



# Investing in Indonesia 2021



1 November 2021

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# 1 Introduction

The passing of Law No 11 Year 2020 on Job Creation (popularly known as the “Omnibus Law”) marks an important milestone in Indonesia’s effort to attract foreign investment to sustain future economic growth. The Omnibus Law revised 78 existing cross-sectoral laws to establish a coordinated framework in order to create more job opportunities across Indonesia. As of the publication of this report, 51 implementing regulations to the Omnibus Law have been issued. The impact of the Omnibus Law and its implementing regulations is discussed in various chapters of this publication. In our experience, it will likely take at least two years to see the positive impact of the Law.

While Indonesia is attractive to foreign investors because of its young workforce and large domestic market, its weak basic infrastructure relative to other comparable countries remains a major obstacle. During the period between 2014-2019, we have seen an unprecedented focus on infrastructure investments. Chapter 4 of this publication highlights the major infrastructure developments from 2014 to now.

In the last two years, like many countries, the Indonesian government was forced to reallocate significant resources to health care and the social safety net to tackle the negative impacts arising from the COVID-19 pandemic. Prior to COVID-19, the government was widely praised for its discipline in maintaining the fiscal deficit within the required limit of 3 percent. Since then, the deficit limit has been temporarily expanded to 5.82 percent in 2021 and 4.85 percent in 2022. The government’s ability to rebalance the fiscal deficit is a key indicator to watch, as Indonesia expects to return to the 3 percent limit by 2023.

This publication is intended as a general guide to investing and doing business in Indonesia, primarily for new foreign investors looking to enter the Indonesian market. It also serves as a useful reference document for established foreign and domestic investors. Practical insights and other intelligence from KPMG’s experience at the transaction “coalface” and from providing transaction, M&A and tax advisory services to foreign and local investors and lenders can also be found at appropriate junctures in this publication.

**Note :**

*This publication is not intended to be a substitute for formal legal, tax or other professional advice. To the best of our knowledge, laws and regulations referred to throughout the document reflect the position as of 1 November 2021, or later where specifically referenced.*



# 5 | Investment

## Introduction

Indonesia welcomes foreign investment on its own terms. Government policies aim at ensuring that foreigners work with Indonesians to assist in development of the country's economy and skill-base. There is a general recognition that Indonesia needs the development capital, and the technical and management skills of foreigners.

Government regulation of foreign investment in Indonesia is manifested in a variety of ways, for example:

- approved and monitored through governmental bodies
- companies can employ only a limited number of expatriates, and are required to demonstrate plans for replacement of those expatriates by Indonesians (with the exception of expatriate directors and commissioners)
- certain fields of business are closed to investment by foreigners
- foreign individuals are permitted to acquire land or land rights with a number of restrictions.

A "foreign investor" is usually a foreign company incorporated under the laws of its host nation; however foreign individuals are also acceptable.

## Direct and indirect investment

Law No.25/2007 concerning Capital Investment ("Investment Law") defines investment as direct investment and indirect investment. Indirect investments, also known as portfolio investments, are transactions made through the domestic capital market/stock exchanges of a country.

The Indonesian equity market is highly institutionalized, whereby over the period from 2011 to 2020 foreign institutions held around 65-75 percent of the free-float value of the Indonesian equity market.

The Indonesian government encourages direct investment by foreigners or FDI in most areas of the Indonesian economy, and less so in others. Foreign investment approvals can be issued either by BKPM in Jakarta or an investment board ("BPM") in every province, investment institution in regency municipality or through representative offices of the Republic of Indonesia in several countries.

## Investment law, investment list and foreign direct investment

The Investment Law regulates FDI by granting a right of entry to foreign businesses through a government licensing procedure principally controlled by BKPM. It specifies that foreign investment shall be in the form of a limited liability PMA company incorporated in Indonesia, in which the investor goes into partnership with an Indonesian person or entity as shareholders. Foreign investors can generally hold between 49 percent to 100 percent ownership in various industries, but this varies within sectors and business fields and can be subject to ministerial approvals or special licenses.

Previously, to invest in Indonesia, an investor must first look at the Negative List which is updated with policy changes under the Investment Law. As indicated, if a business field is not mentioned in the Negative List, it is regarded as 'open' to foreign investment.

In February 2021, GOI amended the existing 2016 Negative List to Investment List through the issuance of PR No. 10 of 2021 ("Regulation 10"). The investment list is anticipated to promote priority industries that are open to both foreign and domestic investments.

Dubbed the Investment List, the regulation liberalizes over 245 business lines, including important sectors, such as transportation, energy, and telecommunications that had previous foreign ownership restrictions.

In contrast to the 2016 Negative List, the Investment List allowed all business fields to become open to investment, except for:

1. Six business fields which are still closed to investment are:

- Class-I narcotics cultivation and industries;
- All forms of gambling and/or casino-related activities;
- Illegal fishing of endangered fish species;
- Utilization of coral or natural reefs for certain uses;
- Chemical weapons manufacturing industries; and
- Industrial chemicals and industrial ozone-depleting substance industries

2. Activities that may only be carried out by the central government for instance service-based in nature or that relate to strategic defense and security and that are not permitted to be carried out in cooperation with any third parties.

In terms of foreign investors and their investments, Regulation 10 sets the following requirements:

- a. Foreign investments must take the form of limited-liability companies that are established and located within Indonesian jurisdiction;
- b. Foreign investors are only allowed to engage in large-scale business activities with investment values that exceed IDR10 billion (excluding the values of the relevant land and buildings used for places of business); and/or
- c. The value of foreign investments in technology-based start-ups may amount to IDR10 billion or lower if undertaken within special economic zones.

Please refer to *appendix 1*. For the detail of 2021 Business Investment List.

The Regulation 10 stipulated 4 categories of business fields open to investment namely as follows:

1. Priority business fields – 245 fields (183 fields for tax allowance facility, 18 fields for tax holiday and 44 for investment allowance facility)

- Be included as a part of nationally strategic programs/projects;
- Be capital and/or labor-intensive;
- Utilize advanced technologies;
- Categorized as pioneering industries;
- Oriented towards export/import substitutions; and/or
- Oriented towards research, development and other innovation activities.

