Legal Update – Employment Matters & Compliance

INDONESIA'S EMPLOYMENT PROTECTION LAW AND ITS IMPACT ON COMPANIES

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Changes in employment regulations can directly affect how companies operate, manage their workforce, and meet their legal obligations. For businesses, understanding these changes is essential to maintaining compliance while managing employment-related costs and risks.

For more than two decades, Indonesia's employment framework has been governed by Law Number 13 of 2003 on Manpower, as amended by Law Number 6 of 2023 on the Enactment of Government Regulation in Lieu of Law Number 2 of 2022 on Job Creation into Law ("**Manpower Law**"). Now, Indonesia's employment regulatory framework is entering a new phase with the enactment of Law No. 27 of 2026 on Employment Protection ("**Employment Protection Law**"), replacing the Manpower Law.

This article highlights the key differences between the previous and new laws and how the changes could affect businesses.

What Are the Key Changes Under the Employment Protection Law?

Several notable changes affect existing employment rules, including new requirements for employers and adjustments to workers' entitlements. The following table compares the provisions of the Manpower Law (including the relevant implementing regulations) with the Employment Protection Law across several key areas.

Key Areas	Previous Provisions	New Provisions
Duration of Fixed-Term Employment Agreements	The maximum contract period was 5 years, including extensions.[1]	The initial contract term is limited to 2 years. It can be extended twice for up to 1 year each, with a maximum total term of 4 years.[2]
Types of outsourcing	Outsourcing covered 6 types of work[3], including: • cleaning services; • food and beverage services; • security services;	Outsourcing is limited to 5 types of supporting services that are not directly related to production[4], such as: • cleaning; • catering services for workers;

1 Art. 6 of GR 35/2021.
2 Art. 82(2) of Employment Protection Law.
3 Art. 3(2) of Minister of Manpower Regulation No. 7 of 2026 on Outsourcing Work.
4 Art. 95(3) and Art. 96 of Employment Protection Law.

Key Areas	Previous Provisions	New Provisions
	• driver and worker transportation services; • operational support services; and • support work in the mining, oil and gas, and electricity sectors.	• security; • mining and oil industry support; and • transportation for workers.
Internship duration	The maximum internship period is 1 year.[5]	The maximum internship period is 6 months.[6]
Informal-sectors worker	Not regulated.	Workers' rights and employer's obligations are now regulated. *For further details, see "How Are Workers' Rights Protected?" point (d).*
Collective and annual leave entitlement	Collective leave (*cuti bersama*) may reduce employees' annual leave entitlement.[7]	Collective leave does not reduce employees' annual leave entitlement.[8]
Exemptions from foreign worker utilisation plan and compensation fund requirements	Exemptions applied to certain foreign workers under specific conditions.[9]	The exemptions are expanded to include foreign workers legally married to Indonesian citizens and children of a legal marriage between a foreign worker and an Indonesian citizen.[10]
Retention of diplomas and personal documents	Not regulated.	Employers are prohibited from retaining workers' diplomas and/or personal documents as security in an employment relationship, except for purposes permitted by law.[11]

5 Art. 5(5) Minister of Manpower Regulation No. 6 of 2020 on the Implementation of Domestic Apprenticeships.
6 Art. 38 of Employment Protection Law.
7 Point B.2 and B.3 of Minister of Manpower Circular Letter No. M/6/HK.04/XII/2024 on the Implementation of National Holidays and Collective Leave in Companies.
8 Art. 118(6) of Employment Protection Law.
9 Art. 42(3) of Manpower Law.
10 Art. 62(4) of Employment Protection Law.
11 Art. 78 of Employment Protection Law.

