition, organisations should also consider appointing a data protection officer (“**DPO**”) – either on fixed short-term contracts, or in the form of DPO-as-a-Service (DPOaaS) – and implementing a privacy management technology platform.

• Data Protection Officer

The upcoming government regulation as the implementing regulation of PDP Law is also expected to specify the role of the DPO in risk mitigation, particularly in the context of the following:

- a. Processing of personal data for public services or public interest;
- b. Large-scale coordination and systematic supervision of personal data; and
- c. Large-scale processing of personal data for specific personal data and/or personal data relating to criminal records.

In addition, administrative sanctions may be imposed for the failure to appoint a DPO in the above-mentioned contexts. These may take the form of:

- i. Written warnings;
- ii. Temporary suspension of personal data processing activities;
- iii. Deletion or destruction of personal data;
- iv. Indemnification of losses; and/or
- v. Administrative fines.

Furthermore, the PDP Law mandates the following responsibilities for the DPO regarding data protection:

- i. Inform and advise the data controller or processor on specific provisions under previous PDP laws and regulations;
- ii. Supervise and ensure compliance with PDP laws and regulations, as well as the data controller or processor policies, including assignment, responsibility, awareness, and training activities for parties involved in personal data processing and the relevant audits;
- iii. Advise on PDP-related impacts, and supervise the performance of the data controller and processor; and
- iv. Coordinate issues relating to personal data processing, including consultations regarding risk mitigation and/or other matters.

• Enforcement and sanction

Prior to the enactment of PDP Law, administrative sanctions could potentially be imposed on Electronic Service Providers who fail to comply with PDP provisions relating to the processing of personal data. However, they do not include criminal sanctions for the violations of any provisions or prohibitions.

With the PDP Law, however, new provisions are included to allow criminal sanctions – either imprisonment or fines – to be imposed on any individual failing to comply with the relevant provisions. These include:

- i. Intentionally and unlawfully obtains or collects personal data that does not belong to him with the intention of benefiting himself or another person which may result in loss of the data subject;
- ii. Intentionally and unlawfully discloses personal data that does not belong to him;
- iii. Intentionally and unlawfully uses personal data that does not belong to him; and /or
- iv. Intentionally creates false personal data or falsifies personal data with the intention of benefiting himself or another person which may result in harm to others.

The criminal sanctions for individuals range from a fine of between IDR4 billion and IDR6 billion, and/or imprisonment for 4 (four) to 6 (six) years. For companies, the penalty is ten times the maximum fine imposed on individuals. Additional sanctions may also include the confiscation of profits and/or assets; freezing of all or a portion of the corporation's business; permanent prohibition of certain actions; closure of all or part of a business place and/or activity; carrying out the neglected obligation; payment of compensation; revocation of license; and/ or corporate dissolution.



11. Dispute resolution
Civil Court proceedings

• Indonesian Judiciary

The Indonesian judiciary system for civil court proceedings is primarily governed by the Civil Code and handled by district courts, which address disputes involving contracts, torts, property, and family law. The process begins with the plaintiff filing a complaint, followed by the defendant's response, evidence gathering, and potential mediation. If mediation fails, the case proceeds to trial, leading to a judgment. Dissatisfied parties can appeal to higher courts, including the High Court and the Supreme Court. While parties typically have legal representation, the judiciary is independent, though it faces challenges like corruption and lengthy processes that can affect the efficiency of civil proceedings.

Notwithstanding the implementation of numerous legal reforms since the independence, the foundational elements of Indonesian judiciary system continue to derive from Dutch colonial laws and codes. Significant apprehensions persist regarding the reliability, efficiency, and transparency of the court system. In particular, foreign investors have encountered challenges in obtaining meaningful and satisfactory judgments, as well as effective enforcement from the judiciary. Consequently, due to these concerns, parties frequently opt to resolve disputes through international arbitration, whether seated in Indonesia or abroad or by utilizing other forms of alternative dispute resolution.

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|---|---|
| <p>General Court (<i>Pengadilan Umum</i>)</p> <p>The General Court has authority over criminal and civil matters.</p> <p>Under the General Court, specialised courts have been established as follows:</p> <ol style="list-style-type: none">1. Juvenile Court;2. Corruption Court;3. Fisheries Court;4. Human Rights Court;5. Commercial Court, having authority over bankruptcy, suspension of debt payment obligations (<i>Penundaan Kewajiban Pembayaran Utang</i> or PKPU), objection to Commission for the Supervision of Business Competition (<i>Komisi Pengawas Persaingan Usaha</i> or KPPU) rulings, and Intellectual Property disputes; and6. Industrial Relations Court. | <p>Religious Court (<i>Pengadilan Agama</i>)</p> <p>The Religious Court has authority in marriage, inheritance, wills, grants, <i>waqf</i>, <i>zakat</i>, <i>infaq</i>, <i>shadaqah</i>, and sharia economics disputes between:</p> <ol style="list-style-type: none">1. Financial institutions and Sharia financing institutions and their customers;2. Financial institutions and Sharia financing institutions;3. Muslim people in which it is stated explicitly that the actions/ business activities carried out are based on Sharia principles |
| <p>State Administrative Court (<i>Pengadilan Tata Usaha Negara</i>)</p> <p>The State Administrative Court has authority over State Administrative Decisions (<i>Keputusan Tata Usaha Negara</i>) and has established the Tax Court.</p> | <p>Military Court (<i>Pengadilan Militer</i>)</p> <p>The Military Court has authority over criminal cases committed by active Indonesian National Military (<i>Tentara Nasional Indonesia</i> or TNI) personnel.</p> |

To initiate civil court proceedings in Indonesia, a claimant shall file a claim with the relevant district court. Under Indonesian law, the disputing parties must attempt to settle the dispute via mediation first. Litigation can begin if mediation fails then the judge will set a date for the hearing. There is no discovery of documentation in Indonesia. For admission in an Indonesian court, any documents not drawn up in Bahasa Indonesia shall be accompanied by a translation into Bahasa Indonesia prepared by a sworn translator licensed in Indonesia. Additionally, representation of parties in court can only be undertaken by an Indonesian advocate holding a license issued by the Indonesian Bar Association.

The Chief Justice of the Supreme Court of the Republic of Indonesia on 13 March 2014, issued Supreme Court Circular Letter Number 2/2014 on Case Settlement in the Court of First Instance and Appeals in 4 (Four) Judicial Spheres that refer to general, religious, state administration, and military judiciatures ("**SEMA No. 2/2014**"). This circular established a new standard for resolving disputes in a time-efficient manner, mandating a resolution period of five months for first-instance cases and 3 (three) months for appeals. Consequently, SEMA No. 2/2014 supersedes the prior maximum court proceeding timeline outlined in the Head of the Supreme Court Decision No: 026/KMA/SK/II/2012 on Judicial Service Standards ("**KEPMA No. 26/2012**").

Notwithstanding the above matters, in principle, this SEMA No. 2/2014 is one of the Supreme Court's innovations to provide better service in the judicial sphere by way of urging the judges to settle the cases more quickly than was possible under KEPMA No. 26/2012. It is important to note, however, that SEMA No. 2/2014 does not apply to the following types of proceedings whose maximum court proceeding periods have been separately regulated:

- a. Industrial relations (manpower-related) dispute – 50 (fifty) days as of the first hearing, excluding the cassation stage, which require 30 (thirty) days from receipt of the petition.
- b. Bankruptcy proceedings - 60 (sixty) days from registration of the bankruptcy petition, excluding the cassation which requires 60 (sixty) days from receipt of the petition.
- c. Tax dispute proceedings – 6 (six) months from receipt of the lawsuit, excluding the appeal and case review stages which require 12 (twelve) months or a maximum of 6 (six) months from the receipt of the petition, respectively.
- d. Gross human rights violation proceedings - 180 (one hundred eighty) days from the handover of the case from the Attorney General's Office.
- e. Maritime crime proceedings - 30 (thirty) days from the handover of the case from the public prosecutor; and
- f. Criminal corruption proceedings – 120 (one hundred twenty) days from the handover of the case from the public prosecutor, excluding the appeal and cassation stage which require 60 (sixty) days and 120 (one hundred twenty) days from receipt of the case by the High Court and the Supreme Court, respectively.

Furthermore, it is noteworthy that foreign court judgments will not be enforced in Indonesia (this is one of the reasons why a party may choose to include an arbitration clause in their contracts relating to Indonesia). New court proceedings have to be commenced and the whole matter has to be re-litigated under Indonesian law. However, a foreign judgment may serve as supporting evidence when the matter is re-litigated in Indonesia.

New dispute management system

Chief Justice of the Supreme Court also issued the Supreme Court Regulation No. 3 of 2022 regarding the Mediation in Court by Electronic Means ("**PERMA No. 3/2022**") on 17 May 2022 introducing the electronic mediation. Mediation by electronic means can be utilised in the event all the parties concur to proceed. The mediation could be implemented using any application that provides online meeting services to organise mediation electronically. The mediator could give suggestions to the parties to determine applications that can be used to do online meetings and send electronic documents. The applications determined by the parties will be stated in the written agreement.

Aside from that, Supreme Court Regulation No. 1 of 2019 regarding the Administration of Lawsuits and Court Proceedings by Electronic Means ("**PERMA No. 1/2019**") juncto Supreme Court Regulation No. 7 of 2022 regarding the Amendment to Regulation of the Supreme Court Number 1 of 2019 on the Administration of Lawsuits and Court Proceedings by Electronic Means ("**PERMA No. 7/2022**") has been issued earlier on 11 October 2022 introducing the electronic court ("**e-Court**") and electronic litigation ("**e-Litigation**") to be implemented in every proceeding in Indonesia.

In principle, the e-Court system shall electronically administer the registration of lawsuit, court fee payment, summon letter to all disputing parties, and court schedule information. However, e-Court only covers civil, religious, military, and state administrative court matters in first level court and appeal level. In addition to that, the management and settlement of bankruptcy assets may also be conducted electronically.

Further, the e-Litigation system grows the electronic utilisation of court information to prosecutors and advocates, who can directly obtain such information. The e-Court framework can too be utilised for the submission of documents from lawsuits until the conclusion, evidence, and examination of witnesses and/or experts. Be that as it may, the e-Litigation system can be utilised in case all the parties concur to continue electronically unless in state administrative court where the defendant's approval is not required.

Implementation of the restorative justice approach

In line with Indonesia's efforts to develop and implement a national criminal justice system through the application of a restorative justice approach that prioritizes victim recovery over more punitive forms of justice, on May 7, 2024, the Supreme Court enacted Supreme Court Regulation No. 1 of 2024 concerning Guidelines for Adjudicating Criminal Cases Based on Restorative Justice ("**PERMA No. 1/2024**"). The guidelines for implementing restorative justice in the adjudication of criminal cases, as outlined in PERMA No. 1/2024, are applicable to all categories of criminal cases, including *Jinayat* cases, as well as military and juvenile matters. Additionally, PERMA No. 1/2024 specifies the goals of restorative justice within the criminal justice system, which include: (i) the recovery of victims; (ii) the restoration of relationships between the accused, the victim, and/or the community; (iii) providing guidance that fosters the accountability of the accused; and (iv) minimizing restrictions on the freedom of certain parties.

Pursuant to PERMA No. 1/2024, the judge shall implement restorative justice approach in relation to criminal cases that involve at least one of the following classifications of criminal act as follows

- a. Minor crimes or the value of the victim's loss is not more than IDR 2,500,000 or not more than the local provincial minimum wage;
- b. Criminal act which is a complaint offense;
- c. A criminal act with a maximum penalty of 5 (five) years imprisonment per charge or which is determined as a criminal act of *Jinayat* according to *qanun*;
- d. Criminal acts involving child perpetrators whose diversion was unsuccessful; and
- e. Traffic violations that are considered crimes.

By using this approach, there is a more significant potential to achieve a peaceful settlement between the accused and the victim in a criminal case, which can provide more benefits for all parties involved. After various efforts were previously made to introduce a restorative justice approach in trying criminal cases in Indonesia, the Supreme Court has now introduced PERMA No. 1/2024 which requires judges to prioritize the application of restorative justice if a case falls into one of the types of crimes stipulated.

Arbitration

As there are significant concerns regarding the reliability, efficiency, and transparency of the court system, foreign investors, in particular, have found it difficult to secure meaningful and satisfactory decisions, and effective enforcement from the court. As a result, parties often elect for disputes to be resolved through international arbitration (with a seat in Indonesia or overseas) or other types of alternative dispute resolution.

Foreign investors may choose to settle a commercial and trade dispute through the out-of-court settlement that can be in the form of arbitration proceedings or any form of alternative dispute resolution proceeding. Arbitration in Indonesia has undergone significant development since the 1999 Law on Arbitration ("**Law No. 30/1999**") was introduced. In 2000, there was a complete review of the rules of the Indonesian National Arbitration Body (Badan Arbitrase Nasional Indonesia or "**BANI**"). This revised system draws from many of the principles of the UNCITRAL Model. Under the new BANI rules, the District Courts have no jurisdiction over disputes where there is a valid arbitration clause in place.

Consequently, foreign companies will often contract that disputes are to be heard by an international arbitral tribunal as there is concern over corruption in Indonesia and relative inexperience of the Indonesian courts and domestic arbitration bodies. However, although this practice has largely been accepted by the Indonesian government, foreign companies may still find themselves involved in Indonesian litigation proceedings if, for example, they end up in a dispute with an employee or become subject to administrative penalties.

Indonesia is also a party to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards ("**New York Convention**") and the International Centre for Settlement of Investment Disputes ("**ICSID**") Convention.

However, there has in the past been some inconsistency in how Indonesian courts have in practice enforced foreign arbitration awards. In principle, the foreign arbitration awards should be able to be enforced against assets in Indonesia if the following conditions are complied with:

- a. The international arbitral award is issued by a country to which Indonesia is bound by a treaty concerning recognition and enforcement of international arbitration awards (such as the New York Convention);
- b. The award is not contrary to public order in Indonesia;
- c. The matter being arbitrated is within the scope of 'commercial law' or concerns 'rights' which according to the law are fully controlled by the parties to the dispute; and
- d. An enforcement order (exequatur) has been obtained from the District Court of Central Jakarta.

12. Land environment and related matters

Indonesia's Basic Agrarian Law ("**Law No.5/1960**") or "**BAL**" establishes the framework of land law in the country. The BAL reflects the principle from Indonesia's 1945 Constitution that all land and resources are collectively owned by the Indonesian people, with elected officials responsible for managing these assets for public good. However, certain land titles can be privately owned, allowing title holders to utilise the land in various ways.

The BAL and related regulations govern registered land and stipulate that land and associated rights must be registered. This registration system is still being developed, and a significant amount of land in Indonesia remains unregistered. Unregistered land often falls under customary land rights and other unregistered rights claims and restrictions.

Type of land titles

Under Indonesian law, the state, as the sovereign of all land in the Republic of Indonesia territory, has the authority to grant as well as revoke land rights that have been given to the citizens. There are several recognised rights over land (land title) important to an investor:

- a. Right of Ownership (*Hak Milik* – "**HM**"): similar to freehold ownership; only available to Indonesian citizens; no time limitation.
- b. Right to Build (*Hak Guna Bangunan* – "**HGB**"): an interest allowing the holder to build and/or possess a building on the land; available only to Indonesian citizens and Indonesian companies (including PMA companies); 30 (thirty) years term, but can be extended for 20 (twenty) years, renewal for 30 (thirty) years term (for HGB on State Land and Right to Manage (*Hak Pengelolaan* – "**HPL**"); or 30 (thirty) years term and can be extended by deed on grant of HGB on HM (for HGB on HM).
- c. Right to Cultivate (*Hak Guna Usaha* – "**HGU**"): issued on land owned by the state; right allows plantation activities; available to Indonesian citizens and Indonesian companies (including PMA companies); 35 (thirty five) years term but can be extended for a further 25 (twenty five) years and renewal for 35 (thirty five) years.
- d. Right to Use (*Hak Pakai* – "**HP**"): right to use land owned by a third party; available to Indonesian citizens, Indonesian companies, and foreign entities; 30 (thirty) years term but can be extended for a further 20 (twenty) years and renewal for 30 years (for HP on State Land and HPL); 30 (thirty) years term and can be extended by deed on grant of HP on HM (for HP on HM).
- e. Right of Ownership over Condominium Units (*Hak Milik Atas Satuan Rumah Susun* – "**HMSRS**") HMSRS adheres to the horizontal separation principle which means that an HMSRS is ownership over the condominium unit of a personal nature that is separated from the common right over the common sections, common objects, and common land. The common right over the common sections, common objects, and common land will be calculated based on the proportional value (*nilai perbandingan proporsional*) and will be attached to the HMSRS Certificate. HMSRS can be obtained by Indonesian citizens, legal entities established under Indonesian Law, foreigners domiciled in Indonesia, foreign legal entities and/or representatives of a foreign country and/or international agencies that have representatives in Indonesia.

In addition to what was mentioned earlier, unregistered land in Indonesia is referred to as "*tanah adat*" or "customary land." To assess the title of such land, a physical inspection is necessary, along with consultations with local leaders such as the village head, district official, regent, and mayor. This process helps determine the applicable rights for the unregistered land. Typically, it involves examining documentation that proves land rights, like land tax payments (*girik*) and village records. Villages may hold collective rights to certain lands, known as *tanah bengkok* or *tanah wakaf*.

To address issues related to unused, unutilized, and uncultivated lands, the Omnibus Law states that any rights or concessions on land that remain unused for two years after issuance will be revoked by the government. Additionally, Government Regulation No. 20 of 2021 on the Control of Derelict Area and Land ("**GR 20/2021**") was established to implement the Omnibus Law, aiming to improve land use efficiency to boost Indonesia's national economy.¹⁰⁴

¹⁰⁴ For more information, see "Client Alert - Government Regulation No. 20 of 2021". Deloitte Indonesia. April 2022.

Land acquisition

It is important to note that while the Indonesian Civil Code (ICC) recognizes the vertical boundary principle (*verticale accessie beginsel*), stating that land and any objects attached to it are inseparable (meaning buildings are always considered part of the land), Law 5/1960 introduces the horizontal separation principle (*horizontale scheiding beginsel*). This principle allows for a distinction between the land and any buildings, structures, or plants on it. As a result, it is possible to have two different land titles, such as a Right to Build and a Right of Ownership, for the same parcel of land. Before acquiring a specific piece of land, a company must examine the land title, ensure the willingness of the relevant land rights holders to sell, and assess the feasibility of obtaining the necessary licenses for the target land.