Various benefits are provided to those who are looking to invest in priority business fields in the form of:

- a. Fiscal incentives (i.e. tax holidays, tax allowances, investment allowances and import-duty exemptions); and/or
- b. Non-fiscal incentives, which encompass ease of business licensing, provision of supporting infrastructure, energy, guaranteed availability of raw materials, immigration, employment and others.

2. Business fields that are allocated to or that require partnerships with cooperatives and micro-, small- and medium-scale enterprises ("MSMEs") – 89 fields.

The category is determined based on the following criteria must:

- Not use advanced technologies or must only utilize simple technologies;
- Involve specific processes, must be labor-intensive and must be characterized by special and hereditary cultural heritage; and
- Involve business capital that does not exceed IDR 10 billion (excluding any land and buildings used for places of business); and

Business fields that involve large-scale businesses working in mandatory partnerships with cooperatives and MSME shall:

- Be mostly occupied by cooperatives and MSMEs; and/or
- Aim to scale-up operations in order to enter the supply chains of large-scale businesses

3. Business fields with certain requirements – 46 fields.

This category includes business fields that are open to all investors (including MSMEs) that subject to:

- Investment requirements for domestic investors;
- Investment requirements with limitations placed on foreign investment exemptions:
  - a. Investments that are carried out within certain business fields that were approved prior to the issuance of the Regulation 10

b. Investors who have secured special rights based on agreements between their countries and Indonesia

- Investment requirements that involve special licensing.

Requirements in business field with certain requirements are not applicable to investments in special economic zones and non-direct investments that are undertaken through the Indonesian Stock Exchange.

4. Business fields with categories other than above-mentioned are open to all investors without any additional requirements.

### **Grandfathering**

Grandfathering provisions continue to apply to existing investments regardless that some new foreign investment limitations or closures have been introduced in the Regulation 10.

The following provisions shall apply toward companies whose business fields are included in the business field as referred to in Article 4 paragraph (1) letter (b), and which will change the ownership of foreign capital as a result of a merger, acquisition or consolidation in the same business fields:

- a. the limitation of foreign capital ownership in the surviving company is as stated in the business licensing of the surviving company;
- b. the limitation of foreign capital ownership in the acquired companies is as stated in the business licensing of the acquired company; or
- c. the limitation of foreign capital ownership in a new company resulting from a consolidation is as stipulated in the provisions of laws and regulations at the time of formation of the new company resulting from the consolidation in question.

### **The Economic Policy Packages**

Over the three-year period from 2015 until 2018, GOI had announced 16 Economic Policy Packages in order to improve national industry competitiveness, maintain economic stability as well as to promote Indonesia's investment climate to generate significant economic growth. The issuance of Economic Policy Packages was targeted to harmonize regulations, simplify bureaucratic process, and ensuring law enforceability. In addition to the 16 Economic Policy Packages, on 20 July 2020 the government has issued PR No. 82/2020 on Committee for Handling of Covid-19 and National Economic Recovery which has been amended in November 2020 in Presidential Regulation No. 108/2020.

The summary of policy packages is as follows:



# The Economic Policy Packages

**// To improve national industry competitiveness, export and investment to generate significant economic growth //**



**Harmonizing Regulations**



**Simplifying Bureaucratic Process**



**Ensuring Law Enforceability**

## **Phase I (9 Sept'15)**

Improving national industry competitiveness

## **Phase II (29 Sept'15)**

Easing permit requirement and simplifying export proceeds requirement

## **Phase III (7 Oct'15)**

Financial services facilitation, export financing and elimination of business unnecessary burden

## **Phase IV (15 Oct'15)**

Social safety net and betterment of people welfare

## **Phase V (22 Oct'15)**

Improving industry and investment climate through tax incentives and deregulation on sharia banking

## **Phase VI (5 Nov'15)**

Stimulating economic activities in border areas and facilitating strategic commodities availability

## **Phase VII (7 Dec'15)**

Stimulating business activities in labor-intensive industries nation-wide through incentives in the form of accelerating land certification process for individuals

## **Phase VIII (21 Dec'15)**

Resolving land acquisition disputes, intensifying domestic oil production, stimulating domestic parts and aviation industries

## **Phase IX (27 Jan'16)**

Accelerating electricity generation, stabilizing meat prices and improving rural-urban logistics sector

## **Phase X (11 Feb'16)**

Revising the Negative investment List and improving protection for small-and medium-scale enterprises ("SMEs")

## **Phase XI (29 Mar'16)**

Stimulating national economy through facilitation to SMEs and industries

## **Phase XII (28 Apr'16)**

Improving Indonesia's rank on Ease of Doing Business

## **Phase XIII (24Aug'16)**

Low Cost Housing for Low-Income Communities

## **Phase XIV (10 Nov'16)**

Roadmap for E-commerce

## **Phase XV (15Jun'17)**

Improving logistics

## **Phase XVI (16Nov'18)**

Improving the competitiveness and domestic economy

## Omnibus Law

Following the inauguration of his second presidential term in October 2019, President Joko Widodo announced his administration's plans to continue regulatory reform by focusing on initiatives, such as developing a dynamic and qualified workforce, promoting industry cooperation through technology, further enhancing infrastructure development and economic reform as well as simplifying regulations and bureaucracy. To achieve such ends, in November 2020, the Government issued Law No. 11 of 2020 on Job Creation, also known as Omnibus Law, which replaces several already existing laws and consolidate them under a single legal framework.

The Omnibus Law regulates 3 areas, namely job creation, development and strengthening the financial sector and tax provision. Omnibus Law revises 78 existing laws on various cross-sectoral laws in order to establish a number of strategic policies and measures designed to generate more job opportunities across Indonesia and, in turn, eventually improve the welfare of Indonesia's citizens.

Provisions introduced by the Omnibus Law and the implications are further elaborated throughout several chapters in this publication.