Key Areas	Previous Provisions	New Provisions
Protection of women workers	Restrictions applied to night work for women under 18 and pregnant women in certain circumstances.[12]	Women aged 15–18 cannot work between 9 p.m. and 7 a.m. Employers must not discriminate against women based on marital status, pregnancy, childbirth, miscarriage, or breastfeeding.[13]
Overtime requirements	Overtime required employees' consent and was limited to 4 hours per day and 18 hours per week.[14]	Overtime remains subject to employees' consent and the existing time limits. Employers must also issue written and/or digital instructions for overtime.[15]
Bipartite cooperation institution	Required for companies with at least 50 employees.[16]	Required for companies with at least 10 employees.[17]
Job loss guarantee programme	Not regulated.	Employers must register workers for the job loss guarantee programme.[18]
Termination due to efficiency	Efficiency could be a ground for termination, with or without company closure, due to losses.[19]	Efficiency is removed as a specified ground for termination, and replaced with the permanent closure of the company based on the owner's decision.[20]
Severance pay multipliers	Severance pay was set at 0.5, 1, or 1.75 times the applicable amount, depending on the grounds for termination.[21]	The multiplier increases from 0.5 to 1 times, and from 1 or 1.75 to 2 times, for the relevant termination grounds.[22] *For further details, see "What Do the Changes Mean for*

[12] Art. 76 of Manpower Law.
[13] Art. 114(2) of Employment Protection Law.
[14] Art. 78(1) of Manpower Law.
[15] Art. 116(1) of Employment Protection Law.
[16] Art. 106(1) of Manpower Law.
[17] Art. 171(1) of Employment Protection Law.
[18] Art. 157 of Employment Protection Law.
[19] Art. 154A(1) of Manpower Law.
[20] Art. 231(c) of Employment Protection Law.
[21] Arts. 40, 41, 42, 44–48, 52, and 56 of GR 35/2021.
[22] Art. 236 – Art. 238 of Employment Protection Law.

Key Areas	Previous Provisions	New Provisions
		Employment Costs and Termination?" point (a).

How Does the New Law Affect Hiring and Employment Contracts?

For companies, hiring is not just about filling vacancies. It also involves choosing the right employment arrangement for each role and balancing business needs with legal requirements. The Employment Protection Law changes some of the rules behind these decisions, with implications for workforce planning and how companies engage workers.

a. **Fixed-Term Employment Agreements (*Perjanjian Kerja Waktu Tertentu* or "PKWT")**
The changes to PKWT duration affect how companies plan fixed-term employment arrangements. When a PKWT reaches its maximum permitted duration, the company cannot simply extend it further, even if the work is still needed. If the company intends to extend a PKWT, written notice of the planned extension must be given to the employee at least seven (7) days before the contract expires.[23] This means companies need to adjust their staffing plans to the revised contract period and plan ahead for roles that may still be needed beyond that period.

b. **Outsourcing Arrangements**
The limits on outsourcing narrow the range of services that companies can assign to external providers. This is particularly relevant for businesses that rely on outsourcing for their day-to-day operations, as some existing arrangements may no longer be permitted under the Employment Protection Law.

Companies that engage outsourced workers must comply with the new requirements within one (1) year from the enactment of the Employment Protection Law.[24] Meanwhile, outsourcing agreements entered into prior to its enactment remain valid until their expiry.[25]

c. **Internship Programmes**
A six-month maximum duration gives companies a more limited period to structure internship programmes. Companies with internship programmes designed to provide training and practical experience need to fit their activities within this timeframe.

d. **Foreign Workers**
The Employment Protection Law expands the exemptions from the requirements for employing foreign workers in Indonesia. Foreign workers who have been legally married to Indonesian citizens for at least five (5) years are exempt from preparing a Foreign Worker Utilisation Plan (*Rencana Penggunaan Tenaga Kerja Asing*) and paying compensation funds. These exemptions also apply to the children of a foreign worker and an Indonesian citizen who are legally married.

[23] Art. 82 (3) of Employment Protection Law.
[24] Art. 306(1) of Employment Protection Law.
[25] Art. 306(2) of Employment Protection Law.

How Are Workers' Rights Protected?