• Approval of Spatial Utilisation Conformity

In relation to business spatial utilisation, under the Omnibus Law jo. Government Regulation No. 21/2021 on Spatial Planning Implementation ("**GR 21/2021**"), a PMA Company must obtain approval for the alignment of its business location with the relevant Detailed Spatial Plan (*Rencana Detail Tata Ruang* – "RDTR") through the OSS Institution. Additionally, it must meet the requirements for spatial utilisation activities (*kesesuaian kegiatan pemanfaatan ruang*) as outlined below:

- a. Location coordinates;
- b. The need for land area for space utilisation activities;
- c. Land tenure information;
- d. Business type information;
- e. Building floor plan; and
- f. Floor plan of the building.

• Title evaluation for registered land

The National Land Agency (Badan Pertanahan Nasional or "**BPN**") is the official body responsible for maintaining land registration records in Indonesia. It consists of a central agency and various regional offices. To verify a land title, applicants must visit the appropriate local BPN office and present the original title certificate. Each regional office keeps records of all registered land in its archives, which can be used to confirm the original title certificate. The BPN office can also provide additional details about the registered land, including its boundaries, any encumbrances or disputes, and area measurements.

The digital transformation in land administration has significantly improved transparency in the land ownership system. To address issues of overlapping land ownership and combat problems related to land mafias, the Minister of Agrarian Affairs and Spatial Planning/National Land Office has recently issued guidelines for electronic certificate verification and issuance services. These guidelines specifically focus on certificate checking and the issuance of electronic certificates.

The guidelines outline technical standards for all land and spatial planning information services offered by the Ministry. This initiative has transformed the land management system in Indonesia, enhancing the quality of services available to the public through the digitalization of land and spatial planning processes. Citizens can now access land and spatial planning information through an electronic service that includes certificate verification, issuance of land registration certificates (*Surat Keterangan Pendaftaran Tanah* - SKPT), information on land-value zones, coordinate points, Global Navigation Satellite Systems (GNSS)/Continuously Operating Reference Systems (CORS) data, and histories of land ownership and spatial planning.¹⁰⁵

• Relinquishment of title

If the proposed land is subject to a right that foreign companies cannot own, such as *Hak Milik*, the transfer occurs indirectly through the relinquishment of the title. In this situation, the current owner gives up their title in exchange for an agreed price. After that, the buyer must apply for a new, suitable title for the land.

¹⁰⁵ For more information, see "Client Alert - Electronic Regime for Indonesia Agrarian Affairs and Spatial Planning". Deloitte Indonesia. June 2022.

• Compulsory relinquishment of title for public infrastructure

Under Law No. 2/2012, as amended by the Omnibus Law, land rights holders may be required to relinquish their rights for public infrastructure development after receiving compensation or based on a court order. The law outlines a process for the government to acquire land for infrastructure projects, starting with the creation of a land acquisition planning document, which is then submitted to the relevant provincial governor for review and consideration of any objections from affected parties. Previously, the regulations allowed involuntary relinquishment only if the project could not be relocated, with the authority to revoke land titles resting solely with the president.

Recently, Government Regulation No. 19/2021 on the Procurement of Land for Public Interest Developments was enacted to enhance the investment environment and expedite National Strategic Projects. This regulation introduces several new provisions, including additional types of public interest developments, measures to accelerate land procurement—such as clarifying the status of forest areas and addressing village treasury land (*tanah kas desa*), waqf land, and asset land—and involves the land agency in preparing the land acquisition planning document. It also extends the Location Determination period and outlines processes for compensation deposits.¹⁰⁶

Environmental Law

Indonesia's environmental law requires business activities with an environmental impact to complete an environmental impact assessment, known as an AMDAL (*Analisa Mengenai Dampak Lingkungan*). AMDAL is composed of an Environmental Impact Statement (*Analisis Dampak Lingkungan* or "**Andal**"), Environmental Management Plan, and Environmental Monitoring Plan (*Rencana Pengelolaan Lingkungan Hidup* dan *Rencana Pemantauan Lingkungan Hidup* or "**RKL/RPL**"). AMDAL may be in the following forms:

- Singular AMDAL (*AMDAL tunggal*): for a business activity under the jurisdiction of one regulator (e.g. a business activity that is in one sector).
- Integrated AMDAL (*AMDAL terpadu*): for a business activity that is under the jurisdiction of multiple regulators.
- Regional AMDAL (*AMDAL kawasan*): relates to a specific geographic area (such as an industrial estate).

In the AMDAL preparation, the following documents must be secured by the person-in-charge of the respective business:

- Terms of Reference.
- Andal.
- RKL-RPL.

The submitted Andal and RKL-RPL shall be assessed by the Environmental Feasibility Test Team in relation to the administrative and substantive matters. If these documents pass the substantive assessment phase, then the Team will conduct a feasibility assessment based on certain established feasibility criteria. Based on the feasibility assessment, the Team will issue either a recommendation of environmental feasibility or infeasibility.

Specifically, AMDALs are only required for business and/or activity plans that have a significant environmental impact (business and/or activities that are considered as large-scale businesses/activities and/or located within and/or directly adjacent to the protected areas). The criteria of significant environmental impact shall refer to:

- Land and landscape transformation;
- Natural resources exploitation, both renewable and non-renewable;
- Processes and activities that may potentially cause environmental pollution and/or damage as well as waste and degradation of natural resources in their utilisation;
- Processes and activities whose results may affect the natural environment, the artificial environment, as well as the social and cultural environment;
- Processes and activities whose results will affect the preservation of natural resource conservation areas and/or protection of cultural heritage;
- Introduction of types of plants, animals and microorganisms;
- Manufacture and use of biological and non-biological materials;
- Activities that have a high risk and/or affect national defence; and/or
- Application of technology that is estimated to have great potential to influence the Environment.

¹⁰⁶ **Village treasury land** (*tanah kas desa*) is land occupied and/or owned by the village government as one of the village's original sources of income and/or for social purposes. **Asset land** is land occupied and/or owned by the central government as an economic resource for the benefit of the central government.

The Minister of Environment and Forestry has established categories of business activities that require an AMDAL. Business activities that do not require an AMDAL may require either documentation of Environmental Management Efforts and Environmental Monitoring Efforts, known as UKL/UPL, or delivery of a Letter of Undertaking of Environmental Management and Monitoring, known as SPPL.

Law No. 32/2009 on Environmental Protection and Management (as amended by the Omnibus Law) provides that as a prerequisite for the issuance of a business and/ or activity permit, an AMDAL or UKL/UPL shall be completed by the applicant. Furthermore, the applicant must obtain all related environmental licenses required and identified under the respective AMDAL or UKL/UPL. If necessary, separate permits for the handling, storage and/or transportation of hazardous waste may be included in the relevant environmental licenses. These licenses are collectively to be integrated into an environmental permit (*Izin Lingkungan*) (businesses that are not required to prepare an AMDAL or an UKL/UPL are not required to obtain an environmental permit.)

Under the Omnibus Law, however, businesses are no longer required to obtain an environmental permit as it has been replaced by environmental approval (*persetujuan lingkungan*). Depending on the types of business activities, the environmental approval serves as an environmental feasibility decision (if granted based on AMDAL) or a statement of environmental management capability (if granted based on UKL-UPL). Although the Omnibus Law still requires that pre-requisite assessment documents such as AMDAL or UKL-UPL are made available, it should be relatively easier for businesses that are only required to prepare UKL-UPL to obtain environmental approval as it functions as a 'statement' rather than a 'license'.

The Omnibus Law also removes the requirement for businesses to obtain a "nuisance permit" (referred to as *Hinder Ordonnantie* or *Izin Gangguan*). As such, businesses are no longer required to obtain a nuisance permit, under which periodic charges must be paid to the local government.

Indonesian government also commits to manage the climate change crisis as reflected in the Presidential Regulation No. 98 of 2021 on the Implementation of Economic Carbon Value to Achieve National Contribution Target and Glasshouse Gas Emission Control in the National Development and commits to lowering glasshouse gas emissions as much by 29% by 2030. In certain regions, a permit to dump liquid waste into certain water resources is subject to a user fee collected by the local government. Furthermore, through Governor Regulation No. 93 of 2021 on Groundwater Exclusion Zone, DKI Jakarta prohibits the use of fresh groundwater in certain areas starting from 1 August 2023.

13. Other business-related laws

Currency Law

The obligation to use Rupiah in almost every financial transaction conducted in Indonesia to increase confidence in the Rupiah and reduce the use of foreign currency in Indonesia has long been practiced since the enactment of Indonesia's Law No. 7/2011 on the Currency as amended by Law No. 4/2023 ("**Currency Law**"). The Currency Law provides that, subject to certain exceptions, Rupiah shall be used in payment transactions, settlement of other monetary obligations and any other financial transactions conducted within the territory of the Republic of Indonesia. The Currency Law also prohibits a party from refusing Rupiah in these cases unless there is doubt as to the authenticity of the Rupiah or the concerned parties have agreed in writing to make such payment or settle the liabilities using foreign currency.

The following types of transactions are exempt from the requirements:

- a. Certain transactions for the purpose of state budget implementation.
- b. Receiving or accepting grants from overseas or grants are given overseas.
- c. International trade transactions.
- d. Bank deposits denominated in foreign currencies; and
- e. International financing transactions.

Every person is prohibited to refuse in accepting Rupiah whose handover is intended as payment or to settle an obligation which must be settled with Rupiah and/or for the other financial transactions in the Territory of the Unitary State of the Republic of Indonesia. Such provision shall be excluded for the payment or the settlement of an obligation in a foreign currency which has been agreed in written.

Failure to comply with the Currency Law may result in monetary penalties (up to the amount of IDR200 million) and/or imprisonment of up to 1 (one) year.

Anti-corruption laws

Entities and individuals doing business in Indonesia that are subject to anti-corruption legislation in other jurisdictions should ensure that their actions in Indonesia do not violate the laws of those other jurisdictions. The Foreign Corrupt Practices Act of 1997 (FCPA), the principal anti-corruption legislation in the United States (US), applies to US citizens, nationals and residents as well as corporations that are required to report to the US Securities Exchange Commission, have a class of securities registered under the Securities and Exchange Act, are incorporated under US laws, or have their principal place of business in the US.

The FCPA prohibits bribes to foreign government officials to obtain or retain business. Besides the FCPA, companies need to be mindful of the OECD Anti-Bribery Convention, the UK Anti-Bribery Act and similar national laws to the extent they may be subject to them.

To combat corruption, Indonesia has instituted numerous legal and institutional reforms. Government bodies that are involved in combating corruption include:

- **Corruption Eradication Commission** (Komisi Pemberantasan Korupsi or “KPK”): an anti-corruption supervisory institution that was established in 2002. KPK has the authority to initiate investigations but has limited capacity to act on the numerous reports that it receives. Among the tasks of the KPK is the annual collection of asset declarations from government officials.
- **National Ombudsman Commission** (Komisi Ombudsman Nasional): established in 2000, receives reports and has the authority to initiate investigations of irregularities in the public sector.
- **State Audit Board** (Badan Pemeriksa Keuangan or “BPK”): a high state institution in Indonesia with authority to examine the management and liabilities of various governmental institutions. Based on the 1945 Constitution, BPK is an independent body and its members are appointed by the House of Representatives with input from the Regional House of Representatives and legalised by the President. Findings from BPK investigations are reported to the legislature.
- **Indonesian Financial Transaction Report and Analysis Centre** (Pusat Pelaporan dan Analisis Transaksi Keuangan or “PPATK”): PPATK was established in 2003 to prevent money laundering in Indonesia. The PPATK receives and analyses suspicious transaction reports, cash transaction reports and other information as well as distributes its findings to law enforcement agencies.

Repatriation of capital

Pursuant to Indonesia's Investment Law, an investor is permitted to transfer foreign currency from Indonesia, including for repatriation of the following:

- a. Capital;
- b. Profit, bank interest, dividends and any other revenue;
- c. Funds required for purchasing raw materials and support materials, intermediate products or final products and reimbursement of capital goods in order to secure the investment;
- d. Additional funds required for investment financing;
- e. Funds for loan repayment;
- f. Payments of royalties or interest;
- g. Income of any foreign individuals working in any investment companies;
- h. The proceeds of any sale or liquidation of an investment;
- i. Compensation for any loss;
- j. Compensation for any takeover;
- k. Payment made for technical assistance, payable costs for technical service and management, payment made under project contracts and payment for intellectual property rights; and
- l. Proceeds of an asset sale.

Governmental authorities, such as Bank Indonesia, may impose certain reporting obligations on the repatriation of capital.

Contract formation under the Indonesian Civil Code

Under the Indonesian Civil Code, a valid contract requires consensus between the parties, legal capacity to enter into an agreement, a certain object and a lawful cause. The first two conditions are considered to be subjective conditions and the other two are to be objective conditions.

In the event the objective conditions (certain subject and lawful purpose) are not fulfilled by the parties, then the agreement is **null and void**. This means the contract was never formed. In the event that a subjective condition (consent and competence) is not fulfilled, the agreement is **voidable**. This means the affected party has the right to cancel the agreement.

Notarial deeds

Indonesian law requires certain documents to be in the form of a notarial deed or a land deed to be effective. A notarial deed is a document prepared and executed by a licensed Indonesian notary based on the authorisation of the parties to the agreement. The notarial deed is distinct from other forms of document attestation that shall be provided by a notary, such as legalisation of signatures, documentation registrations or 'true-copy' certifications.

The parties (or their authorised representatives) must physically appear before the notary in Indonesia and the notary must be provided with documentation that the notary deems appropriate to verify authorisation to complete the transactions intended by the deed in order to complete a notarial deed.

Such documentation may include powers of attorney authorising the parties' representatives, identification documentation of the representatives (passport or national identification card), articles of association or constituent documentation of the parties (if they are companies or other entities) and any governmental approvals required for the transaction. There is a presumption in favour of the truth of the content of a notarial deed in Indonesian court proceedings.

A land deed is conceptually the same as a notarial deed, except that a land deed must be prepared and executed by a PPAT (*Pejabat Pembuat Akta Tanah* or Land Deed Official).

Competition Law

Business competition in Indonesia (antitrust law) is primarily regulated by the Competition Law, as administered by the KPPU. The Competition Law prohibits certain types of agreements and activities (e.g., formation of a cartel, price-fixing etc.) and the abuse of a dominant position (e.g., monopoly power). The KPPU is vested with the authority to supervise and enforce the Competition Law, including through investigation of potential illegal activities, the commencement of administrative enforcement actions and administration of a reporting regime for mergers and acquisitions. Prior to the promulgation of the Omnibus Law, KPPU had the authority to impose monetary fines from IDR1 billion to IDR25 billion and/or administrative sanctions, such as business license revocation.

However, the Omnibus Law reduces and eliminates certain criminal sanctions for unfair business practices. Under the Omnibus Law, criminal penalties in the form of fines and imprisonment can no longer be imposed on oligopoly, monopoly, unfair business competition, boycotts, cartels, trusts, vertical integration practices, use of dominant position irresponsibly, holding majority shares in several similar companies, price fixing agreements, zoning, conspiracy and concurrent positions. However, although the Omnibus Law does not impose any penalties for the actions mentioned above, the Omnibus Law still provides penalties for actions that obstruct the investigation process of violations against the Competition Law in the form of a maximum fine of IDR5 billion and a maximum term of imprisonment of 1 (one) year.

On another note, the Omnibus Law also shifts the authority to handle objections against decisions made by the KPPU from the District Court to Commercial Court. As such, when the Omnibus Law becomes effective, any objections against KPPU decisions shall be submitted to the Commercial Court.

Language

Indonesian (Bahasa Indonesia) is the national language of the Republic of Indonesia, based on the 1945 Constitution. The use of Bahasa Indonesia is regulated in Law No. 24/2009 on National Flag, Language, State Symbols and the National Anthem ("**Law No. 24/2009**").

Under Law No. 24/2009, the use of Indonesian is required for, among other things, memoranda of understanding or contracts involving a state institution or government agencies of the Republic of Indonesia, Indonesia private entities or individual Indonesian citizens.

On 30 September 2019, the Indonesian government finally issued Presidential Regulation No. 63/2019 on the Use of Indonesian ("**PR 63/2019**"). PR 63/2019 serves as the implementing regulation of Law No. 24/2009 on the National Flag, Language, Emblem and Anthem. Article 26 of PR 63/2019 stipulates that Indonesian language (Bahasa Indonesia) is required in any Memorandum of Understanding and Agreement involving State Institutions, Indonesian Government, Indonesian private entities or Indonesian citizens ("Agreements"). Any Agreements involving foreign parties may be written in English or any other foreign language as the national language of such foreign party ("**Foreign Language**"). This foreign language shall be used as an equivalent or translation of the Indonesian version for ease of understanding of foreign parties.

The regulation, however, does not provide the explicit requirements for the parties to execute both Indonesian language and foreign language versions of the agreement simultaneously, and whether failure to do so would affect the legality of the agreement. If the parties have executed the foreign language version of the agreement first, they may agree to execute the Indonesian language version of the agreement later within an agreed certain period of time, to the extent that such agreement is expressly stated in the foreign language version of the agreement. This is of course unless specifically required otherwise by the relevant sectoral regulations.

In light of the above, if the parties choose not to execute the foreign and Indonesian language versions simultaneously, it is advisable for parties to include the following language clause in the agreement:

"In compliance with the Law No. 24 of 2009 on National Flag, Language, Emblem, and Song and its implementing regulation (i.e. Presidential Regulation No. 63 of 2019 on Use of Indonesia language), the Parties agree to enter into this Agreement in [foreign language] version and subsequent to the execution of the [foreign language] version, the Parties will enter into the Indonesian language version of this Agreement within [thirty (30) calendar days] as of the date this Agreement. Such Indonesian language version shall form an integral and inseparable part of this English version. In the event of inconsistency or different interpretation between the English and Indonesian language texts, to the extent permitted by law, the [foreign language] version shall prevail and the relevant Indonesian language version shall be amended to conform with and to make the relevant Indonesian language text consistent with the relevant foreign language text."