# Simplifying regulations through Omnibus Laws

Omnibus Laws group a diverse range of issues into legislation, aimed at creating jobs and empowering SMEs

## Omnibus Law Priority Sectors



### 6 Pillars of Omnibus Law *Perpajakan* (Taxation)

- |                       |                        |                       |
|-----------------------|------------------------|-----------------------|
| 1. Investment Funding | 3. Personal Taxpayer   | 5. Equity of Business |
| 2. Territorial System | 4. Taxpayer Compliance | 6. Taxation Facility  |

### 11 Clusters of Omnibus Law *Cipta Lapangan Kerja* (Job Creation)

- |                                |  |                              |  |
|--------------------------------|--|------------------------------|--|
| 1. Simplification of Licensing | 4. Ease, Empowerment and Protection of MSMEs | 7. Government Administration | 10. Government Investment and Projects |
| 2. Investment Requirements     | 5. Ease of Doing Business                    | 8. Impositions of Sanctions  | 11. Economic Zone                      |
| 3. Employment                  | 6. Research and Innovation Support           | 9. Land Acquisition          |  |

## Foreign investment restrictions

### Fields of activity and local joint venture partner

Initial investment proposals to BKPM need to be in fields currently open to foreigners, as do applications for capital or capacity utilization expansion of existing facilities.

Foreign investment will usually require a joint venture (“JV”) arrangement between the foreign investor and at least one local partner, either from inception of the project, or within a specified period for those companies which have approval to be wholly foreign-owned in the initial stages. The selection of a reliable and understanding local Indonesian shareholder and partner is essential. Unsuccessful foreign investment ventures can be associated with a background of tense relationships between local and overseas foreign shareholders. Once an investment is made, it can be a difficult, costly and painful exercise to extract or divest.

BKPM and industry regulators may maintain lists of potential local partners in certain fields from time to time, while investment banks, embassies and accounting firms can often provide information of a similar nature. In addition, accounting and investigation services firms can undertake independent, confidential corporate intelligence checks into the background and integrity of prominent or low-profile local individuals.

### Minimum investment and equity participation

#### Divestment rules

Foreign investors can hold up to 100 percent equity initially, except in the industries where the various limitations on maximum foreign ownership exist which vary within sectors and business fields.

The old Foreign Investment Law No. 1/1967 through implementing regulation GR 20/1994 expressly provided for where 100 percent foreign ownership is initially permitted, for the foreign shareholder to divest a minority share to an Indonesian shareholder within 15 years, and that 5 percent is the intended minimum divestment.

The 2007 Investment Law which revoked Law No. 1/1967 is silent on divestment obligations. However, the general view is that implementing regulation GR 20/1994 remains valid, and thus the statutory obligation to divest. However, based on BKPM Circular Letter No. 23/SE/11/2008, a PMA company established under the 2007 Investment Law is no longer required to divest whilst older companies established pre-2007 Investment Law, with BKPM approval letters containing a divestment obligation, are still required to divest.

In practice, BKPM appears not to be enforcing any divestment obligations for PMA companies incorporated in the late 1990’s operating in a business field where 100 percent foreign ownership is permitted and now reaching 15 years to divest.

### Legal form

The Investment Law specifies that foreign investment shall be in the form of a limited liability company (*Perseroan Terbatas* or “PT”) incorporated in Indonesia in accordance with the requirements of the MOLHR. A PMA company is a PT company having an approved foreign shareholding. Other forms of corporate entities are addressed in Chapter 6.

### Term limit

The operating permit for a PMA company is unlimited as long as the PMA company is still active.

### Operations

The Investment Law grants the foreign investor the freedom to manage a company for the term of its permit approval, which includes the right to appoint directors and, if necessary, foreign technicians and managers, where skilled Indonesians are not available. Certain industries only allow expatriate technical advisors (apart from board of directors and commissioners). More information on obligations around domestic and foreign employees is set out in Chapter 9 on Labor and Employment.

## Foreign investment restrictions

### Introduction

Foreign investment in certain industries is not administered by BKPM, but by the relevant ministry or regulatory authority directly. These industries are oil & gas, banking and non-bank financial institutions including insurance, multi-finance, securities brokerage and asset management. While BKPM has some role in the approval of mining and forestry licenses, the principal approvals are granted by the MEMR and the Ministry of Forestry. Shipping, seaports and telecommunications are other industries where regulation of foreign investment and related approval applications have been complicated by multiple laws, regulations and decrees issued by more than one regulatory authority body or institution.

### Oil & gas

Under Law No.22/2001 concerning Petroleum & Natural Gas (“the Oil & Gas Law”), the oil & gas sector was administered by two state owned legal entities: BP Migas for upstream operations and BPH Migas for downstream operations. Prior to establishment of BP Migas in 2002, regulation of the oil & gas sector was conducted by the state-owned oil & gas company, PERTAMINA.

BP Migas had responsibility for management of the upstream operation of joint cooperation contracts which are predominately in the form of a production-sharing contract (“PSC”), with the foreign party/contractor responsible to BP Migas for the execution of the operation. BPH Migas had responsibility for granting licenses and supervising the operation of the downstream business.

In January 2013 a PR No.9/2013 was issued to establish a special task force, SKK Migas, to replace SKSP Migas.

Under the Oil & Gas Law, the industry is one of two that allows foreign participants to invest in the upstream oil & gas sector through a local branch of an overseas company (called a permanent establishment or "PE"; which is referred to further in Chapter 10 on Taxation).

Omnibus Law amends various provisions in oil & gas sectors, with highlight of the changes including:

- Requirement for business entities to secure business licenses from the central government before engaging in any oil and gas business activities. This requirement applies to upstream and downstream business entities.
- Removal of multiple business licensing requirement for downstream oil and gas business activities (processing, transportation, storage and/or trading). Introduce a single integrated business license that is applicable for all the foregoing business activities. This business license will be processed through an online system managed by the central government.
- Downstream business entity who failed to obtain a business license will be subjected to administrative sanction.

## Financial institutions

Effective 31 December 2013, the regulatory and supervisory functions, duties and authority in the banking sector moved from the BI to the Indonesia financial services authority (*Otoritas Jasa Keuangan* or "OJK"). The OJK now regulates and supervises all financial institutions (banking, insurance, and other non-bank financial institutions). BI is responsible for macroprudential and payments company regulation and supervision. Both BI and the OJK are generally free from interference from the government.

### Financial conglomerates

In October 2020, the OJK released OJK Regulation No. 45/POJK.03/2020 ("POJK 45") on financial conglomerates to consolidate into one group with the ultimate goal of creating a healthy and competitive financial services industry.