A worker's rights are reflected in everyday workplace practices. How employers handle personal documents, assign overtime, and treat workers in different circumstances can all affect those rights. The Employment Protection Law addresses several of these areas, with implications for how workers are treated throughout their employment.

a. Personal Documents

Personal documents can be important for workers when pursuing new employment opportunities or handling personal matters. These documents include original diplomas, competency certificates, passports, birth certificates, marriage certificates, and vehicle ownership documents.[26] Restrictions on employers retaining these documents help protect workers' access to their own diplomas and personal records, allowing them to retain control over documents that may be needed beyond their current employment.

b. Women Workers

A woman's personal circumstances should not become a barrier to her career development or continued employment. Stronger workplace protections help support women's participation in the workforce and promote fairer treatment throughout their employment.

c. Overtime Instructions

Written or digital overtime instructions help ensure that additional working hours are clearly communicated and documented. This gives workers greater clarity about when overtime is required and helps establish a clearer record of overtime arrangements.

d. Informal-Sector Workers

As work arrangements continue to evolve, the Employment Protection Law recognises new categories of workers, which are informal-sector. Informal-sector workers are individuals employed in businesses operated by individuals or families, or jointly by several individuals based on trust and mutual agreement, without forming a legal entity (for example, a family-run food stall). Informal-sector workers are also entitled to social security protection and remuneration.[27]

e. Collective Leave

When companies implement collective leave determined by the Government, employees' annual leave entitlement is not affected. Employees can take collective leave and keep the full annual leave entitlement for personal needs.

What Do the Changes Mean for Employment Costs and Termination?

Employment costs are not limited to salaries and monthly benefits. Companies may also face required contributions and compensation payments when employment ends. Changes to severance pay and termination grounds under the Employment Protection Law could affect the costs of ending employment.

[26] Explanation of Art. 78 of Employment Protection Law.
[27] Arts. 58, 60, and 61 of Employment Protection Law.

a. **Changes to Severance Pay Multipliers**
The Employment Protection Law changes the severance pay multipliers set out under Government Regulation No. 35 of 2021 on Fixed-Term Employment Agreements, Outsourcing, Working Hours and Rest Periods, and Termination of Employment ("**GR 35/2021**") for several termination grounds, as outlined below:

i. **From 0.5x/0.75 to 1x:** This applies to termination due to an employee's refusal to continue working after a change in company ownership, the company closure because of continuous losses for two years or force majeure, the company being subject to suspension of debt payment obligations or declared bankrupt, or employee misconduct following successive warning letters.

ii. **From 1x to 2x**: This applies to termination due to the employer's decision not to continue employment after a merger, or an employee's resignation because of the employer's misconduct.

iii. **From 1.75x to 2x**: This applies to termination due to retirement.

These increases could raise the severance pay costs companies face when terminating employment for the reasons listed above. Companies may need to account for the higher multipliers when estimating potential termination costs and planning their workforce budgets.

b. **New Guarantee Programmes: Job Loss Guarantee Programmes**
In addition to potential termination costs, the new guarantee programme could add to companies' ongoing employment-related expenses. Companies may need to plan for these costs as part of their workforce budgets.

c. **Changes to Termination Grounds**
Efficiency is no longer specifically listed as a ground for termination under the Employment Protection Law. This change could affect how companies approach workforce restructuring, as the applicable legal grounds must be assessed when considering termination due to efficiency measures.

What Should Companies Do in Response to These Changes?

The Employment Protection Law took effect on 28 October 2026. Companies must comply with the new requirements from that date, except for outsourcing arrangements, which have a one-year adjustment period.

With the new requirements now in effect, companies need to review their existing employment practices and identify areas that may require changes. The following steps can help companies assess the impact on their day-to-day operations:

a. **review existing employment arrangements**, including PKWT, outsourcing arrangements, and internship programmes;
b. **update company regulation and/or internal procedure** to reflect the new requirements on overtime instructions, the handling of workers' personal documents, and collective leave;

c. **reassess employment-related costs**, including severance pay and contributions to the new guarantee programme;
d. **assess workforce management and termination procedures** in light of the revised termination grounds and worker protection requirements; and
e. **check whether the company engages informal-sector workers** and determine the relevant rights and obligations.

Employment decisions can have a lasting impact on business operations, workforce planning, and employment-related costs. Taking appropriate steps to address employment law obligations helps businesses manage potential risks and ensure compliance with applicable regulations.

Should you have any questions or require assistance in assessing the implications of the Employment Protection Law for your business, please feel free to contact our team.



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