Despite the mandatory requirement referred to in PR 63/2019, certain sectoral regulations may require otherwise. For example, in the construction sector, Article 50 of Law No. 2/2017 regarding Construction Services requires construction contracts to be made in Indonesian and it may be written in bilingual format if it involves a foreign party. However, the Construction Law specifically requires Indonesian to become the prevailing language in the event of inconsistency.

Furthermore, Article 28 of PR 63/2019 provides that Indonesian shall be used as a communication language (both verbal and writing) within the Government and private working environment. This official communication includes among others, verifications, consultations, negotiations, correspondence, meetings, discussions, and/or other official communications.

Unless regulated otherwise in sectoral regulations, PR 63/2019 is silent on the applicable sanctions that might be imposed in case of failure to meet the requirement to use Indonesian. However, it should be noted that there was at least one case in the past where the Indonesian court considered an agreement null and void due to the absence of Indonesian in the said agreement.

Governing Law

If the parties to a dispute have contracted under the law of a foreign jurisdiction an Indonesian court should adopt the laws of the country in question as the governing law, provided that there is a connection between the parties or the transaction and the chosen law, and so long as the choice of law is not contrary to public policy. However, in practice, courts have chosen not to apply foreign law, often without providing any justification for the refusal. The unfamiliarity of the Indonesian court system with adjudicating disputes governed by foreign law is a possible explanation for this refusal.



C. Taxation in Indonesia

1. Tax administration

Tax authorities

Most taxes are administered centrally by the Directorate General of Taxes (DGT), except regional taxes that are administered and collected by regional governments.

The DGT is a department under the Ministry of Finance (MoF) tasked to formulate and implement policies and technical standardization in the field of taxation. In administering taxpayer's obligations (e.g., monitoring tax compliance, collecting tax, counseling, and conducting tax audits), the DGT establishes various units in the form of large, special, medium, and small tax offices. An account representative from the tax office is assigned to serve each taxpayer.

Fiscal year

Generally, a fiscal year constitutes a calendar year. An approval from the DGT must be obtained to change the fiscal year period.

Administration, bookkeeping, and records

A taxpayer is required to maintain proper bookkeeping in Indonesia for at least 10 years, including all supporting documents that form the basis for accounting records. All books and records must be prepared in Indonesian language and denominated in Indonesian Rupiah (IDR) currency and must be conducted in accordance with the Indonesian Financial Accounting Standards (*Standar Akuntansi Keuangan* or SAK) unless otherwise specifically regulated in tax regulations. The DGT usually requires these documents to be provided during a tax audit process.

There is a statutory requirement for the taxpayer's accounting records to be audited by a public accountant under certain circumstances. If the books and records are audited, the DGT requires the audited financial statements to be attached along with the filing of the annual corporate income tax (CIT) return.

Foreign investment companies (*Penanaman Modal Asing* or PMA), permanent establishments (*Bentuk Usaha Tetap* or PE), taxpayers that are listed on offshore stock exchanges, subsidiaries of offshore companies, certain collective investment contracts (*Kontrak Investasi Kolektif*), or taxpayers that prepare their financial statements in US Dollar as their functional currency in accordance with the SAK may maintain their bookkeeping in English and use the US Dollar denomination (USD bookkeeping) by firstly obtaining the DGT's approval before commencing the USD bookkeeping preparation. Contractors of oil and gas production sharing contract (PSC) and companies operating under mining contract of work (CoW) may decide to maintain USD bookkeeping by notifying the DGT.

Payment and filing

All taxpayers carrying out business or independent professions must maintain regular and proper accounting records, on which periodic tax payments and reporting are based. Tax returns need to be filed based on the type of taxpayer, business, or transactions. The DGT has enforced the use of online electronic billing (e-billing) system for tax payment replacing the previous manual process. Taxpayers will have to generate an e-billing code through the DGT system in order to facilitate their tax payments. The billing code is valid for a certain period and will need to be provided to the bank for tax payment execution. In general, a corporate taxpayer has the obligation to submit its tax returns (monthly and annually) in the form of electronic documents through the electronic filing (e-filing) system.

Consolidated returns

There is no provision for the filing of consolidated returns or group relief. Each company must file a separate tax return.

Statute of limitations

The statute of limitation for the DGT to issue an underpaid tax assessment letter (*Surat Ketetapan Pajak Kurang Bayar*) and additional underpaid tax assessment letter (*Surat Ketetapan Pajak Kurang Bayar Tambahan*) is five years. Under the tax criminal act, the statute of limitation can be extended up to 10 years.

Rulings

A taxpayer may request a confirmation from the DGT if the application of the tax laws and procedures is unclear. There is no timeframe for the DGT to respond to such a request. A tax ruling applies only to the taxpayer that files the request, and generally can be used only to support that taxpayer's position in the event of a tax audit or tax objection.

2. Business taxation

Overview

The principal taxes applicable to companies doing business in Indonesia are CIT, branch profit tax (BPT), withholding tax (WHT), value-added tax (VAT), and luxury-goods sales tax (LST). Various other indirect levies may also apply, such as land and building tax, regional taxes and retributions, and stamp duty. There is no excess profit tax or alternative minimum tax.

Tax exemptions and various tax incentives are available to qualified entities. The main tax laws are the Law on General Provisions and Procedures for Taxation, the Income Tax Law, the VAT and LST Law, the Land and Building Tax Law, and the Financial Relationship between the Central Government and the Regional Government Law.

| Indonesia quick tax facts for companies | |
|---|---|
| CIT rate | 22% |
| BPT rate | 20% |
| Capital gains tax rates | 0.1% - 22% |
| Basis | Worldwide, with certain exemptions for dividends and business profits |
| Participation exemption | Yes |
| Loss relief | |
| Carry forward | Five years |
| Carry back | No |
| Double taxation relief | Yes |
| Tax consolidation | No |
| Transfer pricing rules | Yes |
| Thin capitalisation rules | Yes |
| Controlled Foreign Companies rules | Yes |
| Fiscal year | Calendar year or accounting/financial year |
| Advance payment of tax | Yes |
| Income tax return due date | The end of the fourth month after the fiscal year ends; can be extended for a maximum two months from the original deadline by submitting a notification to the DGT |
| Withholding tax rates | |
| Dividends | 20% (non-resident); exempt (resident) |
| Interest | 10%/20% (non-resident); 10%/15%/20% (resident) |
| Royalties | 20% (non-resident); 15% (resident) |
| Technical service fee | 20% (non-resident); 2% (resident) |
| Branch profit tax | 20% |

| | |
|--|---|
| Capital tax | No |
| Social security contributions (employer contribution) | 0.24%-4% |
| Land and building tax | maximum 0.5% |
| Land and building rights acquisition duty | 5% |
| Transfer tax | <ul style="list-style-type: none"> • 0.1% (transfer of shares listed on the Indonesia Stock Exchange) • 5% (transfer of shares in a non-listed resident company by a non-resident) • 0%/0.5%/1.0%/2.5% of gross proceeds (transfer of land and/or buildings) |
| Tax rate on founder shares at initial public offering (IPO) | 0.5% |
| Stamp duty | IDR10,000 |
| VAT rate | <ul style="list-style-type: none"> • As from 1 April 2022: 11% • As from 1 January 2025 (at the latest): 12% |

Residency

A corporation shall be regarded as an Indonesian tax resident if it is established or domiciled, or has a place of management or control, in Indonesia.

Taxable income and rates

Indonesian tax residents are taxed on their worldwide income, with certain exceptions for qualifying individual tax residents. Non-Indonesian tax residents are taxed only on incomes sourced from Indonesia, including income attributable to a PE in Indonesia.

The standard CIT rate is 22%. Certain corporate taxpayers that earn or receive a gross revenue not exceeding IDR4.8 billion in a fiscal year (small and medium enterprises) are subject to final income tax rate of 0.5% on the gross revenue for a certain period of time. However, these taxpayers may opt to apply the standard CIT rate after notifying the DGT. Corporate taxpayers with a gross revenue of up to IDR50 billion in a fiscal year shall receive a 50% reduction of CIT rate for the initial gross revenue of IDR4.8 billion. For publicly listed corporate taxpayers with a minimum of 40% of the shares held by public investors that meet certain criteria, the applicable CIT rate is lower than the regular rate, i.e., 19%.

Certain types of income earned by resident taxpayers or PEs of foreign companies are subject to a final income tax. Such tax withheld by third parties is deemed to be the final settlement of the income tax for the particular type of income.

Dividend income earned or received from domestic listed and non-listed companies is exempted from tax if the recipient is a domestic corporate recipient. Dividend from an offshore-listed company and income from foreign active business without a PE that are reinvested into Indonesia within a certain period of time may be tax exempted. The portion of dividend and income that is not reinvested into Indonesia within a certain period of time is subject to income tax. Dividend from an offshore non-listed company and PE's income after tax may be tax exempted if the reinvested dividend or income after tax is at least 30% of profit after tax (PAT), proportionated in accordance with the shareholding percentage. The difference between the reinvested amount and the 30% threshold of the PAT is subject to income tax.

Taxpayers engaging in certain business sectors, such as foreign oil and gas drilling service operations, foreign shipping and airline operations, and trade representative offices, are subject to deemed profit margin. Tax provisions for mineral and coal mining, upstream oil and gas, geothermal, and sharia-based industries are regulated separately by the government and MoF regulations. Taxation for general mining and coal mining under the CoW framework generally follows the tax provisions in the respective CoW. Other holders of general mining business license (*Izin Usaha Pertambangan* or IUP) and special mining business licenses are subject to a specific government regulation.

An upstream oil and gas company typically has to calculate its CIT in accordance with its PSC. Several regulations have been issued to provide guidance on cost recovery items, other incomes, and tax reporting. A regulation on taxation for gross-split arrangement has also been issued enabling contractors engaging in upstream oil and gas activities to be more flexible in their business planning. To date, the regulation on geothermal industry has not been issued yet.

Branch profit tax

In addition to CIT, a PE is subject to BPT at a rate of 20%, applicable to the PE's taxable income after tax. This rate may be lowered subject to the accessibility of tax treaty benefits. For a PE that is subject to final income tax regime, the BPT should be calculated from the accounting profits that have been adjusted for fiscal correction minus the final income tax paid.

An exemption from BPT applies if the PE's taxable income after tax is reinvested into Indonesia in the form of:

- a. Capital contribution in a newly established company domiciled in Indonesia as a founder or a member of the founders;
- b. Capital contribution in an existing company established and domiciled in Indonesia;
- c. Investment in fixed assets to be used by the PE to do business or conduct activities of the PE in Indonesia; or
- d. Investment in intangible goods by the PE to do business or conduct activities of the PE in Indonesia.

Borrowing costs

The MoF is authorised to specify the limitation on deductible borrowing costs based on internationally accepted methods, such as debt-to-equity ratio (DER), borrowing costs compared to earnings before interest, taxes, depreciation, and amortisation, or other methods.

So far, the MoF has introduced a DER of 4:1. In the case the DER exceeds 4:1, the borrowing costs have to be proportionated and the borrowing costs exceeding the DER of 4:1 are not tax deductible. For a taxpayer with a zero or deficit value in its equity balance, the entire borrowing costs are not tax deductible. An exemption from the DER requirement may apply for certain taxpayers.

In the case where the loan is procured from a related party, the taxpayer has to ensure that the interest charged is on an arm's-length basis, otherwise, the interest can be deemed as dividend distribution. A taxpayer that obtains loan and would like to utilise the relevant interest as deduction is required to submit a DER calculation report. If the loan is from overseas, the taxpayer has to attach a report on foreign loan along with its CIT return submission.

Capital gains taxation

Capital gains earned by a resident company generally are taxed as ordinary income and are treated as taxable income. Sale of shares listed on the Indonesian Stock Exchange is subject to a final tax of 0.1% of the gross transaction amount. An additional tax rate of 0.5% applies to founder shares from the share price at the IPO.

In general, transfer of land and/or building is subject to a final income tax at the rate of 2.5% of the transaction value.

Different rates apply to certain transactions (e.g., sale or transfer of low-cost houses/apartments (1%), and transfers of land and/or buildings to the government for public interest (0%)). Capital gains derived from the sale of certain Indonesian assets held by non-residents are taxable at a rate of 5% of the gross proceeds, subject to relief under an applicable tax treaty.

Controlled Foreign Companies rules

Under Controlled Foreign Company (CFC) rules, the MoF is authorised to determine when a dividend is deemed to be earned from a non-listed company established in another country, where an Indonesian resident taxpayer (either alone or collectively with other Indonesian resident taxpayers) holds, directly or indirectly, at least 50% of the total paid-in-capital or voting rights of a non-listed foreign company, with the 50% threshold criteria applied at each level.

If no dividends are declared or earned from the foreign company, the Indonesian resident taxpayer must calculate and report a deemed dividend in its annual CIT return. The dividend will be deemed to be received either:

- a. In the fourth month following the tax return filing deadline in the foreign country; or
- b. Seven months after the foreign company's fiscal year ends if the country does not have a specific tax return filing deadline.

The amount of the deemed dividend is the total dividends to which the Indonesian resident taxpayer is entitled. This has to be determined in proportion to the taxpayer's capital participation in the foreign company from the net passive income of the foreign company. The net passive incomes include:

- a. Dividend, with certain exceptions;
- b. Interest, with certain exceptions;
- c. Rent of land and/or buildings;
- d. Rent of other assets to related parties;
- e. Royalty; and
- f. Gain on sale or transfer of assets.

The deemed dividend can be offset against the actual dividend received from a direct CFC within the past five consecutive years. In the case that the actual dividend received is higher than the deemed dividend, the excess is subject to income tax. The income tax paid or withheld for dividends received from a direct CFC is creditable.

Indirect purchase of Indonesian company shares or assets involving special purpose company

An Indonesian taxpayer that purchases the shares or assets of an Indonesian company through a special purpose company (SPC) may be deemed as the party doing the actual purchase, as long as the purchaser has a special relationship with the SPC and the purchase is not carried out on an arm's-length basis. The following points define the criteria of a special relationship for fiscal purposes:

- a. Share ownership of the other party is 25% at minimum, either directly or indirectly;
- b. There is a relationship through direct or indirect management or technology control by the other party; or
- c. There is a family relationship either through blood or through marriage within one degree of direct or indirect lineage.

Indirect sale or transfer of Indonesian company shares involving special purpose company

Sale or transfer of Indonesian company shares in an SPC that is established or domiciled in a tax haven country and has a special relationship with an Indonesian taxpayer or a PE in Indonesia may be deemed as a sale or transfer of shares in the Indonesian company or the PE. The DGT often views a tax haven country as a country that has a corporate tax rate of 50% lower than that of Indonesia or a country that has bank secrecy law and does not have a provision on exchange of information with Indonesia.

Compliance

Indonesia operates a self-assessment system, under which all entities meeting certain criteria must register for a taxpayer identification number (*Nomor Pokok Wajib Pajak* or NPWP) to carry out their taxation rights and obligations.

A foreign company carrying out business activities through a PE in Indonesia generally has the same compliance obligations as a resident taxpayer. A foreign company that does not have a PE settles its Indonesian tax obligations on Indonesian-sourced income when an Indonesian taxpayer withholds income tax. Tax collection is carried out under a self-assessment system. For taxpayers that are subject to the ordinary tax regime, their monthly tax instalments are due on the 15th of the following month. The annual CIT return must be filed within four months from the end of the financial year and can be extended for two months by submitting a notification to the tax office. Annual CIT liability (income tax liability less monthly instalments and/or other prepaid taxes) should be settled prior to submission of the annual CIT return. Overpayments of tax may be recovered, but only after a tax audit has been conducted.

Penalties are imposed for late payment of tax, late filing of returns, and underpayment of tax and voluntary amendment of tax returns. The penalty varies depending on the situation, and the penalty for underpaid tax is imposed monthly, based on the rates determined by the MoF.

3. Taxes on individuals

| Indonesia quick tax facts for companies | |
|--|--|
| Income tax rates | 5%-35% |
| Capital gain tax rates | 0.1% - 35% |
| Basis | Worldwide income, with certain exceptions for dividends and business profits |
| Double taxation relief | Yes |
| Fiscal year | Calendar year |
| Return filing due date | 31 March or three months after end of tax residency (whichever is earlier) |
| Withholding tax rates (applicable for Indonesian sourced income) | |
| Dividends | 10% or exempted (for resident); 20% (for non-resident) |
| Interest | 10%/15%/20% (for resident); 10% /20% (for non-resident) |
| Royalties | 15% (for resident); 20% (for non-resident) |
| Net wealth tax | Generally, no |
| Social security | 1%-4% |
| Inheritance tax | No |
| Land and building tax | Maximum 0.5% |
| Land and building right acquisition duty | 5% |
| Transfer tax | <ul style="list-style-type: none"> • 0.1% (transfer of shares listed on Indonesia Stock Exchange) • 5% (transfer of shares in non-listed resident company by a non-resident) • 0%/1%/2.5% of gross proceeds (transfer of land and/or buildings) |
| Tax on founder shares at IPO | 0.5% |
| VAT | <ul style="list-style-type: none"> • As from 1 April 2022: 11% • As from 1 January 2025 (at the latest): 12% |

Residency

Residents are defined as individuals who reside in Indonesia, present in Indonesia for 183 days or more in any 12-month period, or present in Indonesia and intend to reside in Indonesia. Non-resident taxpayers are individuals present in Indonesia for less than 183 days in any 12-month period, without intention to reside in Indonesia. They are not required to register for tax purposes.

Taxable income and rates

Resident individual taxpayers are taxed on their worldwide income, less allowable deductions, and non-taxable income. Tax exemption is available on certain income if the associated requirements are met. Non-resident individuals are taxed only on Indonesian-sourced income.

Taxable income

Taxable income includes employment income, income from the exercise of a business or profession and other income, such as passive income (dividends, interest, and royalties) and capital gains.

Employment income includes salaries and wages, bonuses, commissions, overseas allowances, and benefits for education, housing, medical care, or any other type of benefits given in the form of cash or non-cash. Employment income in Indonesia is subject to tax, regardless of where the income is paid.

Dividend income earned/received from domestic companies, dividend income from offshore listed companies, and income from foreign active businesses without a PE that are reinvested into Indonesia within a certain period of time are not subject to income tax. The portion of dividend or income not reinvested into Indonesia for a certain period of time is subject to income tax.