Through this regulation, several criteria must be fulfilled for a certain group of financial services institutions to be identified as a financial conglomerate:

- The total assets of the group must be greater than or equal to IDR100 trillion, which should be calculated based on financial reports for the last positions for June and December of the relevant year; and
- The group must be engaging in business activity that involves more than one type of financial services institution (i.e. banking, insurance and reinsurance institutions, financing institutions and/or securities institutions).

## Banking

### Branches

Banking is the only other sector, in addition to upstream oil & gas, which technically allows foreign investors to invest direct into a local branch. However, no foreign bank branch licenses have been issued since 2003, and foreign banks have only been able to enter through acquisition of existing licensed banks.

### Single presence policy/sole ownership

On 12 July 2017, OJK regulation No. 39/POJK.03/2017 replaced BI Regulation No.14/24/PBI/2012 dated 26 December 2012. This regulation specifies a 'Single Presence Policy' in respect of Indonesian banks, which provides for no single person, entity or group of companies to be a "controlling shareholder" in more than one bank. A controlling shareholder is defined as:

- Directly holds 25 percent or more of the issued shares of the bank (with voting rights); or
- Directly holds less than 25 percent of the issued capital of the bank (with voting rights), but the relevant party can be proven to have exercised either direct or indirect control.

Exceptions to the Single Presence Policy allowing an investor to be a controlling shareholder in more than one Indonesian bank are:

- The investor is a controlling shareholder in one conventional or commercial bank and one Sharia bank
- The investor is a controlling shareholder in two banks and one of the banks is a JV bank.

Ownership structures that do not comply with the Single Presence Policy need to be restructured through:

- a. Merger/consolidation,
- b. Establishment of an investment holding company or
- c. Establishment of a holding function.

Options (a) or (b) need to be performed within one year of acquiring shares and option (c) within six months.

Regulation No. 39/POJK.03/2017 also specifies incentives for banks which pursue merger/consolidation, including time extension for the legal lending limits ("LLL"); greater ease of opening of branch offices and relaxation on implementing good corporate governance ("GCG") principles.

## Shareholding thresholds and limitations

OJK Regulation No. 56/POJK.03/2016 replaces Bank Indonesia Regulation No.14/8/PBI/2012 concerning Commercial Bank Share Ownership.

OJK Circular Letter No. 12/SEOJK.03/2017 was the implementation of OJK Regulation No. 56/POJK.03/2016 on the Share Ownership in Commercial Banks. This Circular letter came into effect as of 17 March 2017.

The maximum amount of bank share ownership for a single shareholder depends on the category of shareholder. Shareholders, that are related through share ownership or family ties or that are deemed to be acting in concert with one another, are treated as a single party in determining the overall ownership cap that applies:

- Banks or a non-bank financial institutions: 40 percent of a bank's paid-up capital (subject to OJK approving a higher amount: see below)
- Non-financial institutions: 30 percent of a bank's paid-up capital.
- Individual shareholders: 20 percent of a bank's paid-up capital (25 percent if the bank is a Sharia bank).

In addition:

- for foreign or domestic investors that require a shareholding interest of more than 40 percent or a "controlling interest"; application needs to be made to the OJK for approval. To obtain approval, the bank must:
  - Have a soundness rating of at least 1 or 2,
  - Have a recommendation from the bank's home regulator,
  - Be financially strong - Core tier 1 capital of at least 6 percent,
  - Commit to providing additional capital through hybrid debt securities issued by a local lender that are convertible into equity, and;
  - Provide a written commitment to supporting the development of the Indonesian economy (i.e. credit distribution prioritization to specific sectors and regions).

A bank that receives approval to own more than 40 percent of a local bank will first be allowed to reach that 40 percent threshold. To raise its stake further, the local target bank must be assessed by the OJK to be financially strong and well-governed for three consecutive assessment periods within five years from the time the OJK approves the transaction.

- only those 'non-bank financial institutions' that are:
  - Authorized under their constitutional documents to participate in a 'long-term' investment; and
  - Governed and supervised by a financial regulator/ authority, are permitted to hold up to a 40 percent stake in an Indonesian bank. A non-bank financial

institution which fails to satisfy these two criteria is only allowed to hold up to a 30 percent stake in an Indonesian bank.

The Central Government is exempted from the limits (as is any agency that is called on to rescue a failing bank). This means the limits do not apply to state-owned banks.

## Foreign investor criteria

Any prospective controlling shareholder who is a foreign investor must meet the following additional requirements:

- The investor is committed to support the economic development of Indonesia
- The investor has obtained recommendation from the financial services supervisory authority of the country of origin
- The investor is ranked at least:
  - One notch above the lowest investment grade for banks;
  - Two notches above the lowest investment grade for non-bank financial institutions; and
  - Three notches above the lowest investment grade for non-financial institutions.

## Minimum capital requirements for commercial banks

Indonesia is a member of the Financial Stability Board and the Basel Committee on Banking Supervision ("BCBS") and is committed to adopting the recommendations generated by these forums, including their framework for standards of bank capitalization.

In 2016, the OJK issued regulations No. 11/POJK.03/2016 and No. 34/POJK.03/2016, which set out minimum capital requirements for commercial banks. Under these regulations, the OJK requires a minimum 8 percent capital adequacy ratio for banks with the soundest risk profile (rating 1) and up to 14 percent for banks with the worst risk profiles (rating 5).

To calculate the minimum capital based on risk profile, the OJK requires banks to implement an internal capital adequacy assessment process ("ICAAP"). The OJK will perform supervisory review and evaluation process ("SREP") on the ICAAP, which includes review of the sufficiency of active supervision from the banks' management; capital adequacy assessment; monitoring and reporting as well as internal controls.

On top of the 8-14 percent, banks are required to add a capital conservation buffer. Additionally, the supervisor may impose a Countercyclical Buffer, at a discretionary percentage (in the range of 0 percent–2.5 percent) and a capital surcharge for domestically systemically important banks (in the range of 1 percent–2.5 percent).

In July 2021, OJK issued a regulation that become the legal umbrella for digital bank for the industrial revolution 4.0 and 5.0 within the POJK No. 12/POJK.03/2021 concerning Commercial Banks.

Based on the new regulation, four categories of commercial bank which are previously classified “*Bank Umum Kelompok Usaha (BUKU)*” are changed into “*Bank Berdasarkan Modal Inti (“KBMI”)*”:

- a) KBMI 1: core capital up to IDR6 trillion
- b) KBMI 2: core capital is more than IDR6 trillion up to IDR14 trillion
- c) KBMI 3: core capital is more than IDR14 trillion up to IDR70 trillion
- d) KBMI 4: core capital is more than IDR70 trillion.

Digital Bank is an Indonesian legal entity bank (*Berbadan Hukum Indonesia* or “BHI Bank”) that provides and runs business activities mainly through electronic channels without the need of physical office other than the head office or using a limited physical office.

Digital Banks can operate through:

- a. establishment of a new BHI Bank as a Digital Bank; or
- b. transformation from existing banking entity to Digital Bank.

In general, the redefinition of bank grouping aims to support the implementation of effective regulation and more efficient supervision. Banks are not required to make adjustments to core capital according to the KBMI.

In the Article 23-24 of POJK No. 12/POJK.03/2021, Digital Banks are describe as banks that carry out business activities mainly through electronic channels which in carrying out their operations are in the form of Indonesian legal entities (new) as well as the results of the transformation of Indonesian legal entities into Digital Banks.

OJK also requires that digital bank transformation includes business models use innovative and safe technology to serve customer needs. In addition, in the POJK, Digital Bank is required to have the ability to manage a prudent and sustainable banking business model and have adequate risk management.

Foreign entrants will need to be mindful of the stringent requirements around Basel III which may involve sizeable investment based on what is being seen in other countries: systems and operational modifications, establishment of new risk management and compliance functions and hiring of rare, qualified resources as well as consulting fees and other costs.

The full adoption of the Basel III rules was initially expected by 31 December 2019 but OJK later decided that the implementation of banking industry standards in accordance with Basel III Reforms standard in Indonesia, which includes the calculation of risk-weighted assets (“RWA”) for operational risk, calculation of RWA for credit risk, calculation of RWA for market risk and credit valuation

adjustment is postponed to January 1, 2023. This delay was one of three relaxation policies in response to the impact of Covid-19 on the Indonesia banking industry.

### *Micro small and medium business lending*

Banks must comply with regulation on provision for loans or financing to MSME, which is at least 20 percent of total financing. MSME financing can include direct financing and indirect financing (executing or channeling by rural banks, sharia banks or non-financial institutions). For JV banks and foreign branches, MSME can include export financing (non-oil & gas).

### **Insurance**

The ‘New Insurance Law’ (UU No. 40/2014) came into effect on 17 October 2014 replacing the previous Insurance law (UU No. 2/1992).

### *Single presence policy*

The New Insurance Law also introduced a ‘single presence’ policy to the insurance sector in Indonesia. This law provides that each party can only be the ‘controlling shareholder’ of one of each of the following categories of insurance companies:

- Life insurance company
- General insurance company
- Re-insurance company
- Sharia life insurance company
- Sharia general insurance company
- Sharia re-insurance company

On 23 December 2016, the OJK issued Regulation No. 67/POJK.05/2016 (“POJK 67”) on Licensing and Institution of Insurance Companies, Sharia Insurance Companies, Reinsurance Companies and Sharia Reinsurance Companies. POJK 67 clarified the definition of definition of “controlling shareholder” as a party who:

- Directly holds 25 percent or more of the issued shares of the insurance company (with voting rights); or
- Directly holds less than 25 percent of the issued capital of the insurance company (with voting rights), but the relevant party can be proven to have exercised control over the insurance company.

This single presence policy must be complied with within 3 years as of the New Insurance Law comes into force (i.e., at the latest by 17 October 2017).

In order to comply with the single presence policy, in accordance with POJK 67, the controlling shareholder may merge, consolidate, divest such that it is no longer a controlling shareholder or do other corporate actions approved by OJK.

### Shareholding thresholds and limitations

Under both the old law and the New Insurance Law, Indonesian shareholders must hold at least 20 percent of the issued capital of any joint venture Insurance Business Company (“IBC”), while foreign shareholders can hold up to 80 percent.

Under the Old Insurance Law, the Indonesian shareholders of an IBC can be Indonesian citizens and/or Indonesian legal entities fully owned by Indonesian citizens and/or Indonesian legal entities. The New Insurance Law has removed the words “and/or Indonesian legal entities” meaning that an Indonesian corporate IBC shareholder must now ultimately be fully owned by Indonesian citizens in order to qualify as Indonesian. This now makes unlawful the use of the dual-layer PMA company structure which foreign entities had previously utilized to ultimately own 100 percent of an IBC.

Insurance companies had five years (i.e., by 17 October 2019) in which to either:

- Ensure that the shares that must be held by Indonesian shareholders are all directly or indirectly held by Indonesian citizens; or
- Conduct an initial public offering (“IPO”), we presume with a minimum free float of 20 percent

### Other major changes introduced in the ‘New Insurance Law’

Other impacts include:

- Insurance and reinsurance companies must separate into a stand-alone entity all sharia divisions within 10 years from the enactment of the New Insurance Law, or when the sharia component exceeds 50 percent of the total insurance portfolio, whichever is earlier
- The insurance for any asset or risk located in Indonesia must be placed with a local insurer, irrespective of ownership of that asset or responsibility for a risk, unless no local insurer is able or willing to underwrite the risk. This removes the previous concession that allowed foreign entities to purchase insurance from offshore insurers
- A new policy assurance program replaces the existing mandatory guarantee fund, with the aim of providing protection to policyholders in case their insurer is liquidated or has its license revoked
- Insurance and reinsurance companies must optimize domestic capacity. In other words, domestic insurers and reinsurers must provide local reinsurance coverage “as

far as possible.” The intention is to encourage all insurers and reinsurers (both conventional and sharia) to assist with the expansion of the local reinsurance market.

### Minimum capital requirements

POJK 67 increased minimum paid-up capital requirements for insurance and reinsurance companies, as follows:

- Conventional (life/general) – IDR150 billion (previously IDR100 billion)
- Sharia (life/general) – IDR100 billion (previously IDR50 billion)
- Conventional reinsurance – IDR300 billion (previously IDR200 billion)
- Sharia reinsurance – IDR175 billion (previously IDR100 billion)

The new minimum paid-up capital requirements apply if there is any change of ownership in the form of a statutory acquisition (usually through a capital injection) and/or upon a transfer of shares to a new shareholder, and/or on an establishment of a company.