Dividend from offshore non-listed companies and PE's income after tax may be tax exempted if the reinvested dividend or income after tax is at least 30% of PAT, proportionated in accordance with the shareholding percentage. The difference between the reinvested amount and the 30% threshold of the PAT is subject to income tax.

Deductions and reliefs

Deductions are generally available for expenses incurred in generating income.

| Basis of deduction | Deductible amount (per year) |
|--|--|
| Taxpayer | IDR54 million |
| Spouse | IDR4.5 million (additional IDR54 million for a wife whose income is combined with her husband's) |
| Dependents | IDR4.5 million for each dependent, maximum three dependents |
| Occupational expense (<i>Biaya Jabatan</i>) | 5% of gross income up to a maximum of IDR6 million |
| Pension cost | 5% of gross income up to a maximum of IDR2.4 million |
| Employee contribution to an approved pension fund, e.g., manpower social security scheme (<i>Badan Penyelenggara Jaminan Sosial</i> (BPJS) <i>Ketenagakerjaan</i>) | Actual amount |
| Compulsory tithe (<i>zakat</i>) or religious contributions | Actual amount, if valid supporting evidence is available and all requirements are met |

The MoF is authorised to re-determine the amount of the personal deductions above.

All incomes earned or received by an individual carrying out business activities (except certain independent personal services) that do not exceed IDR4.8 billion within a fiscal year are subject to 0.5% final income tax, applicable for a maximum of seven years. This 0.5% final income tax rate will be imposed on the gross revenue exceeding IDR500 million. Individual tax residents may opt to be subject to the standard individual income tax rate by submitting a notification to the DGT.

The social security contributions borne by employees are 2% of monthly compensation to the old-age saving, 1% to the pension plan, and a 1% health care contribution (BPJS *Kesehatan*) (subject to a monthly compensation cap). An employee may add other family members, but he/she will be liable to make an additional 1% contribution per family member per month. The contribution to the pension plan is not mandatory for expatriates.

Rates

| Taxable income | Rate |
|---|------|
| Up to IDR60 million | 5% |
| More than IDR60 million but not exceeding IDR250 million | 15% |
| More than IDR250 million but not exceeding IDR500 million | 25% |
| More than IDR500 million but not exceeding IDR5 billion | 30% |
| More than IDR5 billion | 35% |

Inheritance and gift tax

Indonesia does not levy inheritance or gift tax

Net wealth tax

Indonesia does not generally levy a net wealth tax. However, Indonesia requires its tax residents to disclose their worldwide assets and liabilities in their individual tax return. If the tax authorities find any undisclosed assets, they might assess income tax and impose penalty on the undisclosed assets.

To encourage taxpayers in disclosing all of their assets properly in the tax return, the Indonesian government has issued a PAS FINAL program in year 2017, which is still in effect up to now. The program is intended for taxpayers who would like to self-voluntarily disclose their assets that have not been declared in their 2015 tax return and/or the prior Tax Amnesty (TA) declaration. A rate of 12.5 % or 30% is payable on the undisclosed assets. However, the taxpayers are exempt from the penalties due on the undisclosed assets.

From 1 January 2022 to 30 June 2022, the government rolled out a Voluntary Disclosure Program (*Program Pengungkapan Sukarela Wajib Pajak* or VDP), which is an opportunity for taxpayers to disclose assets that have not yet been disclosed when participating in the TA program or in their 2020 tax return. There are two VDP schemes available depending on the type of taxpayers:

- **Scheme 1:** ex-TA program participants (individuals and corporations) that have not fully disclosed their assets acquired between 1 January 1985 and 31 December 2015 in the asset declaration letter for TA (*Surat Pernyataan Harta untuk Pengampunan Pajak*). The final tax rates are between 6% and 11%.
- **Scheme 2:** certain individual taxpayers with net assets acquired between 1 January 2016 and 31 December 2020, still owned on 31 December 2020, and have not yet been reported in the 2020 annual income tax return. The final tax rates are between 12% and 18%.

Compliance

Indonesia operates a self-assessment system, under which all individuals that have fulfilled certain criteria must register for an NPWP to carry out its taxation rights and obligations.

Starting 1 July 2024, the national identification number (*Nomor Induk Kependudukan* or NIK) replaces NPWP for individual taxpayers (Individual nationals and foreigners who live in Indonesia. Practically, individuals who are non-Indonesian citizens can either add '0' at the beginning of their existing NPWP to create a 16-digit NPWP or use the NIK provided in their residency certificate (*Surat Keterangan Tempat Tinggal*).

An exemption from registration is available for those whose earnings are less than the non-taxable income (*Penghasilan Tidak Kena Pajak*) threshold, those who do not qualify as individual tax residents, and married women who will fulfil their individual tax obligations jointly with their husbands.

Individual taxpayers are required to file annual individual income tax returns, declaring their worldwide income and assets and liabilities. However, some foreign nationals with certain expertise who are regarded as Indonesian tax residents, may apply to the DGT for territorial basis taxation in the first four years of them being Indonesian tax residents. If the conditions are met and the application is approved by the DGT, these foreign nationals will be taxed on Indonesian-sourced income only during the first four years.

The annual tax return must be filed no later than 31 March of the year following the income year, or three months following the individual's end of tax residency status in Indonesia (whichever is earlier). Any annual tax due should be settled before submission. Individual taxpayers are encouraged to file their tax returns electronically through the e-Filing system. They need to separately obtain an e-Filing Number (e-FIN) from the tax office in order to access the system.

Penalties are imposed for late payment of tax, late filing of returns, and underpayment of tax and voluntary amendment of returns. The penalty varies depending on the situation and the penalty on tax underpaid is imposed monthly, based on the rates determined by the MoF.

4. Withholding taxes

Dividends

Dividends paid to a non-resident are subject to a 20% WHT, unless the rate is reduced under a tax treaty. Dividends paid by a domestic corporate taxpayer to a resident company or cooperative are income tax exempt. Dividends paid by a domestic corporate taxpayer to resident individuals are income tax exempt if they fulfil certain criteria. Otherwise, the resident individuals must self-assess the 10% final income tax.

Interest

Interest paid to a non-resident is subject to WHT at the rate of 20% (or 10% for interest income from bonds), unless the rate is reduced under a tax treaty.

Interest paid by a domestic taxpayer to a resident generally is subject to 15% WHT, which represents an advance payment of the tax liability. Interest paid to a resident bank or financial institution is exempt from WHT. Interest paid by Indonesian banks and Indonesian branches of foreign banks to a tax resident is subject to 20% final income tax for both corporations and individuals. Interest or discount on bonds is subject to 10% final income tax.

Royalties

A 20% WHT is imposed on royalties remitted abroad unless the rate is reduced under a tax treaty. For tax purposes, royalties include any charge for the use of property or know-how in Indonesia and the transfer of a right to use property or know-how in Indonesia.

Royalties paid by a domestic taxpayer to a resident are subject to a 15% WHT, which represents an advance payment of the tax liability.

Wage tax/social security contributions

The employer is responsible for calculating, deducting, and remitting tax payable on employees' salaries and other remuneration. The employer must file an employment WHT return on a monthly basis. The employers and employees are required to contribute to the general social security schemes (please refer to "**Workforce Environment**" section for more details).

Other transactions

Fees for technical services remitted abroad are subject to a 20% WHT, unless the rate is reduced under a tax treaty.

A 2% WHT applies to domestic payments made for technical, management, consulting, and certain services, as well as rental (except for land and building rental, which is subject to a 10% final income tax). The rates are doubled for taxpayers without an NPWP.

Compliance

To facilitate the DGT's efforts to collect taxes, taxpayers are subject to a number of obligations to withhold taxes on various payments made to residents and non-residents. The collection of tax on dividends, interest, royalties, rental, professional service fees, technical and management service fees, and construction service fees, etc. is via withholding at the source. Tax withheld may represent either a final income tax for the payment recipient or prepaid (advance) tax that is either creditable or refundable by the payment recipient that is a domestic taxpayer against its tax liability. If a payment is subject to WHT, the responsibility to withhold and settle the tax to the state treasury rests with the payer.

In general, tax withheld from dividends, interest, royalties, and other payments must be paid on the 10th of the calendar month following the tax assessment month. Payment of income tax that has been deducted from employees' wages and vendors' income must be paid by the 10th of the following calendar month. Reporting is due by the 20th of the following month.

5. Double taxation relief

Unilateral relief

Resident companies deriving income from foreign sources are entitled to a unilateral tax credit for foreign tax paid on the income. The credit is limited to the amount of Indonesian tax otherwise payable on the relevant foreign income. A country-by-country limitation applies, i.e., the credit for foreign tax paid on income from one country is limited to the amount of Indonesian tax otherwise payable on the income from the same country. Indonesia does not grant credit for underlying tax.

Tax treaties

Indonesia has a reasonably broad tax treaty network, with the treaties generally following the Organization for Economic Co-operation and Development (OECD) model treaty and containing OECD-compliant exchange of information provisions. Treaties generally provide the relief from double taxation on all types of income, limit the taxation by one country on companies residing in the other, and protect companies residing in one country from discriminatory taxation in the other.

To apply for a lower WHT rate, the foreign income recipient has to meet the substance and administrative requirements. The substance requirements entail general conditions to be met, and if the foreign taxpayer receives income, for which the article in the relevant tax treaty stipulates a beneficial owner requirement (i.e., interest, dividend, royalty), additional conditions must also be satisfied (please refer to the "**Anti-avoidance rule**" section).

A non-Indonesian tax resident wishing to access tax treaty benefits must provide a Certificate of Domicile (CoD) in a prescribed format, known as the DGT Form (*Surat Keterangan Domisili Wajib Pajak Luar Negeri* or SKD WPLN). The CoD must be endorsed by the competent/tax authorities of the foreign income recipient's jurisdiction. In the case that the foreign income recipient is unable to obtain the endorsement, a Certificate of Residence (CoR) commonly verified or issued by the competent/tax authorities of the recipient's jurisdiction can be attached to the CoD to substitute for the endorsement.

| Indonesia's tax treaty network | | | |
|--------------------------------|---------------|------------------|--------------------------|
| Algeria | Germany | New Zealand | Suriname |
| Armenia | Hong Kong | Norway | Sweden |
| Australia | Hungary | Pakistan | Switzerland |
| Austria | India | Papua New Guinea | Syria |
| Bangladesh | Iran | Philippines | Taiwan |
| Belarus | Italy | Poland | Tajikistan |
| Belgium | Japan | Portugal | Thailand |
| Brunei Darussalam | Jordan | Qatar | Tunisia |
| Bulgaria | Korea (North) | Romania | Turkey |
| Cambodia | Korea (South) | Russia | Ukraine |
| Canada | Kuwait | Serbia | United Arab Emirates |
| Indonesia's tax treaty network | | | |
| China | Laos | Seychelles | United Kingdom |
| Croatia | Luxembourg | Singapore | United States of America |
| Czech Republic | Malaysia | Slovakia | Uzbekistan |
| Denmark | Mexico | South Africa | Venezuela |
| Egypt | Mongolia | Spain | Vietnam |
| Finland | Morocco | Sri Lanka | Zimbabwe |
| France | Netherlands | Sudan | |

Anti-avoidance rule

To apply for a lower WHT rate, the foreign income recipient has to meet the existing substance and administrative requirements. The foreign income recipient is considered meeting the substance requirements if:

- The entity has relevant economic substance, either in the entity's establishment or the execution of its transaction;
- The legal form is not different from its economic substance, either in the entity's establishment or the execution of its transaction;
- The entity has its own management in conducting business, and such management has an independent discretion;
- The entity has sufficient assets to conduct business other than the assets intended to generate income from Indonesia;
- The entity has sufficient employees with certain expertise and skill in accordance with the business it carries out; and
- The entity has business activities other than receiving dividend, interest, and royalty sourced from Indonesia, and such activities are in accordance with the actual conditions as shown by the existence of costs incurred, efforts undertaken, or sacrifices made, which are directly related to the business or activities for the purpose of earning, collecting, and maintaining income, including significant activities conducted to maintain the entity's survival.

In addition, the purpose/arrangement of the transaction is not to directly or indirectly obtain benefits under the tax treaty (among others, reduction of tax burden or double non-taxation) that are not in accordance or conflict with the object and purpose of the tax treaty. This is similar to the principle purpose test adopted by Indonesia through multilateral instrument (MLI) on tax treaty.

To apply for a lower WHT rate on passive income, in addition to the substance requirements above, the foreign income recipient has to meet the following beneficial ownership requirements:

- The entity is not acting as an agent, nominee, or conduit;
- The entity has controlling rights or disposal rights on the income or the assets or rights to generate the income;
- No more than 50% of the entity's income is used to satisfy claims by other persons;
- The entity bears the risk on its own asset, capital, or liability; and
- The entity has no contract(s) which obligates the entity to transfer the income received to a resident of third country.

If any of the conditions above is not satisfied, the foreign income recipient will not be considered as fulfilling the beneficial owner requirements and therefore will not be entitled to enjoy the tax treaty benefits on passive income.

6. Transfer pricing and international tax

Transfer pricing

Since 2010, the DGT has issued guidelines and regulations to provide greater certainty to businesses on transfer pricing rules. The DGT is authorised to adjust taxpayers' incomes or expenses, where transactions with related parties (special relationship) are not in accordance with "fair and common business practices". Furthermore, the DGT has the authority to treat such adjustment as deemed dividend, and subject the same to withholding tax, or commonly known as a "secondary adjustment".

Corporate taxpayers are required to disclose their related party transactions in a separate attachment to the CIT. The disclosure includes various information, such as type of transactions, nature of relationship, questionnaire on documentation prepared to support the implementation of arm's-length principle, as well as transactions with parties from tax haven countries.

The DGT adopts a three-tiered approach to transfer pricing documentation, namely: (i) Local File; (ii) Master File; and (iii) Country-by-Country Report (CbCR). The Master File and the Local File must be available within four months after the end of a fiscal year and must be accompanied by a statement letter concerning the time of the availability of such documents.

There is no statutory deadline for the submission of transfer pricing documentation, but the documentation must be provided when requested by the DGT. Generally, the DGT provides seven to 14 days upon request in case of regular compliance checks, whereas in the case of tax audits, the timeline to submit the documentation is 30 days upon request. Failure to furnish the documentation within the stipulated time may prompt a detailed transfer pricing audit. It also allows the DGT to disregard any subsequent documentation and determine tax liability based on the data available to the DGT.

Taxpayers having related party transactions and meeting any one of the following thresholds are required to prepare both a Master File and a Local File in Indonesian language:

| Item | Threshold |
|--|---|
| Gross revenue in the preceding year | Exceeds IDR50 billion |
| <ul style="list-style-type: none"> Related party transactions of tangible goods in the preceding fiscal year; or | Exceeds IDR20 billion |
| <ul style="list-style-type: none"> Related party transactions of services, royalties, interests, or other transactions in the preceding fiscal year | Exceeds IDR5 billion |
| Related party transactions with an affiliated party located in a jurisdiction with a tax rate lower than Indonesia's (i.e., 22%). | No minimum threshold |
| A taxpayer that qualifies as a Parent Entity of a business group | Consolidated gross revenue of at least IDR11 trillion in the preceding year |

Aside from the Master File and the Local File, a taxpayer qualifying as a Parent Entity of a business group having a consolidated gross revenue of at least IDR11 trillion in the fiscal year preceding the reported fiscal year is required to prepare and submit a CbCR. Parent Entity is defined as an entity that directly or indirectly controls a group of businesses, which is required to prepare consolidated financial statements under SAK. In the event the Parent Entity (or a Surrogate Parent Entity appointed by the Parent Entity) is located in a foreign jurisdiction, the resident taxpayer is required to submit the CbCR when the country of the Parent Entity (or the Surrogate Parent Entity):

- Does not require the submission of CbCR;
- Does not have an agreement with the Indonesian government on information exchange; or
- Has an agreement but the CbCR cannot be obtained by the Indonesian government.

In other cases, the resident taxpayer is required to submit a notification to the DGT specifying the Parent Entity (or Surrogate Parent Entity) and the country where the CbCR is filed.

The CbCR or the Notification, as the case may be, must be submitted within 12 months after the end of the relevant fiscal year.

Automatic exchange of information

The OECD has developed a global Common Reporting Standard (CRS) for automatic exchange of tax and financial information, aiming at minimising the possibility of tax evasion. This provides a facility for exchange of information about non-resident financial accounts with the tax authorities in the account holders' country of residence. Participating jurisdictions implementing the Automatic Exchange of Information (AEOI) send and receive pre-agreed information each year without having to make a specific request. Since September 2018, Indonesia has been implementing the AEOI and to date, 83 reporting destination countries have received information from Indonesia as part of the AEOI process.

To support the CRS implementation, the MoF, DGT, and OJK have issued several regulations requiring the reporting financial institutions (such as banks and insurance companies) to submit CRS reports to the OJK (which will be passed to the DGT to be exchanged with the tax authorities of the reporting destination countries). The DGT will use the CRS reports to monitor the tax compliance of Indonesian taxpayers. In addition, the DGT is authorised to audit the CRS reports and impose sanctions on the reporting financial institutions for non-compliance with the CRS.

Assistance with global tax collection

The DGT and a partner jurisdiction may assist each other with regard to tax collection, provided that the collection powers are specified in the relevant international agreements and the assistance is reciprocal.