POJK 67 also increased working capital requirements for sharia units of conventional insurers, as follows:

- Life/general – IDR50 billion (previously IDR25 billion)
- Reinsurance – IDR75 billion (previously IDR50 billion)

The OJK regulation requires an insurance company to target its risk-based capital (“RBC”) solvency margin ratio at 120 percent and maintain its solvency margin ratio at minimum 100 percent. The regulator will require an insurance company to alter its business plan if it fails to exceed the 120 percent ratio.

### Retention and domestic reinsurance rules

On 10 November 2015, the OJK issued regulation No. 14/POJK.05/2015, concerning self-retention and domestic reinsurance support. On 16 November 2015, the OJK issued the implementing regulation OJK Circular Letter No. 31/SEOJK.05/2015 (“Circular 31”). Appendix 1 of Circular 31 sets out the minimum self-retention limits, which differ based on risk type.

The new reinsurance regulations set out provisions regarding:

- reinsurance support strategy – a reinsurance support strategy must be submitted to the OJK. Reinsurance programs must comply with the regulations and be submitted to the OJK within 15 days of the agreement becoming effective.

- insurance support for simple risks – which mandates 100 percent domestic reinsurance coverage for motor, health, personal accident, credit, life and surety lines, unless the products are ‘global in nature’ and/or are specifically designed for multinational companies.
- minimum domestic automatic reinsurance support (aka ‘treaty insurance’) – other than for simple risks, an insurance company must have minimum automatic reinsurance support from domestic reinsurers of at least 25 percent of the automatic reinsurance capacity of each line of business or the minimum amount set out in Circular 31.
- minimum domestic facultative reinsurance support – other than for simple risks, if an insurance company fails to obtain automatic reinsurance support, an insurance company must have minimum facultative reinsurance support from domestic reinsurers of at least 25 percent of the total sum insured for each line of business, or the minimum amount set out in Circular 31.

### **Non-bank financial institutions**

Effective 31 December 2013 “other financial institutions” including multi-finance companies (finance, venture capital, infrastructure finance, and microfinance), pension funds, and securities companies (asset management, underwriting, and brokerage) and other financial services institutions (such as credit insurance institutions, Indonesian export finance agencies and pawn shops) are supervised and regulated by the OJK.

#### **Multi-finance companies**

The multi-finance sector was previously regulated under PR No. 9/2009 on Multi-finance Institutions and MOF Regulation No. 84/PMK.012/2006 on Multi-finance Companies. Recently, in the last couple of years, OJK issued another sets of new regulations to further add provisions related to the multi-finance sector as follows:

- OJK regulation No. 47/POJK.05/2020 (previously 28/POJK.05/2014), concerning Licensing and Organization of Multi-finance Companies and Sharia Finance Companies
- OJK regulation No. 35/POJK.05/2018 (previously 29/POJK.05/2014), concerning Arrangement of Multi-finance Company Business
- OJK regulation Reg. No. 29/POJK.05/2020 (previously 30/POJK.05/2014), concerning Good Corporate Governance for Multi-finance Companies
- OJK regulation No. 10/POJK.05/2019, 28/POJK.05/2020 and 4/POJK.05/2021, concerning Arrangement of Sharia and Sharia Units Multi-finance Business.

These OJK regulations provide more detailed requirements and definitions around multi-finance companies. They define a multi-finance company as an entity that finances the procurement of goods or services. Permitted business activities include:

- Investment financing;
- Working capital financing;
- Multipurpose financing; and/or
- Any other financing business subject to OJK approval.

Multi-finance companies are prohibited from engaging in banking, issuing promissory notes or providing security, and they must maintain financial soundness at all times, including an equity ratio (comparison of adjusted capital and adjusted assets) of 10 percent, minimum IDR200 billion equity, and at least 50 percent of equity must be paid-up capital.

Any party wishing to engage in multi-finance activities must apply for a multi-finance business license from the OJK. The application review period is 20 days. Upon issuance of OJK License, the company must commence operations within three months.

The maximum foreign shareholding (either direct or indirect) is 85 percent of the paid-up capital. Multi-finance companies having foreign ownership (whether direct or indirect) must have at least 50 percent Indonesian-citizen directors. In the event there is an odd number of directors, the number of Indonesian-citizen directors must be greater than the number of foreign-citizen directors.

#### **Capital markets and securities companies**

Any party wishing to engage in capital markets activities (e.g. a securities company) must obtain an operating license and approval and registration from the OJK.

The principal regulation governing the capital markets is Law No. 8 of 1995 concerning the Capital Market. There are also implementing regulations issued by the President of Indonesia, MOF, the capital market and financial institution supervisory board (“BAPEPAM-LK”) and the OJK. The Indonesia Stock Exchange (“IDX”) also issues regulations and rules related to listing of companies and securities trading.

Ministerial Decree No.153/PMK.010/2010 concerning Share Ownership and Equity of Securities Companies, states:

- investment managers, underwriters combined with investment managers, and brokerage combined with investment managers should at least have IDR25 billion, IDR75 billion and IDR55 billion paid-up capital, respectively

- foreign non-securities financial Institutions may own up to 85 percent of the paid-in capital of JV securities companies
- foreign securities companies that are licensed or regulated by their respective local regulators may own up to 99 percent of paid-up capital of a JV securities company
- both foreign and local investors may purchase up to 100 percent shares of local or JV securities companies, both in the primary and secondary market
- foreign ownership of a private securities company is limited to a foreign legal entity that operates in the financial services sector area or in securities.

### *Venture capital companies*

On 28 December 2015, the OJK issued four regulations which relate to venture capital business:

- OJK regulation No. 35/POJK.05/2015, concerning Arrangement of Venture Capital Company Business
- OJK regulation No. 34/POJK.05/2015, concerning Licensing and Organization of Venture Capital Companies
- OJK regulation No. 36/POJK.05/2015, concerning Good Corporate Governance for Venture Capital Companies
- OJK regulation No. 37/POJK.05/2015, concerning Direct Inspection of Venture Capital Companies, which was later replaced with OJK regulation No. 30/POJK.05/2020 on Second Amendment to Financial Services Authority Regulation No. 11/POJK.05/2014 concerning Direct Examination of Non-bank Financial Service Institutions.