Indonesia's participation in the Base Erosion and Profit Shifting projects

Although Indonesia is not a member of the OECD, Indonesia is a member of the G20; therefore, Indonesia has fully participated in Base Erosion and Profit Shifting (BEPS) projects both as an observer and as a contributor. The following table summarises the steps Indonesia has taken to date to implement the BEPS recommendations:

| Action | Implementation |
|--|--|
| VAT on business to customers digital services (Action 1) | Tax treatment of transactions through electronic system (<i>Perdagangan Melalui Sistem Elektronik</i> or PMSE) whereby VAT on PMSE is to be collected, paid, and reported by the foreign traders, foreign service providers, and foreign and/or domestic PMSE providers (<i>Penyelenggara PMSE</i> or PPMSE). |
| Hybrids (Action 2) | Not yet known. |
| CFCs (Action 3) | Indonesia already has CFC rules, but these are limited only to passive income. |
| Interest deductions (Action 4) | The MoF is authorised to specify the limitation on deductible costs based on internationally accepted methods, such as DER, borrowing cost compared to EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortisation) or other methods. |
| Harmful tax practices (Action 5) | Not yet known. |
| Prevent treaty abuse (Action 6) | Indonesia already has a rule to prevent treaty abuse. |
| Permanent Establishment (PE) status (Action 7) | The MoF Regulation was issued in April 2019 to provide legal certainty for a Foreign Tax Subject conducting business or activities through a PE in Indonesia. The regulation provides explanation and interpretation of PE determination for Foreign Tax Subject as stipulated in the Income Tax Law. Whereas in the implementation of tax treaty, the PE determination still follows the criteria and treatment according to the applicable tax treaty. |
| Transfer pricing (Actions 8-10) | OECD Transfer Pricing Guidelines are generally relied upon in the absence of local guidance and hence the principles laid down by the OECD in Actions 8-10 are relevant for Indonesian transfer pricing. |
| Disclosure of aggressive tax planning (Action 12) | Not yet known. |
| Transfer pricing documentation (Action 13) | <p>The MoF has introduced the three-tiered level of documentation requirement for fiscal years ending on or after 30 December 2016.</p> <p>The requirements are broadly in line with the action 13 recommendations, with additional information requirements for both Master File and Local File. The documents must be prepared in Indonesian language and made available within four months from the end of the fiscal year. There are certain thresholds for determining the documentation requirements and the inclusion of domestic related parties within the scope of the transfer pricing rules.</p> |
| CbC reporting (Action 13) | <p>CbC reporting has been introduced in line with Action 13 requirements, with certain additional details and applies for fiscal years ending on or after 30 December 2016. The CbCR must be available within 12 months from the end of the fiscal year and must be filed with the annual corporate tax return for the subsequent fiscal year.</p> <p>Where the parent entity is located in a foreign jurisdiction, the resident taxpayer must submit the CbCR when the country of the parent entity:</p> <ul style="list-style-type: none"> • Does not require the submission of a CbCR; or • Does not have an exchange of information agreement with the Indonesian government; or • Has an agreement but the CbCR cannot be obtained by the Indonesian government. <p>Indonesia is one of the countries that signed a multilateral competent authority agreement for the automatic exchange of CbCR.</p> |

| Action | Implementation |
|--|--|
| Dispute resolution (Action 14) | <p>The MoF issued Regulation No. 49/PMK.03/2019 (PMK-49) regarding the Implementation Guidelines of Mutual Agreement Procedure (MAP), which is an updated version of the MAP framework in Indonesia issued with a view to meeting the minimum standards set out in Action 14. PMK-49 broadly aligned Indonesia's position with recommendations under Action 14.</p> <p>Additionally, the MoF issued Regulation No. 22/PMK.03/2020 (PMK-22) regarding implementation Guidelines for Advance Pricing Agreement (APA). PMK-22 sought to align the APA regulation with the broader objectives of Action 14 and provided detailed guidelines to ensure greater legal certainty to taxpayers involved in the APA process, particularly regarding procedures and timeframe, and the follow-up actions.</p> <p>PMK-49 and PMK-22 have recently been superseded by MoF Regulation No. 172 of 2023 (PMK-172) that consolidates various transfer pricing matters, including MAP and APA, amongst others, into one regulation.</p> |
| Multilateral instrument (Action 15) | <p>Indonesia ratified Multilateral Convention to Implement Tax Treaty-Related Measures to BEPS (MLI) in November 2019 and deposited its instrument of ratification for the MLI with the OECD on 28 April 2020. Indonesia identifies 60 tax treaties as covered tax agreements under the Convention.</p> <p>As of May 2023, the DGT has issued 26 circular letters providing synthesized texts of 26 of the Covered Tax Agreements. The synthesized texts are intended to assist the readers in understanding the impact of the implementation of MLI on the relevant tax treaties. The circular letters also confirm the date when the MLI becomes effective for Indonesia.</p> |
| Global Minimum Tax (GMT) | <p>As a member of the OECD/G20 Inclusive Framework on BEPS, Indonesia is on track to implement the GMT rules. This new initiative, a part of Indonesia's commitment to global tax reform as stipulated in article 32A of the Income Tax Law and article 54 of Government Regulation No. 55 of 2022 regarding adjustment of regulations in the field of income tax, introduces significant changes to the tax landscape, particularly for multinational enterprises (MNEs). The GMT will apply to MNEs operating in at least two jurisdictions and with annual consolidated group revenues of at least EUR 750 million in two or more of the four preceding fiscal years. Two key groups of MNEs will need to closely assess the impact of the GMT in Indonesia: large Indonesia-based MNEs with foreign operations and foreign-based MNEs operating in Indonesia. Currently, the Indonesian tax authorities are working on drafting the regulations that will guide the implementation of GMT in Indonesia.</p> |

7. Indirect taxes

Value Added Tax

VAT is levied on taxable events, i.e., on the “delivery” of taxable goods and/or taxable services. VAT applies to intangible goods (including royalties) and to virtually all services provided outside Indonesia to Indonesian businesses (i.e., import of services). VAT applies equally to all manufactured goods, whether produced locally or imported. Manufacturing is defined as any activity that changes the original form or nature of a good, creates a new good, or increases the goods’ productivity. This includes fabricating, cooking, assembling, packing, and bottling.

All goods and services shall be subject to VAT, except:

- a. Items that are already subject to regional tax (i.e., food and beverages served at restaurants or hotels, or for catering, art and entertainment services, hotel services, and parking services);
- b. Money, gold bars (representing Indonesia’s state gold reserves), and securities;
- c. Religious services; and
- d. Government administrative services that cannot be provided by other parties.

The standard VAT rate has been increased to 11%. The standard VAT rate will be increased to 12% by 1 January 2025, at the latest. In addition, starting from 1 April 2022, the government implements final VAT mechanism (*menggunakan besaran tertentu untuk memungut dan menyetorkan PPN*), applying certain amount of percentage to collect and deposit VAT depending on the goods/services.

VAT on export of taxable goods, taxable intangible goods, and certain taxable services is reduced to 0%. Export of services shall be taxable on taxable services furnished/rendered within the Indonesian customs territory for the benefit of recipients located outside Indonesian customs territory. It should be noted that, to apply the 0% VAT on such export of services, several requirements must be satisfied. Certain types of export of taxable services that can enjoy the 0% VAT are as follows:

- a. Taxable services related to movable goods for utilization outside the Indonesian customs territory, covering:
 - Toll manufacturing services (*jasa maklon*);
 - Repairs and maintenance services; and
 - Provision of freight forwarding services for export purposes.
- b. Taxable services related to immovable goods located outside the Indonesian customs territory, such as construction consultation services, covering assessment, planning, and design of construction related to building or plan for building outside the Indonesian customs territory;
- c. Taxable services delivered for utilization outside the Indonesian customs territory as requested by customers, such as:
 - Technology and information services;
 - Research and development services;
 - Charters of airplanes and/or sea vessels, for international flights or shipping activities;
 - Business and management consultancy services, legal consultancy services, architectural and interior design consultancy services, human resource consultancy services, engineering consultancy services, marketing consultancy services, accounting or bookkeeping services, audit services for financial statements, and tax services;
 - Trading services, i.e., services to seek sellers within the Indonesian customs territory for export purposes; and
 - Interconnection, provision of satellite, and/or data communication/connectivity services.

Entrepreneurs delivering taxable goods and/or taxable services of which the value exceeds IDR4.8 billion in a fiscal year are required to register for VAT-able entrepreneur (*Pengusaha Kena Pajak* or PKP) and issue VAT invoices for the delivery of taxable goods and/or taxable services.

A VAT invoice is an instrument to levy VAT (for the seller) and to claim VAT credit (for the buyer). The DGT has adopted an electronic VAT invoice mechanism (*e-Faktur*) to directly validate the issuance of VAT invoices. The format and content of a VAT invoice must meet the guidelines set by the DGT. Failure to meet these guidelines will cause the VAT invoice to be considered as an incomplete VAT Invoice. Issuance of an invalid VAT invoice is subject to a penalty of 1% of the VAT imposition base and the invalid VAT invoice is not creditable for the buyer.

From the supplier/seller's perspective, the VAT levied is considered as an output VAT while from the buyer's perspective, the VAT paid is an input VAT. The input VAT can be offset against the output VAT. If the amount of output VAT exceeds the amount of input VAT, the difference constitutes a VAT underpayment that has to be settled to the state treasury by the end of the following month prior to the submission of VAT return. On the other hand, if the amount of output VAT is less than the amount of input VAT, the PKP can carry the excess amount to the following period or request a refund.

An input VAT invoice received by a PKP is creditable in its VAT return, at maximum, three months after the end of the month when the relevant VAT invoice is issued, and if the VAT invoice has not been expensed or capitalized to the acquisition cost of taxable goods and/or taxable services.

Monthly VAT return is due by the end of the following month and any VAT liability (output VAT less input VAT) should be settled before the submission of VAT return. Self-assessed VAT on utilization of taxable intangible goods and/or taxable services subject to VAT from abroad within Indonesian customs territory is due by the 15th of the following month it becomes payable.

Indonesia does not have a VAT grouping concept. A PKP carrying out business activities in Indonesia through business units located in multiple jurisdictions under different tax offices has to register each of its business units with the respective tax office. The PKP may request the DGT to centralize the VAT administration under one location or more. However, if the PKP is registered with certain tax offices, i.e., Large Tax Office, Special Tax Office, and Medium Tax Office (*Kantor Pelayanan Pajak untuk Wajib Pajak Besar/Khusus/Madya* or KPP BKM), the VAT administration is automatically centralized and the PKP does not need to request for VAT centralization. Previously, the VAT centralization statement letter from the DGT was valid for five years. However, VAT centralization statement letter issued after 1 July 2020 will not expire until the PKP is no longer qualified for VAT centralization or the PKP submits a revocation request.

Certain imports or purchases of taxable goods and/or taxable services are eligible for VAT facilities, either in the form of VAT exemption facility (PPN *dibebaskan*) or VAT not-collected facility (PPN *tidak dipungut*). For deliveries of which the VAT is not collected, the input VAT related to such delivery is creditable. Meanwhile, for deliveries of which the VAT is exempted, the related input VAT is not creditable.

Value Added Tax on transaction through electronic system

Starting from July 2020, any transactions made through the electronic system is subject to VAT on PMSE. VAT on PMSE is to be collected, remitted, and reported by foreign traders, foreign service providers, foreign and/or domestic PPMSEs (collectively referred to as "e-commerce parties").

The DGT can appoint an e-commerce party as a PMSE VAT collector if such party meets the following criteria:

- a. The e-commerce party has transactions with customers in Indonesia exceeding IDR600 million in a twelve-month period or IDR50 million in a month; and/or
- b. The e-commerce party has transactions exceeding 12,000 traffics or accesses in a twelve-month period or 1,000 traffics or accesses in a month.

The rate of VAT on PMSE is 11% (to be increased to 12% by 1 January 2025, at the latest). The VAT imposition base shall be the amount paid by the customers (excluding VAT). The PMSE VAT collector may use its usual billing documents as proof of PMSE VAT collection, provided that it contains the minimum required information. The PMSE VAT collected must be remitted to the state treasury monthly by the end of the following month via electronic transfer.

The PMSE VAT reporting is different from general VAT returns. There are two reports to be submitted by a PMSE VAT collector, namely:

- a. Mandatory quarterly PMSE VAT return (*SPT masa PPN PMSE*); and
- b. Annual PMSE VAT report (*laporan tahunan PPN PMSE*) – only if requested by the tax office.

Luxury-goods Sales Tax

In addition to the general VAT rate, certain “luxury” goods are subject to LST with a rate ranging from 10% to 200%. Luxury-goods are goods that meet the following criteria:

- a. They do not constitute basic commodities;
- b. They are consumed by certain groups;
- c. They are generally consumed by an exclusive group of (upper income) consumers; and/or
- d. They are consumed to show status rather than for their utility.

Export of luxury-goods is subject to 0% LST.

8. Tax incentives

Tax holiday facility

A tax holiday regime is available for a new investment or business expansion in certain pioneer industries. Pioneer industries are defined as industries possessing broad linkages, giving added value and high externality, introducing new technology, as well as possessing strategic value for the national economy. Below is the list of pioneer industries qualified for the tax holiday facility:

- a. Integrated upstream metals industry;
- b. Integrated crude oil and natural gas refinery industry;
- c. Integrated basic organic chemical industry sourced from crude oil, natural gas and/or coal;
- d. Integrated basic organic chemical industry sourced from agriculture, plantation, or forestry products;
- e. Integrated basic inorganic chemical industry;
- f. Integrated pharmaceutical main raw materials industry;
- g. Irradiation, electromedical or electrotherapy equipment manufacturing industry;
- h. Main components manufacturing industry for electronic or telematics equipment;
- i. Machine and machinery main components manufacturing industry;
- j. Robotic components manufacturing industry supporting the machinery production industry;
- k. Main components manufacturing industry for electricity generator machinery;
- l. Automotive and automotive main components manufacturing industry;
- m. Vessel main components manufacturing industry;
- n. Train main components manufacturing industry;
- o. Aircraft main components manufacturing industry and aerospace industry auxiliary activities;
- p. Agriculture, plantation, forestry product-based processing industry producing paper pulp industry;
- q. Economic infrastructure; and
- r. Digital economy covering data processing, hosting, and the related activities.

Types of production for each industry eligible for the tax holiday facility above are further regulated by BKPM regulation. Tax holiday facility provides:

- a. A CIT reduction of 100% for a minimum of five years up to a maximum of 20 years may be granted for projects with a minimum investment of IDR500 billion, followed by a 50% reduction in CIT for the subsequent two years. The length of the tax holiday depends on the value of the investment; or
- b. A CIT reduction of 50% for five years may be granted for projects with a minimum investment of IDR100 billion but less than IDR500 billion, with a 25% reduction in CIT for the subsequent two years.

The tax holiday period commences from the year of commercial production. Additionally, the prerequisites to apply for the tax holiday facility are as follows:

- a. A taxpayer in pioneer industry;
- b. An Indonesian legal entity;
- c. A minimum new investment of IDR100 billion;
- d. Conducting new investment, in which the decision on granting or rejecting tax holiday or tax allowance facility or super tax deduction facility or labour-intensive project or income tax facility for special economic zones (*Kawasan Ekonomi Khusus* or SEZ) has not been issued by the MoF;
- e. Fulfilling provisions regarding DER; and
- f. The taxpayer is committed to initiating the realization of the investment plan, at the latest, one year after tax holiday facility is granted.

The tax holiday facility is only applicable to income generated from the business activity that has been granted with such facility. Income received/earned by the taxpayer from other than the main business activity that has been granted with tax holiday will be subject to normal income tax provisions.

Tax allowance facility

Tax allowances are available to companies with an investment in certain industry sectors or those operating in certain geographic locations where the necessary conditions are satisfied. This facility is applicable to a new investment or expansion of the corporate taxpayer's main business activities. The tax allowance facility includes:

- a. An investment allowance (a reduction in taxable income equal to 30% of the total investment amount of tangible fixed assets used for main business activities, including land, allocated equally over six years starting from the fiscal year when the commercial production commences);
- b. Accelerated depreciation and/or amortisation;
- c. Tax loss carry forward, which may be extended for up to 10 years; and
- d. A reduced WHT rate of up to 10% on dividends paid to non-residents.

To apply for the tax allowance facility, certain detailed requirements must be met including qualitative criteria, such as high investment value or export-oriented, high labour absorption, and high local content.

Currently, there are 166 business sectors and 17 business sectors operating in certain geographic locations that are eligible for the facility. Additionally, a taxpayer can only be granted one type of tax facility (either tax holiday facility or tax allowance facility).

Super tax deduction facility

For a taxpayer that does not obtain the tax holiday or tax allowance facility, a "super tax deduction facility" is available for the following business activities or expenditures:

a. New capital investment or business expansion in labour-intensive industries.

This facility is in the form of an investment allowance equivalent to 60% of the total investment amount of tangible fixed assets used for main business activities, including land. The investment allowance is allocated equally over six years, starting from the fiscal year when the commercial production commences.

b. Apprenticeship, internship, and/or learning programs in human resources development.

This facility is in the form of additional deduction of the qualifying expenses for a maximum 100%. Therefore, the total maximum deduction is 200% of the total qualifying expenses.

c. Research and development related activities.

This facility is in the form of additional deduction of the qualifying expenses for a maximum 200%. Therefore, the total maximum deduction is 300% of the total qualifying expenses.

To be eligible for this super tax deduction facility in labour-intensive industries, the taxpayer must fulfil the following cumulative criteria:

- a. They constitute domestic corporate taxpayers;
- b. Their main business activity is among the eligible industrial sectors; and
- c. They employ a minimum average of 300 Indonesian employees.

Certain expenditure related to apprenticeship, internship, and/or learning programs eligible for the facility includes:

- a. Provision of physical facilities in the form of training facilities and associated operational costs;
- b. Costs of the instructor or trainer;
- c. Costs of goods and/or materials;
- d. Compensations provided to the participants; and/or
- e. Cost of competency certification for the participants.

The super tax deduction facility, in relation to research and development, will be provided if the taxpayer meets certain prerequisites, such as registration of the research and development results in Indonesia and overseas, commercialization, and/or cooperation with other parties. The research and development should have focus and theme that are in accordance with those listed in the implementing regulation.

Corporate income tax facilities in special economic zone

An SEZ is an area within Indonesian customs territory with certain restrictions that has geo-economic and geo-strategic advantages. A taxpayer in an SEZ can be classified as either:

- a. A business entity (*badan usaha*), i.e., a legal entity that manages an SEZ; or
- b. A business player (*pelaku usaha*), i.e., an enterprise that carries out business in an SEZ.

A business entity may apply for tax holiday, whereas a business player may apply for tax holiday or tax allowance.

The following land transactions carried out by a taxpayer that develops and manages an SEZ are not subject to income tax:

- a. Purchase of land for an SEZ;
- b. Sale of land and/or building in an SEZ; and/or
- c. Rental of land and/or building in an SEZ.

In addition to the CIT incentives above, there are other tax facilities available for taxpayers in an SEZ, such as:

- a. VAT not-collected facility;
- b. VAT exemption facility;
- c. Import duty exemption facility;
- d. Import tax not-collected facility (VAT, LST, and Article 22 income tax);
- e. Certain tax and import facilities for tourism SEZ; and
- f. Reduction, relief, and exemption of regional tax.

Tax facilities in Nusantara Capital City

To expedite the construction and development process of Nusantara Capital City (*Ibu Kota Negara Nusantara* or IKN), various tax incentives and facilities are provided for investments and business activities both in IKN and the partner regions (*daerah mitra* (i.e., certain areas in Kalimantan Island that will be developed as economic superhubs for IKN)).

Income tax facilities provided are as follows:

- CIT rate reduction;
- “Super tax deduction” facility for certain activities or expenditures;
- Employee income tax (EIT) borne by the government;
- Final income tax of 0% on certain gross income of small and medium enterprises (SMEs); and
- Income tax exemption on the transfer of rights over land and/or buildings.

The CIT rate for eligible taxpayers that invest a minimum of IDR 10 billion in certain business sectors may be reduced by up to 100% for a specific period of time:

- In IKN and/or the partner regions: A CIT rate reduction of 100% (or 50% in certain circumstances) for the periods of 10 to 30 years depending on business sectors;
- In financial centers (areas designated as concentrations of financial services as well as centers of technology development and supporting services in the financial services sector): A CIT rate reduction of 85% or 100% (depending on the financial sectors) for the period of 20 or 25 years; and
- For the establishment and/or relocation of head and/or regional offices to IKN until 31 December 2045: A CIT rate reduction of 100% for the first 10 years, followed by a 50% reduction for the following 10 years.

For main business activities that have already benefited from the reduced CIT rate, a WHT exemption facility is available for income from the main business activities or the purchase or import of goods or materials related to those activities. The exempted portion of the WHT is aligned with the reduced CIT rate.

To encourage foreign investments in the financial center, a 10-year WHT exemption facility applies on income earned from such investments, provided that the foreign investor (either an entity or an individual, but not a PE) is the beneficial owner of the income.

A “super tax deduction” facility is available until 2035 for the following business activities or expenses:

- Apprenticeship, internship, and/or learning programs in human resources development—Domestic taxpayers that carry out certain apprenticeship, internship, and/or learning programs for human resources development in IKN are eligible for an income tax facility in the form of a maximum deduction of 250% of the total qualifying expenses.
- Activities related to research and development—Domestic taxpayers having a domicile and/or place of business in IKN while carrying out research and development activities in IKN are eligible for an income tax facility in the form of a maximum deduction of 350% of the total qualifying expenses.
- Donations and/or nonprofit construction of public and social facilities—Certain donations and/or nonprofit construction of public and social facilities are eligible for an income tax facility in the form of a maximum deduction of 200% of the total qualifying expenses. The donations and/or expenses can be in the form of money, goods, and/or construction expenses.

The government will bear the EIT for permanent and/or nonpermanent employees earning income from certain qualifying employers until 2035.

Domestic taxpayers (excluding PEs) that qualify as SMEs and invest less than IDR 10 billion in IKN are subject to a 0% final income tax on the first IDR 50 billion of gross income per fiscal year. If the taxpayers have several places of business or branches in IKN, the investment amount has to be aggregated for the purpose of checking the eligible limit. The same concept applies when calculating the gross revenue threshold.

Certain types of revenue, however, are not eligible for this facility. Such revenues as well as gross income exceeding the IDR 50 billion threshold will be subject to income tax in accordance with the prevailing tax regulations. This facility can be utilized as from the date the approval is obtained from the DGT until 2035.

A transfer of rights over land and/or buildings, including transfer through a sale and purchase commitment agreement (*perjanjian pengikatan jual beli*), to a buyer that is purchasing land and/or buildings in IKN for the first time is exempted from income tax until 2035.

Business activities carried out in IKN and/or the partner regions may be eligible for the VAT not-collected facility until 2035. The VAT not-collected facility is available for:

- Delivery of certain strategic taxable goods and certain strategic taxable services; and
- Import of certain strategic taxable goods.

Sales of certain luxury residential housing located in IKN are exempted from LST.

Bonded storage

Bonded storage is a building, a site, or a zone that meets certain requirements and is used to store goods for certain purposes and to obtain customs facilities. Bonded storage has several forms, among others:

• Bonded warehouse

Bonded warehouse is defined as a place of bonded storage to store imported goods, which may be accompanied with one or more activities, such as packaging/repackaging, sorting, kitting, packing, adjustment, or cutting of certain goods within a certain period for later removal.

The imported goods or materials that are introduced into a bonded warehouse by an entrepreneur in bonded warehouse may be granted with facilities in the form of postponement of import duty, exemption from excise, and/or import taxes (VAT, LST, and Article 22 WHT) not collected facilities. These facilities shall be provided to goods or materials introduced solely for the purpose of supporting industry (manufacturing) at other Indonesian customs territory or bonded zone, or for re-export. The supporting industries are as follows:

1. Manufacturing (covering processing of raw materials to become finished product);
2. Mining (covering the provision of imported goods to support mining exploration and exploitation activities);
3. Heavy equipment (covering the provision of imported goods to support heavy equipment industry); and
4. Oil service (covering the provision of imported goods to support oil and gas exploration and exploitation activities).

• Bonded zone

Bonded zone is defined as a place of bonded storage to store imported goods and/or local supplies for production purposes with its output primarily for export purposes. Import of goods, entry of taxable goods, delivery of products, release of goods, re-delivery of taxable goods, lease of machinery, and entry of excisable goods to and/or from a bonded zone shall be granted facilities in the form of postponement of import duty, exemption from excise, and/or import taxes (VAT, LST, and Article 22 WHT) not collected facilities.

These facilities shall be provided to goods or materials entered into a bonded zone to be processed or combined with the products produced in a bonded zone or capital goods, including office equipment, to be used by an entrepreneur in bonded zone (*Pengusaha dalam Kawasan Berikat* or PDKB). Raw materials, auxiliary materials, and/or packaging and packaging aids owned by a foreign tax subject may be granted such facilities. Consumables are not facilitated in a bonded zone. Application is required to obtain each license and there are requirements that must be fulfilled in order to obtain the license. PDKB with low-risk profile may use corporate guarantee in applying for bonded zone facilities.

- **Self-managed bonded zones**

Self-managed bonded zones (*Kawasan Berikat Mandiri* or KBM) builds on the concept of bonded zones, but enabling businesses, known as entrepreneurs in bonded zones (*Pengusaha Kawasan Berikat* or PKB) and entrepreneurs operating in bonded zones (*Pengusaha di Kawasan Berikat* or PDKB) to self-manage their customs activities. With self-management, PKB and PDKB can perform independent import and export processes without requiring direct supervisions or the physical presence of customs officers. The KBM status is granted to PKB and PDKB meeting certain requirement criteria.

- **Bonded logistics center**

Bonded logistics center (*Pusat Logistik Berikat* or PLB) is a place for bonded storage, that may also conduct one or more simple activities, where such activities exclude processing activities to generate new products with different characteristics, and/or function from the original goods. The activities should be conducted within a certain period of time for the purpose of eventual removal.

The purpose of the PLB is to provide flexibility for investors to take their supplies of raw and/or supporting materials. It is hoped that manufacturing companies can stockpile their commodities in Indonesia; thus, they can be accessed more easily and cost-effectively. The entry of goods from other places in the Indonesian customs territory into a PLB shall be granted with VAT and/or LST not-collected facility for goods that are intended for export. Goods from outside the Indonesian customs territory and brought into a PLB are also granted postponement of import duty and import taxes (VAT, LST, and Article 22 WHT) not-collected facilities.

Master List Facility

Import of machinery, goods, and materials made by a company engaged in the development or expansion industry, in the context of industry or certain service industry, can be granted with import duty exemption or relief facility. The import duty exemption or relief facility for the import of machinery, goods, and materials (Master List Facility) shall be issued by BKPM. Application is required to obtain each license and there are requirements that must be fulfilled to obtain the facility.

9. Other taxes on corporations and individuals

Customs and excise duties

Any goods coming from overseas into the Indonesian customs territory are treated as “import” and generally are subject to import duty and import taxes. Import duty is based on the harmonization system (HS) code classification listed in the 2022 Indonesian Tariff Customs Book Year.

Regarding import activity, currently Indonesia is utilizing an integrated system, namely: *Sistem Indonesia* National Single Window (SINSW). In terms of import requirements, an importer must obtain an import and customs registration number. The process is now much faster through an online system, namely OSS.

A newly established PMA company, after obtaining Articles of Incorporation (AOI) and approved from the Ministry of Law and Human Rights, must submit its business identification number (NIB) application through the OSS system. The application submitted should mention that the company needs to obtain an import and customs registration number. The import and customs registration number will be issued together with the NIB.

Furthermore, licensing services can be offered via the OSS system, which include:

- a. License of bonded warehouse;
- b. License of Ease of Import for Export (*Kemudahan Impor Tujuan Ekspor* or KITE); or
- c. License of Excisable Goods Entrepreneur Registration Number (*Nomor Pokok Pengusaha Barang Kena Cukai* or NPPBKC).

Preferential tariffs are extended to countries that have signed free trade agreements (FTA) and economic partnership agreements (EPA). This means that customs duties for selected imported goods originating from the FTA/EPA partner countries/regions are lower or eliminated. Currently, Indonesia has preferential tariffs in the following schemes:

- **ASEAN Trade-in-Goods Agreement (ATIGA)**

A preferential tariff based on an agreement between Indonesia and ASEAN countries. This tariff is applicable to the import of goods from ASEAN countries into Indonesia.

- **ASEAN-China FTA (ACFTA)**

An agreement between the ASEAN countries and China to build a free trade area. China refers to the Chinese Mainland and excludes the Special Administrative Regions (Hong Kong and Macau) and Taiwan.

- **ASEAN-Korea FTA (AKFTA)**

An agreement between the ASEAN countries and South Korea to build economic partnership between the countries.

- **Indonesia-Japan Economic Partnership Agreement (IJEPA)**

An agreement between the governments of Indonesia and Japan to build economic partnership between the two countries and increase trade and investment in both countries.

- **ASEAN-Australia-New Zealand FTA (AANZFTA)**

An agreement between ASEAN countries and Australia and New Zealand to build a free trade area.

- **ASEAN-India FTA (AIFTA)**

An agreement between ASEAN countries and India to build a free trade area.

- **Indonesia-Pakistan Preferential Trade Agreement**

An agreement to accommodate trade agreements between the governments of Indonesia and the Islamic Republic of Pakistan.

- **ASEAN-Hong Kong, China Free Trade Agreement (AHKFTA)**

An agreement between ASEAN countries and Hong Kong, Special Administrative Region of the People's Republic of China (HKSAR).

- **Indonesia-Australia Comprehensive Economic Partnership Agreement (IACEPA)**

An agreement between the governments of Indonesia and Australia to build economic partnership to increase the flow of exported goods.

- **Indonesia-Chile Comprehensive Economic Partnership Agreement (IC-CEPA)**

An agreement between the governments of Indonesia and Chile to increase trade partnership between the countries.

- **ASEAN-Japan Comprehensive Economic Partnership (AJ-CEP)**

An agreement between ASEAN countries and Japan to establish a free trade area.

- **Indonesia-Palestine Memorandum of Understanding**

An agreement between Indonesia and Palestine on Trade Facilitation for Certain Products Originating from Palestinian Territories.

- **Indonesia-EFTA Comprehensive Economic Partnership Agreement**

An agreement between Indonesia and European Free Trade Association (EFTA) countries to increase economic partnership between Indonesia and EFTA countries (Iceland, Liechtenstein, Norway, and Switzerland).

- **Indonesia-United Arab Emirates Comprehensive Economic Partnership Agreement**

An agreement between Indonesia and United Arab Emirates (UAE). Similar to other FTAs or Comprehensive EPAs, there is a preferential tariff system in place for imports from the UAE. However, it is important to note that there are specific regulations regarding the determination of "tariff quotas" for certain imported goods.

- **Indonesia-Korea Comprehensive Economic Partnership Agreement**

An agreement between Indonesia and Korea to increase trade partnership between two countries.

• Regional Comprehensive Economic Partnership (RCEP) Agreement

The RCEP Agreement is an FTA among 15 member countries, namely Brunei Darussalam, Cambodia, Indonesia, Singapore, Myanmar, Vietnam, Thailand, Philippines, Laos, Malaysia, China, Japan, South Korea, Australia, and New Zealand.

It is the world's largest FTA, comprising about 30% of global GDP and about a third of the world's population. Built upon the existing FTAs and economic linkages between member countries, RCEP agreement aims to combine them into a single, APAC regional and multilateral pact. This is also the first FTA to connect China, Japan, and South Korea (three of the largest Asian economies). Currently, Indonesia has six RCEP agreements in place:

1. RCEP – ASEAN
2. RCEP – Australia
3. RCEP – Korea
4. RCEP – China
5. RCEP – Japan
6. RCEP – New Zealand

To pursue Indonesian Origin Declaration on the scheme of Generalized System of Preferences (GSP), the Registered Exporter (REX) and Certified Exporter (CEX) systems have been established. REX and CEX are new self-certification systems for exporters that will gradually replace the current Issuing Agency for Certificate of Origin (*Instansi Penerbit Surat Keterangan Asal* or IPSKA) system to obtain certificate of origin by the Indonesia Ministry of Trade. Exporters with REX status can issue Certificates of Origin (COO) as substitute of Form A to be used for trading between Indonesia and Europe. As for CEX, exporters with this status can issue COO Form for their respective countries.

• Preferential Trade Agreement Among D-8 Member states

This is an agreement between Indonesia and D-8 Organization for Economic Cooperation. The member countries are Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan and Turkey.

Excise duties are also imposed on certain goods as part of the government's efforts to curb the distribution of such goods in Indonesia. Excise duties are levied, primarily on alcohol, tobacco, and other tobacco processing (*Hasil Pengolahan Tembakau Lainnya* or HPTL) products including cigarettes, cigars, leaf cigarettes, sliced tobaccos, electronic cigarettes, and other tobacco processing. Customs duty and import taxes payable should be settled before goods are released from the customs area (port). If the goods are excisable, duty payable should also be settled before the excisable goods are released from the port. After importation, the Indonesian Customs Authority (ICA) may examine the goods to ensure compliance with customs and excise regulations. Failure to comply may give rise to an administrative penalty depending on the amount of underpayment. The import duty underpayment resulting from customs valuation is subject to an administrative penalty of between 100% and 1000%. If the customs duty tariff is 0% and the import duty underpayment is "nil", the penalty is IDR5 million for each import declaration (*Pemberitahuan Impor Barang* or PIB) document. There is no penalty imposed for incorrect tariff classification. Non-compliance in the sector of excise is subject to penalty in the amount of between 2 to 10 times of excise duty and there will be criminal investigations if needed.

With regard to an excise facility, an importer can obtain an excise exemption and excise duty non-collected facilities from excisable goods imported with certain conditions.

Real estate tax

Land and building tax is payable annually on land, buildings, and permanent structures. Under the Financial Relations between the Central and Regional Government Law, the rate shall not exceed 0.5% of the estimated sales value of the property in rural and urban areas, which is determined by the relevant authority. The land and building tax for certain businesses (i.e., upstream oil and gas, geothermal, mining, plantation, and forestry) is regulated under a specific regime.

In general, the transfer of land and/or building is subject to a final income tax of 2.5% of the gross proceeds (rates may differ depending on the transaction criteria). Exemptions are granted for the transfer of land and/or buildings as part of a grant or inheritance and the sale of land valued at less than IDR60 million by an individual taxpayer whose annual income does not exceed the non-taxable income threshold.

A land and building right acquisition duty of maximum 5% is payable when an individual obtains the rights to land or a building with a value greater than the non-taxable threshold. A taxpayer receiving such rights by way of inheritance is entitled to a non-taxable threshold of IDR350 million, at the minimum.

Transfer tax

The sale of shares listed on the Indonesian Stock Exchange is subject to a tax of 0.1% of the transaction value. Founder's shares are also subject to a final tax of 0.5% of the share value at the time of the IPO.

The transfer of a resident non-listed company's shares by a non-resident is subject to a WHT of equivalent to 5% of the transfer value, unless otherwise provided under a tax treaty. Additionally, certain disposals of land and/or buildings are subject to a final tax of 2.5% of the transaction value.

A land and building right acquisition duty of maximum 5% of the acquisition value is payable when an individual obtains the rights to land or a building with a value greater than IDR60 million. Various exemptions may apply, including on transfers in connection with a merger and transfers to relatives.

Stamp duty

A single stamp duty (*matera*) rate of IDR10,000 applies to financial transactions, deeds, and receipts.

Environmental taxes

Law on Harmonisation of Tax Regulations (*Undang-Undang Harmonisasi Peraturan Perpajakan*) issued in 2021 introduces carbon tax, that will first apply to coal-fuelled power plants. However, the implementation of carbon tax has been postponed.

In certain regions, a permit to dump liquid waste into certain water resources is subject to a user fee collected by the local government.



D. Audit and Compliance

An entity that conducts business in Indonesia is required to maintain accounting records and to prepare annual financial statements in accordance with PSAK published by the Financial Accounting Standards Board of the Indonesian Institute of Accountants (*Dewan Standar Akuntansi Keuangan-Ikatan Akuntan Indonesia* or DSAK-IAI).

The entity must maintain a register of shareholders, as well as a special register for members of the BoD and BoC and their family members, detailing share ownership within Indonesia. Changes of share ownership must be recorded in the register of shareholders and the special register. The BoD must submit an annual report to a General Meeting of Shareholders within six months of the closing of the company's books. The report must contain at least the following: (1) financial statements; and (2) a report on the condition and performance of the company.

1. Accounting period

The accounting period for an entity is normally 12 months and it generally uses the 1 January to 31 December calendar year as the accounting year. However, an entity is allowed to choose an accounting year that does not start with 1 January. For tax purposes, the fiscal year in most cases is also the calendar year. Similar to the accounting year, an entity is also allowed to choose a fiscal year, which does not start with 1 January.

2. Currency

An entity prepares its accounting records and financial statements by using its functional currency. However, an entity may present its financial statements using a currency other than its functional currency (presentation currency). The functional currency is the currency of the primary economic environment in which the entity operates. This is often the currency in which sales prices for its goods and services are denominated and settled.