These OJK regulations allow venture capital companies to invest in:

- Equity,
- Convertible bonds,
- Debt securities of start-up enterprises, and
- Financing of 'productive activities'.

The investments can be made as part of JV contracts with other venture capital companies and custodian banks.

The business activities of venture capital companies are defined as:

- The development of a new inventions
- The development companies or business people individuals in the early stages of their business experiencing financial difficulties
- The development of MSMEs and cooperatives
- Helping companies or business people individuals who are at a stage of development or decline of business
- Taking over the company or business people who are at a stage of development or decline of business

- Project development and engineering research
- Development of the use of technology and transfer new technologies from both inside Indonesia and overseas; and/or
- Helping the transfer of ownership of companies.

The regulations also allow venture capital companies to conduct:

- Fee based services, and
- "Other business activities;" with the approval from the OJK.

The venture capital entities, and their investments can be structured as conventional or sharia. The minimum capital requirements are:

- Conventional limited liability company: IDR50 billion
  - Conventional co-operative or limited partnership: IDR25 billion
  - Sharia limited liability company: IDR20 billion
  - Sharia co-operative or limited partnership: IDR10 billion.
- In addition, several other investment hurdles must meet:
- Equity or convertible bond investments to be at least 15 percent of total investments within three years of the date of the business license
  - Investing assets (incl receivables from operating activities) to be at least 40 percent of total assets, within three years of the date of the business license
  - Equity to paid-up capital ratio to be at least 30 percent.

Any party wishing to engage in venture capital activities must apply for a venture capital license from the OJK. The maximum foreign shareholding is 85 percent of a limited liability venture capital company. Cooperatives and limited partnerships are restricted to Indonesian investment only.

### *Fintech lending*

On 29 December 2016, the OJK released regulation No. 77/POJK.01/2016, concerning Information Technology-Based Lending Services (or peer-to-peer lending).

Key points include:

- minimum capital of IDR1 billion at registration and IDR2.5 billion at license request
- maximum foreign ownership of 85 percent
- legal lending limit: IDR2 billion
- borrowers must be Indonesian while lenders can be foreign-based or Indonesian
- risk management, governance and IT security frameworks need to be introduced (but no specific implementation guidance provided).

## Payments

In 2019, BI published the Indonesian Payment System Blueprint 2025 to set a roadmap for the future growth of digital economy and finance sector in Indonesia. In December 2020, BI issued Regulation No 22/23/PBI/2020 ("Regulation No. 23/2020") on payment systems as the new framework for the payment industry in Indonesia. The Regulation No. 23/2020 introduces the new concept of the payment-system provider as follow:

1. Payment Service Providers ('PSP'), which are banks and non-bank institution that facilitating payment transactions.
2. Payment System Infrastructure Providers ('PSIP'), which provides infrastructure for fund transfer; and
3. Parties who support PSP and PSIP to organize payment system services ("Supporting Providers").

Notable provisions of Regulation No. 23/2020 include:

- 1) There are three categories of licenses for PSP, ranging from Category 1 which can conduct full activities to Category 3 which can only provide remittance services and other services as determined by BI. The validity period for each license category to be determined by BI based on the license category, activities being organized, and sources of funds being processed.
- 2) For non-bank institution, additional requirements in applying PSP license such as at least one director must domicile within Indonesia, minimum 15% of shares should be owned by Indonesia citizen/companies and Indonesia citizens/companies must have at least 51% of voting rights.
- 3) For non-bank institution, additional requirements in applying PSIP license such as at least 80% of shares should be owned by Indonesia citizen/companies with at least 80% of voting rights.

In 2021, BI further issued the regulations to govern PSP and PSIP, i.e., Regulation No. 23/6/PBI/2021 on Payment System Service Providers and Regulation No. 23/6/PBI/2021 on Payment System Infrastructure Providers.

## Mining

### *Updates on the Mining Law: Law No. 3/2020*

In June 2020, GOI issued Law No.3/2020 regarding amendment to Law No. 4/2009 regarding mineral and coal mining. This Law No. 3/2020 can be seen as the GOI's effort to provide answers to the challenges in Indonesia's mining industry in, amongst others, mining business licensing, mining areas, processing and refining activities, and divestment obligation.

Law No. 3/2020 contains several important amendments to the 2009 Mining Law, and has more detailed provisions on the following aspects:

### Change of authority in mineral and coal mining

- The control of mineral and coal by the state shall be implemented by the central government. The control shall be implemented through policy, regulation, administration, management, and supervision.
- The central government in managing the mineral and coal mining, is authorized to, among others:
  - Stipulate the national mineral and coal management plan, national mineral and coal policy, laws and regulations, national standards, guidelines, and criteria.
  - Determine the mining area after decided by the provincial government, determine mining business license area (*Wilayah Izin Usaha Pertambangan* or "WIUP") for metal minerals, coal, non-metal minerals, and WIUP for rocks.
  - Determine the special mining business license area (*Wilayah Izin Usaha Pertambangan Khusus* or "WIUPK").
  - Issue business licensing, guide, and supervision of the mineral and coal mining business activities carried out by business license holders.
  - Stipulate production, supervision, utilization, and conservation policies, cooperation, partnership, and community empowerment policies.

### New forms of licenses

Law No. 3/2020 mentions several new forms of license:

- Special mining business license as continuation of contract/agreement operations (*Izin Usaha Pertambangan Khusus sebagai Kelanjutan Operasi Kontrak/Perjanjian*);
- Mining business license for sales (*Izin Usaha Pertambangan untuk Penjualan*);
- Transport and sales license (*Izin Pengangkutan dan Penjualan*)
- Rock mining license letter (*Surat Izin Penambangan Batuan* or "SIPB"); and
- Assignment license (*Izin Penugasan*).

Law No. 3/2020 no longer mentions the following licenses which were previously regulated under the 2009 Mining Law and its implementing regulations:

- Special production operation mining business license for processing and/or refining (*Izin Usaha Pertambangan Operasi Produksi Khusus Untuk Pengolahan dan/atau Pemurnian*) and
- Special production operation mining business license for transport and/or sales (*Izin Usaha Pertambangan Operasi Produksi Khusus Untuk Pengangkutan dan/atau Penjualan*).