3. Language, accounting basis, and standards

An entity shall prepare its financial statements, except for cash flow information, using the accrual basis of accounting. Under the accrual basis of accounting, the effects of transactions are recognised when they occur. In addition, an entity recognises items as assets, liabilities, equity, income, and expenses when their definitions and recognition criteria are satisfied.

An entity's accounting records and annual financial statements shall comply with Financial Accounting Standards (*Standar Akuntansi Keuangan* or SAK) issued by DSAK-IAI. Currently, Indonesia's financial reporting framework consists of 4 pillars of SAK, as follows:

- a. Pillar 1:** International SAK which is fully adopted from International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).
- b. Pillar 2:** Indonesian SAK which is convergency of IFRS as issued by IASB. The convergency is done by issuance of SAK Indonesia based on IFRS with some adjustments to accommodate certain specific condition in Indonesia.
- c. Pillar 3:** Indonesian SAK for Private Entities (SAK EP – *Entitas Privat*) / Indonesian SAK for Entities that have no public accountability (SAK ETAP – *Entitas Tanpa Akuntabilitas Publik*)
- d. Pillar 4:** Indonesian SAK for Micro Small and Medium Entities (SAK EMKM – *Entitas Mikro Kecil dan Menengah*)

In addition, sharia accounting standards (PSAK Sharia and ISAK Sharia) should be applied by sharia entities and on transactions with sharia principles. PSAK Sharia and ISAK Sharia are applicable for Pillar 2, Pillar 3 and Pillar 4 as long as the application is in compliance with the principles in each Pillar. PSAK Sharia and ISAK Sharia are not applicable for Pillar 1.

4. Audit requirements

The following types of entities are required to submit annual financial statements that are audited by a qualified external auditor:

- a. Publicly listed companies.
- b. Banks, insurance, and other companies involved in accumulating funds from the public.
- c. Companies issuing debt instruments.
- d. Companies with assets of IDR50 billion or more.
- e. Bank debtors whose financial statements are required by the bank to be audited.
- f. Certain types of foreign entities engaged in business in Indonesia that are authorised to enter into agreements.
- g. Certain types of State-owned Enterprises.

Audits are conducted in accordance with the Indonesian Auditing Standards promulgated by the Indonesian Institute of Certified Public Accountants (*Institut Akuntan Publik Indonesia* or IICPA/IAPI).

Public companies are required to submit their audited financial statements within three months after the end of the annual financial statements period to OJK.

For interim financial statements, submission to OJK should be conducted within one month after the date of interim financial statements if not audited; within two months if the interim financial statements are reviewed; otherwise, within three months if the interim financial statements are audited.

5. Independence

Indonesian Auditing Standards require auditors to maintain their independence, to comply with the auditor's code of ethics, and to avoid potential conflicts of interests when conducting audits. Moreover, auditors should also observe and comply with the relevant independence rules issued by the regulator (i.e., Ministry of Finance) including independence regulations issued by OJK for auditors of entities under OJK regulations, such as listed companies, banks, insurance companies, finance companies, pension funds, and other financial service institutions..

In Indonesia, audit partner rotation (note that there is no requirement for public accounting firm rotation) is regulated by OJK regulation POJK 9/2023 dated 11 July 2023 ("POJK 9") and Government Regulation 20/2015 ("PP20"). The requirements are as follows:

- Under POJK 9, for banks, listed entity and public company, a public accountant (*Akuntan Publik*) must serve a five consecutive years of cooling-off period after serving seven cumulative years.
- Under POJK 9, for entities under OJK other than banks, listed entity and public company, a public accountant must serve a two consecutive years of cooling-off period after serving five consecutive years. This requirement is also applicable to associated public accountants in the audit and one level below the audit engagement partner.
- Under PP20, for entities regulated by capital market, commercial banks, pension funds, insurance/reinsurance company, and state-owned entity, a public accountant must serve a two consecutive years of cooling-off period after serving five consecutive years.



E. Workforce environment

1. Employee rights and remuneration

Law No. 13/2003 on Employment as amended by Law No. 11/2020 on Job Creation (the Omnibus Law or **Indonesian Employment Law**) governs the bargaining power of workers, specifies minimum standards for working conditions, and sets rules for severance and compensation payments. Although Indonesian law recognises workers' right to strike, it also restricts strike action, including a requirement that strikes be legal, orderly, and peaceful.

Indonesia has ratified the main conventions of the International Labour Organization (ILO), including conventions on the rights of: (i) assembly and collective negotiation; (ii) equal wages for men and women for the same work; and (iii) forced labour, as well as conventions on freedom of association and protection of the rights of association. ILO Convention 138 on the minimum age for employment is incorporated into Indonesian law, and ILO Convention 182 on the elimination of the worst forms of child labour was ratified and incorporated into law in 2000.

Upon the enactment of the Omnibus Law, the Indonesian Employment Law provides compensation payment for an employee under a Specified Time Work Agreement (*Perjanjian Kerja Waktu Tertentu* or PKWT). This provision added a benefit that will be paid to the employee on a PKWT basis upon the completion of their working term or specific work(s) under the relevant PKWT by using the calculation in accordance with the prevailing laws and regulations.

The government has issued several regulations that expand or modify labour laws, including decrees on the employment of foreigners, occupational health and safety, work competency standards, and overtime standards and pay.

2. Wages and benefits

Wages components

Government Regulation No. 36/2021 regarding Wages (**GR 36/2021**) provides that wages consist of the following components:

- a. Wages without allowance.
- b. Basic wages and fixed allowance.
- c. Basic wages, fixed allowance, and non-fixed allowance; or
- d. Basic wages and non-fixed allowance.

Furthermore, according to GR 36/2021, if wages components consist of: (i) basic wages and fixed allowance; or (ii) basic wages, fixed allowance, and non-fixed allowance, the number of basic wages shall be at least 75% of the total amount of basic wages and fixed allowance.

Minimum wages

GR 36/2021 provides that minimum wages consist of: (i) provincial; and (ii) regency/regional-based minimum wages with certain provisions. The minimum wages are set based on economic and labour conditions. The governor shall determine the provincial minimum wages, whereas the governor may also determine a regency/regional-based minimum wages with certain provisions, which are:

- a. The average economic growth of the regency/region over the last 3 (three) years is higher than the provincial average economic growth; or
- b. The result of economic growth minus inflation of the regency/region over the last 3 (three) years is always positive, and higher than the provincial score.

In light of the above, it is noteworthy that each employer is prohibited from paying wages less than the minimum wage prescribed for each province or regency/region. However, the Omnibus Law exempts the minimum wage requirement for micro and small enterprises. Wages for micro and small enterprises are determined based on agreement between the employer and the employee.

Pensions and social insurance

Law No. 24/2011 on Social Security Provider (*Badan Penyelenggara Jaminan Sosial* or BPJS) regulates that employers must register themselves and their employees (including any foreigner who has worked in Indonesia for at least 6 (six) months) with BPJS as participants in the social security programs, i.e., health care social security and employment social security. It is noteworthy that the health care social security benefits are administered by BPJS Health Care (*BPJS Kesehatan*) and employment social security benefits, which include old-age, pension, working accident, and death security benefits, are administered by BPJS Employment (*BPJS Ketenagakerjaan*).

Additionally, it is noteworthy that the Omnibus Law and Government Regulation No. 37/2021 on Job Loss Security Program provides a new social security program, namely job loss security (*Jaminan Kehilangan Pekerjaan*) for employees that have been terminated. The job loss security program will be administered by BPJS *Ketenagakerjaan* and the central government. The benefits of job loss security include cash, access to job market information, and job training. The maximum amount for the benefits of job loss security is six (6) months' salary.

The premium contributions for each social security program are as follows:

| Administrator | Social Security Program | As a percentage of regular wages | |
|---|---|---|---|
| | | Employer contribution | Employee contribution |
| BPJS Employment (<i>BPJS Ketenagakerjaan</i>) | Working accident security | 0.24-1.74% (depending on the work risk) | - |
| | Death security | 0.30% | - |
| | Old-age security | 3.70% | 2% |
| | Pension security (only for Indonesian citizens) | 2% | 1% |
| | Job loss security | 0.46%* (*0.22% shall be borne by the central government + re-composition of premium contributions from: (i) working accident security; and (ii) death security, amounting to 0.14% and 0.10% respectively) | |
| BPJS Health Care (<i>BPJS Kesehatan</i>) | Health care security | 4% | 1% (1% for additional family member) |

Pursuant to Article 32 of Perpres No. 64/2020 on the Second Amendment of Perpres No. 82/2018 on Health Care Social Security, the calculation of health care security contributions is subject to maximum wages of IDR12,000,000 (twelve million Indonesian Rupiah)/month. Please note that the cap may change in the future. The mandatory premium covers a husband, wife, and 3 (three) dependents. Additional family members can be covered with additional premiums.

In light of the previous discussion, it is noteworthy that the following are exempted from participating in the aforementioned social security programs:

- Foreign employees who work less than 6 (six) months are not required to be registered in the BPJS program; and
- Indonesian citizens who live in another country for at least 6 (six) months consecutively may temporarily cease their participation in BPJS Kesehatan program.

Other benefits

Other than social security benefits, there are other statutory benefits that employees are entitled to, i.e., paid leave, overtime pay, and religious festivity allowance (*Tunjangan Hari Raya* or THR). Furthermore, the employer may provide additional benefits to employees as stipulated under employment agreements, company regulations, or collective labour agreements. These usually include family and cost-of-living allowances, free medical care (including dental care) for the employee and his/her family, housing, transport, and work clothing. Many companies offer additional pension schemes (outside of the pension security benefit that is administered by BPJS Ketenagakerjaan). Senior executives often receive additional benefits such as a company car and annual home leave.

3. Termination of employment

In principle, the employer, the employee, and/or the labour union, and the government must make all efforts to prevent termination of employment, and that termination may only occur after all efforts to prevent it have failed.

If all efforts to prevent termination fails, the termination of employment must be negotiated between the employer and the labour union (where the affected employee is a member), or between the employer and the affected employee (if the employee is not a labour union member). Should the negotiation fail, the employer may only terminate the employment after receiving a decision from the Industrial Relations Dispute Settlement Court.

The basis of employment termination under the Omnibus Law and its implementing regulation that came into effect on 2 February 2021, namely Government Regulation No. 35/2021 on Fixed Term Employment Agreement, Outsourcing, Working Hours and Rest Hours, and Employment Relationship Termination (**GR 35/2021**), is as follows:

- a. Employee's death.
- b. Expiration of Employment Contract for a Specified Period of Time (*Perjanjian Kerja Waktu Tertentu* or PKWT).
- c. Employee is detained for committing a crime.
- d. Employee violation of the employment agreement, collective labour agreement (*Perjanjian Kerja Bersama* or PKB), and company regulation (*Peraturan Perusahaan* or PP).
- e. Employee absence for 5 (five) days with 2 (two) summonses.
- f. Continual losses for 2 (two) consecutive years.
- g. Force majeure.
- h. Efficiency.
- i. Bankruptcy.
- j. Suspensions of debt payment obligations.
- k. Retirement.
- l. Corporate action (i.e., merger, acquisition, consolidation, or spin-off).
- m. Employee's resignation.
- n. Employee's request for termination due to employer action.
- o. Employee's lengthy illness; and
- p. Other causes as determined under an employment agreement, PKB or PP.

The employer is obliged to pay severance pay, service pay, and compensation (as applicable) upon employment termination. According to GR 35/2021, severance pay and/or long service pay, and compensation payment with a new calculation formula (e.g., excluding health and housing allowance components which accounted for 15% of the total severance payment and service payment).

In addition, only companies which carry out mergers, consolidations, acquisitions, or spin-offs may carry out termination of employment.

Severance package

The employer is obliged to pay severance pay, service pay, and compensation (as applicable) upon employment termination. According to GR 35/2021, severance pay and/or long service pay, and compensation payment with a new calculation formula (e.g., excluding health and housing allowance components which accounted for 15% of the total severance payment and service payment).

The following table will be used for the purposes of calculation of the afore mentioned severance payment, service payment, and compensation payment:

| Severance payment Article 40 Paragraph (2) of GR 35/2021 | | Service payment Article 40 Paragraph (3) of GR 35/2021 | |
|---|------------------------|---|------------------------|
| Service period | Payment/Monthly salary | Service period | Payment/Monthly salary |
| < 1 year | 1x | 3 – 6 years | 2x |
| 1 – 2 years | 2x | 6 – 9 years | 3x |
| 2 – 3 years | 3x | 9 – 12 years | 4x |
| 3 – 4 years | 4x | 12 – 15 years | 5x |
| 4 – 5 years | 5x | 15 – 18 years | 6x |
| 5 – 6 years | 6x | 18 – 21 years | 7x |
| 6 – 7 years | 7x | 21 – 24 years | 8x |
| 7 – 8 years | 8x | > 24 years | 10x |
| > 8 years | 9x | | |

Compensation payment Article 40 Paragraph (4) of GR 35/2021

The entitlement to compensation payment includes the following:

- Annual leave that has not been taken.
- Travel expenses for employees and their families to their hometown; and
- Other compensation as determined in the employment agreement, company regulations, or collective labour agreement.

New severance package formula

These need to be highlighted under GR 35/2021, which are as follows:

- If the company is not willing to continue the employment relationship in the event that the company has been acquired, then the minimum statutory severance pay will be **0.5 times the severance amount provision**.
- If the company is trying to increase efficiencies due to losses, the minimum statutory severance pay will be **0.5 times the severance amount provision**; and
- If the company is implementing efficiencies to prevent losses, the minimum statutory severance pay will be **1 time the severance provisions**. Previously, for efficiency to prevent losses, severance pay was given to workers at the rate of **2 times the severance provisions**.

Reason for termination

The following table will be used for explaining the reasons for termination, as well as the calculation formula:

Abbreviation notes:

- *Uang Pesangon* (Severance Payment – SP).
- *Uang Penghargaan Masa Kerja* (Service Payment – SVP).
- *Uang Penggantian Hak* (Recompense Payment – RP); and
- *Uang Pisah* (Separation Payment as regulated under the Employment Agreement, Company Regulation or Collective Labour Agreement).

| No. | Reason for termination | | Previous formula | New formula | |
|-----|---|--|---|---|--------------------------|
| 1 | Mergers, consolidations, acquisitions or spin-offs and the employees are not willing to continue the relationship, or the company are not willing to accept the employees | | 1 X SP + 1 X SVP + RP If the Company does not want to accept the impacted employee: 2 X SP + 1 X SVP + RP | 1 X SP + 1 X SVP + RP | |
| 2 | Acquisition | In the event of Acquisition | 1 X SP + 1 X SVP + RP | 1 X SP + 1 X SVP + RP | |
| | | In the event changes of working provisions occur and the employee does not want to continue working relationship | | 0.5 X SP + 1 X SVP + RP | |
| 3 | Efficiency due to loss | | 2 X SP + 1 X SVP | Efficiency due to loss | 0.5 X SP + 1 X SVP + RP |
| | | | | Efficiency to prevent loss | 1 X SP + 1 X SVP + RP |
| 4 | Company's closure (2 (two) years continual losses) | Closure due to loss | 1 X SP + 1 X SVP + RP | 0.5 X SP + 1 X SVP + RP | |
| | | Closure not due to loss | 2 X SP + 1 X SVP + RP | 1 X SP + 1 X SVP + RP | |
| 5 | The company closed due to force majeure | | 1 X SP + 1 X SVP + RP | Closure due to Force Majeure | 0.5 X SP + 1 X SVP + RP |
| | | | | Termination due to Force Majeure which does not result in Company's closure | 0.75 X SP + 1 X SVP + RP |
| 6 | Suspension of Debt Payment Obligations (<i>Penundaan Kewajiban Pembayaran Utang – PKPU</i>) | PKPU due to loss | N/A | 0.5 X SP + 1 X SVP + RP | |
| | | PKPU not due to loss | | 1 X SP + 1 X SVP + RP | |
| 7 | Resignation by the Employee | | RP + Separation Payment | RP + Separation Payment | |
| 8 | Employee absent for 5 (five) consecutive working days | | RP + Separation Payment | RP + Separation Payment | |
| 9 | Violation of Company Regulation, Collective Labour Agreement, or Employment Agreement | Violation | RP | 0.5 X SP + 1 X SVP + RP | |
| | | Gross Violation | | RP + Separation Payment | |

| No. | Reason for termination | Previous formula | New formula | |
|---|--|---|--|---|
| 10 | Detainment for 6 (six) months by authority | <ul style="list-style-type: none">The employer shall provide for the employee's family relative and shall be entitled to RP and Separation Payment (as regulated under the Employment Agreement, Company Regulation, or Collective Labour Agreement.The employee shall be entitled to: 2 X SP + RP | <ul style="list-style-type: none">The employer shall provide for the employee's family relative for 6 (six) months; andEntitled to RP + Separation Payment | |
| | | | <table><tr><td>If the employees cause any losses to the employer</td><td>RP + Separation Payment</td></tr><tr><td>If the employee does not cause any losses to the employer</td><td>1 X SVP + RP</td></tr></table> | If the employees cause any losses to the employer |
| If the employees cause any losses to the employer | RP + Separation Payment | | | |
| If the employee does not cause any losses to the employer | 1 X SVP + RP | | | |
| 11 | Lengthy illness for more than 12 (twelve) months | 2 X SP + 1 X SVP + RP | 2 X SP + 1 X SVP + RP | |
| 12 | Retirement | If the employee is not participating in the pension program, then the employee shall be entitled to receive 2 X SP + 1 X SVP + RP | 1.75 X SP + 1 X SVP + RP | |
| 13 | Employee passed away | 2 X SP + 1 X SVP + RP | 2 X SP + 1 X SVP + RP | |

Compensation Payment

Upon the enactment of the Job Creation Law, the IEL provides that the employer is required to provide the employees under PKWT with a compensation payment in the following event:

- Completion of working term as stipulated under the PKWT; and
- Completion of the specific work as described under the PKWT.

The IEL further states that the compensation payment that must be made to the relevant employee shall be in accordance with the working period at the company, under which can only be provided to the employees that have been working at the company for at least 1 (one) month continuously.

In the event that the PKWT is extended beyond the previously agreed term, the compensation payment shall be provided to the employee upon the completion of the period of PKWT before any extension, and the after the extension period has been completed, the employer shall provide another compensation payment for the extension period.

The amount of compensation payment must be provided to the employees under PKWT with the following provisions:

- PKWT for 12 (twelve) months continuously must be provided in the amount of 1 (one) month wage;
- PKWT for 1 (one) month or more, but less than 12 (twelve) months, must be calculated proportionally with the following calculation:

$$\frac{\text{Term of Office}}{12} \times 1 \text{ (one) monthly wage}$$

- PKWT for more than 12 (twelve) months must be calculated proportionally with the following calculation:

$$\frac{\text{Term of Office}}{12} \times 1 \text{ (one) monthly wage}$$

The granting of compensation payment does not apply to foreign workers that is employed based on a PKWT as the compensation payment only applies to local employees under PKWT.

4. Employment relationship

In Indonesia, the implementation of the employment relationship, as set forth in the employment agreement, reflects the employee's status in the company. There are 2 (two) types of employee status: (i) contract employee or the employee who is employed based on a Specified Time Work Agreement (*Perjanjian Kerja Waktu Tertentu* or PKWT); and (ii) permanent employee or employee who is employed based on an employment contract for an Unspecified Period of Time (*Perjanjian Kerja Waktu Tidak Tertentu* – PKWTT).

PKWT can only be applied to certain jobs that, by type, nature, or activity, will be completed within specific time. A PKWT cannot be established for permanent work. If a PKWT is executed without fulfilling the requirements it will automatically become an indefinite-term employment agreement (PKWTT) by law. Furthermore, PKWT is divided into two categories: (a) PKWT based on a time frame is created for work expected to be completed in a relatively short-period, seasonal work, or work related to new products, new activities, or additional products still in the trial or exploration phase; or (b) PKWT based on the completion of a specific job is create for work completed once or temporary in nature.

In terms of the employment agreement, it is noteworthy that the Indonesian Employment Law previously provided that PKWT period must not exceed two (2) years and can be extended once for a maximum period of one (1) year or may be renewed once for a maximum period of two (2) years. However, these restrictions have been amended under the Omnibus Law and its implementing regulation, i.e., GR No. 35/2021.

Under the current regime, PKWT can be made for a maximum period of five (5) years. PKWT can be extended based on the agreement with the employee provided that the total initial period and any extension thereof are no longer than five (5) years. While for PKWTT, there is no expiration date.

In principle, employment agreements may be made verbally or in writing. Any verbal employment agreement must be supported by an appointment letter to the employee, which includes at least the name and address of the employee, date of employment, type of employment and salary.

Furthermore, Article 54 of the Indonesian Employment Law provides that every written employment agreement must stipulate at least the following information:

- a. Name, address, and business type of the employer.
- b. Name, gender, age, and address of the employee.
- c. Job position or type of work.
- d. Work location.
- e. Salary amount and term of payment.
- f. Job requirements, including rights and obligations of the employer and employee.
- g. Effective date and period of employment agreement.
- h. Date and place where the employment agreement is made; and
- i. Signatures of the employer and employee.

Moreover, the Law provides that employers with at least ten (10) employees must establish a Company Regulation (*Peraturan Perusahaan* or CR). The CR shall be established by taking into account consideration and recommendations from the management of the labour union. If there is no existing labour union, the CR shall be made with prior consideration and recommendation of an employee democratically selected by his or her peers, who shall act as the workers'/employees' representative. Furthermore, the Indonesian Employment Law provides that every company is required to register its CR to and obtain a ratification from the Minister of Manpower or other designated authority. The CR shall be valid upon the ratification from the relevant authority. It is noteworthy, however, that an employer is not required to establish a CR if the employer already has a Collective Labour Agreement (*Perjanjian Kerja Bersama* or PKB). In this regard, the PKB must be established based on negotiation and the consent from the labour union.

5. Employment of foreigners

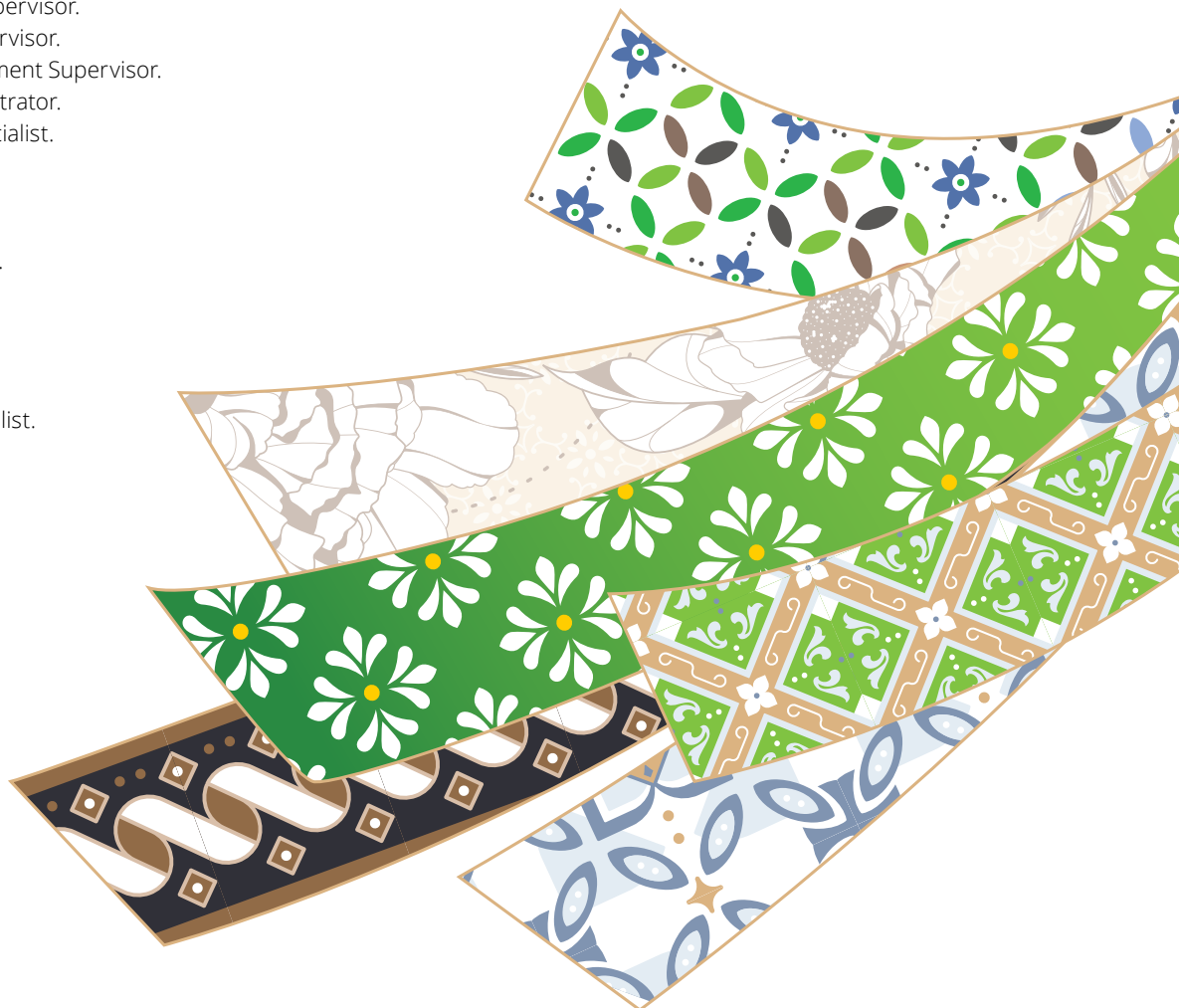
Under the Indonesian Employment Law, an employer may hire a foreign employee, provided that the foreign employee may only be hired under a PKWT. Furthermore, an employer wishing to hire a foreign employee must also hire an Indonesian employee as an “associate” for the foreign employee. The purpose of the associate requirement is to oblige the hired foreign employee to transfer his or her skills to the local associate. The ratio of foreign and Indonesian employees is not clearly regulated. In practice, it has been the general rule that a ratio of 1:1 or 1:3 is acceptable. An exception applies for expatriates who are appointed as directors or commissioners of a company; there is no associate requirement for these expatriates.

In addition to the above, the Omnibus Law provides that to utilise a foreign worker, the employer is required to obtain a Foreign Labour Utilisation Plan or *Rencana Penggunaan Tenaga Kerja Asing* (RPTKA). Such RPTKA must be ratified by the central government. This RPTKA shall serve as a work permit for the foreign employee. Moreover, the employer is required to give notification of the hiring of the foreign employee to the Ministry of Manpower after the RPTKA is granted and the employer shall also notify the Ministry of Manpower on the transfer of skill and technology from the foreign worker to the local associate.

Moreover, a foreign employee who intends to work in Indonesia must have an education background that is in line with the qualification for the position that will be held by such foreign employee, as well as a certificate of competency, or have at least five (5) years of work experience that is related to the position that will be held by such foreign employee.

Additionally, there are certain jobs/positions in Indonesia that may not be held by foreign employees, especially positions that deal with personnel, as follows:

- a. Personnel Director.
- b. Industrial Relations Manager.
- c. Human Resources Manager.
- d. Personnel Development Supervisor.
- e. Personnel Recruitment Supervisor.
- f. Personnel Placement Supervisor.
- g. Employee Career Development Supervisor.
- h. Personnel Declare Administrator.
- i. Personnel and Career Specialist.
- j. Personnel Specialist.
- k. Career Advisor.
- l. Job Advisor.
- m. Job Advisor and Counsellor.
- n. Employee Mediator.
- o. Job Training Administrator.
- p. Job Interviewer.
- q. Job Analyst; and
- r. Occupational Safety Specialist.



6. Golden visa for foreign investors in Indonesia

On 24 August 2023, the Minister of Law and Human Rights of the Republic of Indonesia enacted Regulation of Minister of Law and Human Rights of the Republic of Indonesia Number 22 of 2023 on Visas and Stay Permits (**MOLHR Reg. 22/2023**), which introduces a new visa scheme called **"Golden Visa"** for foreign investors.

Overview of Golden Visa

In recent years, the Indonesian government has taken significant efforts to establish a more welcoming environment for foreign investors by offering a range of incentives and opportunities as well as policy reforms and initiatives aimed at accelerating foreign capital inflow. This commitment to attracting and facilitating foreign investment plays a pivotal role in Indonesia's quest for sustainable economy and global competitiveness.

The Golden Visa program has been acknowledged by other countries, among others Portugal, Greece, and Spain, where this type of visa allows foreign investors to obtain residency or citizenship by contributing significant financial investments or contributions to the relevant country.

Under MOLHR Reg. 22/2023, foreign investors can obtain either 5-year or 10-year resident permit ("**Limited-Stay Visa**"), depending on the value of their investments, as follows:

| Subject | 5-year visa | 10-year visa |
|---|--|---|
| Foreign individual investor intending to establish a company in Indonesia. | The company must be established with issued capital or investment value of at least USD2,500,000 (two million five hundred thousand United States Dollars) or equivalent to IDR38,000,000,000 (thirty-eight billion Indonesian Rupiahs). | The company must be established with issued capital or investment value of at least USD5,000,000 (five million United States Dollars) or equivalent to IDR76,000,000,000 (seventy-six billion Indonesian Rupiahs). |
| Foreign individual investor who does not intend to establish a company in Indonesia must invest through Indonesian government bonds, shares of a publicly listed company in Indonesia, or mutual funds from a publicly listed company in Indonesia. | The investment shall be at least US D350,000 (three hundred fifty thousand United States Dollars) or equivalent to IDR5,300,000,000 (five billion three hundred million Indonesian Rupiahs). | The investment shall be at least USD700,000 (seven hundred thousand United States Dollars) or equivalent to IDR10,600,000,000 (ten billion six hundred million Indonesian Rupiahs). |
| Foreigner who will serve as a member of board of directors or board of commissioners of a company to be established in Indonesia, which is a branch or subsidiary of a company domiciled outside the Indonesian territory. | A statement of commitment must be provided by the company to be established, with an investment value of at least USD25,000,000 (twenty-five million United States Dollars) or equivalent to IDR380,000,000,000 (three hundred eighty billion Indonesian Rupiahs). | A statement of commitment must be provided by the company to be established, with an investment value of at least USD50,000,000 (fifty million United States Dollars) or equivalent to IDR760,000,000,000 (seven hundred sixty billion Indonesian Rupiahs). |

Benefit and eligibility

Article 33 of MOLHR Reg. 22/2023 stipulates that the Limited-Stay Visa shall be granted to foreigners in relation to foreign direct investment activities, whereby:

- The foreigner is an individual investor who intends to establish a company in Indonesia;
- The foreigner as an individual investor who does not intend to establish a company in Indonesia; and
- The foreigner will serve as a member of board of directors or board of commissioners of a company to be established in Indonesia, which is a branch or subsidiary of a company domiciled outside the Indonesian territory. It is noteworthy that visas in this category can only be granted for a maximum of 10 persons (including the board of directors and/or board of commissioners, cumulatively) per company.

An application for the 5-year or 10-year Limited-Stay Visa shall be submitted by the foreigners through an application to the immigration official appointed at the Directorate General of Immigration by enclosing the following:

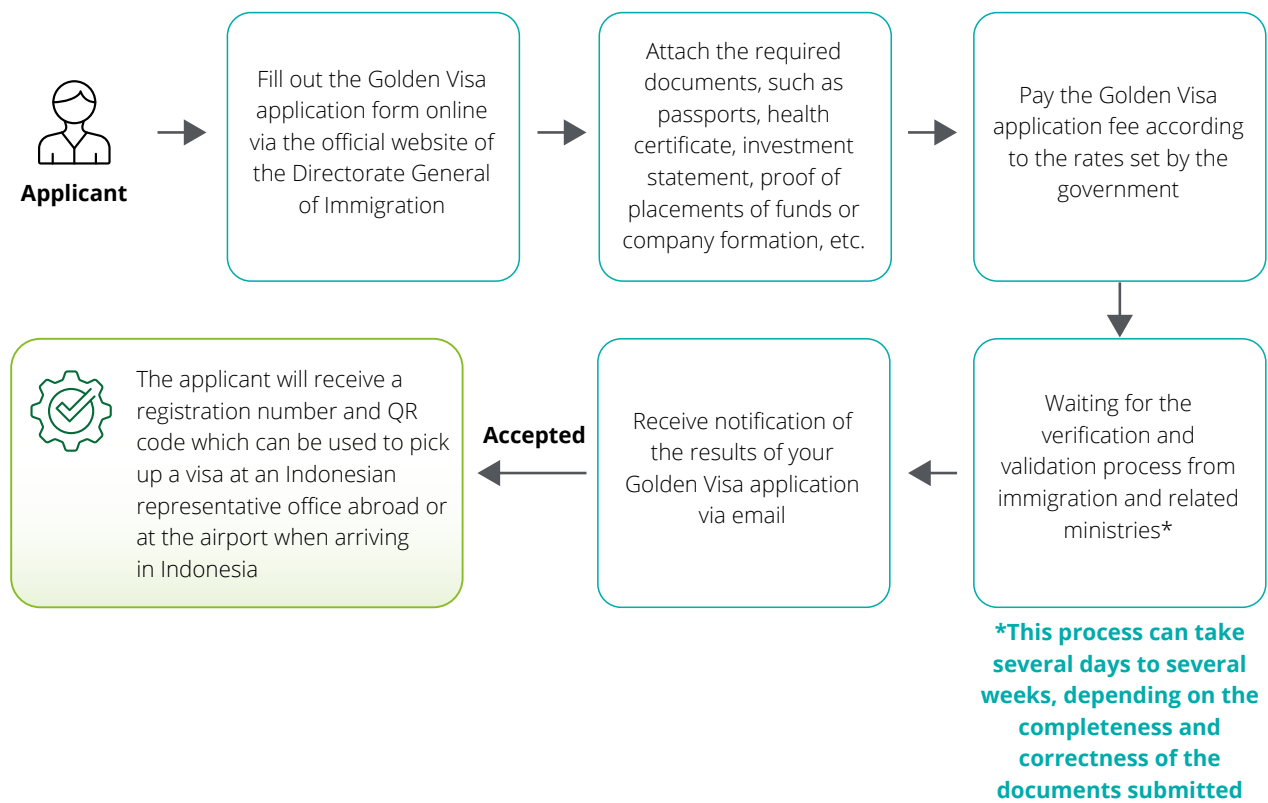
- a. Current national passports that are legal and still valid for at least six months;
- b. Proof of immigration guarantee;
- c. Proof of having living expenses for themselves and/or their family while in the Indonesian territory;
- d. Recent colour passport photo; and
- e. Other documents explaining the intention/purpose of the arrival of the foreigner.

By obtaining the Golden Visa, foreigners will be able to experience several benefits as stated under Article 190 of MOLHR Reg. 22/2023, as follows:

- a. Priority examination lane at the immigration checkpoints stipulated by the MOLHR;
- b. Priority services at the immigration office; or
- c. Priority services from related agencies or government institutions, based on a cooperation agreement.

Procedures

Figure 26: The procedure for applying a Golden Visa



Indonesia workforce moving forward

With its young demographic population with median age of 30 years old, it poses an attractive talent market to tap on. With an ambitious growth for Golden Indonesia by 2045, Indonesia must uplift its capability and talent both in terms of quantity and quality.

We will be expecting growth of average 3% year on year to meet the demand from our economic growth. We will be expecting to grow our type of capability to fill in gaps in where we do not have enough capability yet. These include capabilities in technology, digital, and AI related areas across all types of skill sets and industries. To be future-proof, our workforce needs to be equipped with the future-in-demand skills.

Whenever possible, we need to redeploy around 7 million of workforce who are not in employment, education & training (NEET) in order to support our growth. All these above pose exciting opportunities for investors to build the capabilities of their workforce in order to optimise return on their investment.

We recommend organisations to invest early in their talent to be ahead of the game. This include providing internships especially for students in the outer islands. This will allow equalisation of employment and career opportunities across Indonesia, especially since we have observed pockets of talents in the outer islands (not only focusing on talents in Jakarta and Java).

Lastly, human sustainability is another aspect that Indonesia will be focusing on to create future or next generation of leaders. With almost two-thirds of population at Millennial and Gen Z, Indonesia needs to accelerate the development of their future leaders in combination of exposure to real business challenges, partnership with foreign talents, learning from best in class where foreign investors can provide, and fostering inclusivity in the workforce (especially working partnership across different generation in the same workplace).

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