### Minimum area for exploration mining activities

Law No. 3/2020 does not stipulate any minimum area for exploration activities for metallic minerals exploration or non-metallic minerals exploration. Previously the 2009 Mining Law stipulated a minimum of 5,000 (five thousand) hectares for exploration areas under metallic mineral mining business license areas and a minimum of 500 (five hundred) hectares under non-metallic minerals mining business license areas.

### Continuation operation to contract of work and coal contract of work

Law 3/2020 includes provisions giving certainty on continuation of contract of work ("COW") and coal contract of work ("CCOW"). Under this new law, COW and CCOW holders are guaranteed an extension in the form of a special mining business license as continuation of contract/agreement operations.

### Transfers of mining licenses

The transfer of an mining business license (*Ijin Usaha Pertambangan* or "IUP") and/or special mining business license (*Ijin Usaha Pertambangan Khusus* or "IUPK") is allowed with an approval from the MEMR only applies to companies in which 51 percent or more shares are not owned by the holder of IUP/IUPK. The approval will be given if IUP or IUPK holders satisfy certain requirements:

- a. the holders have completed the exploration as evidenced by the availability of resources and reserve data, and
- b. the holders satisfy administrative, technical and financial requirements.

### Updates on the Mining Law: Law No. 11/2020 (Omnibus Law)

Omnibus Law introduced new provision related to royalty. The law states that business owners who carry out the increasing of added-value of mineral and/or coal resources may be granted with 0 percent royalty tariff. Further details on this new incentive are still to be addressed by the GR.

Other key changes regulated under the Omnibus Law including:

- Introduction of a new structure of business licenses, which is now integrated into a single business license called *Perizinan Berusaha*.
- Integration of business licenses for mining activities. There is now an NIB, consisting of a business identification number, standard certificates and a specific license issued by the central government.
- Relaxation of the forestry permit requirements for mining activities carried out within forest areas by amending Law Number 41 of 1999 on Forestry.
- Imposition of value-added tax ("VAT") on domestic sales of coal commodity. Coal mining companies will be required to register for VAT and will need to charge 10 percent VAT on their domestic sales.

The New Mining Law also provides guarantees for the extension of mining operation periods. The effect of such extensions in the New Mining Law effectively guarantees the continued operations of some of the largest coal miners in Indonesia, where some mining contracts were due to expire between 2020 and 2025.

Moreover, the law also introduced the imposition of criminal sanctions, whereby any person who prevents or disrupts any mining business activities of the holder of community mining license (*Izin Pertambangan Rakyat*) and rock mining license (*Surat Izin Penambang Batuan*) may be imposed with maximum imprisonment of one year and a maximum fine of IDR100 million.

### Other industries

Forest concessions are issued to Indonesian companies for specified activities, such as industrial estate forestry, natural wood forestry and rattan wood forestry. A number of forestry activities are restricted to domestically owned businesses.

Other industries where foreign investment regulation is to varying degrees under the control of ministries through ministerial regulations, decrees or other authorities include shipping, construction, seaports, telecommunications, healthcare and pharmaceutical and plantations.

The Law No. 39 of 2014 or commonly known as "Law on Plantations" was introduced effective October 2014, replacing the existing 2004 framework which was considered to be outdated.

As indicated, navigating the Foreign Investment Law, Negative List and other regulations, Ministerial decrees or specific industry laws that also can regulate foreign investment is fraught with danger without professional advice and support.

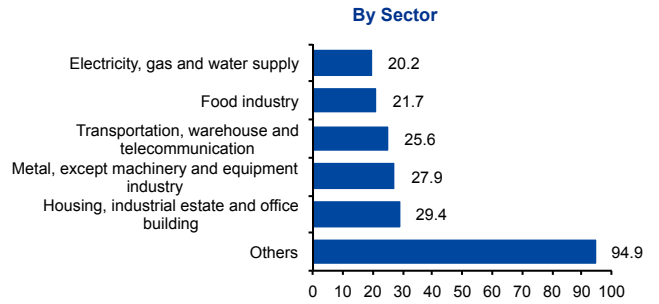
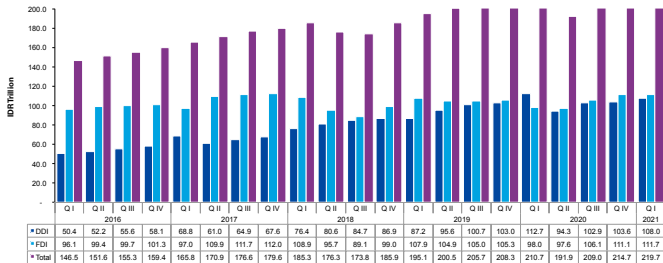
A good example of this is the shipping industry where some or all of the following (depending on the sector) may need to be considered:

- Law No.17/2008 regarding Shipping (partially amended and discussed under the Omnibus Law)
- GR No. 22/2011 concerning Amendment of GR No. 20/2010 concerning Water Transport
- GR No. 9/1999 concerning Commodities Future Trading and Decree No. 33/2001 concerning Implementation and Utilization of Sea Transport
- Presidential Decree No. 61/1988 concerning Financial Institutions
- Presidential Instruction No. 5/2005 on National Sailing Industry Empowerment and Ministry of Transportation Regulation
- Regulation No.71/2005 which applies the principle of cabotage

- Regulation of Minister of Transportation No. 93 of 2013 on Operation and Business of Sea Transport which sets out restrictions on the type of vessels which a 49 percent:51 percent JV company is required to own in order to satisfy licensing requirements.

Investment on Upstream Oil and Gas, Banking, Non-Bank Financial Institution, Insurance, and Micro Business are excluded. Recent government policy announcements to improve the human could shortage through investment in vocational training programs to counter deficiencies in the education system, promote infrastructure development and indicate corruption appear aligned.

**Total realized FDI: 2016-2021**



DDI				FDI			
NO.	SECTOR	INVESTMENT (IDR Billion)	PROJECT	NO.	SECTOR	INVESTMENT (USD Million)	PROJECT
1	Housing, industrial estate and office building	21,609.8	1,538	1	Metal, except machinery and equipment industry	1,712.0	441
2	Transportation, warehouse and telecommunication	13,299.2	1,648	2	Food industry	968.3	886
3	Electricity, gas and water supply	11,470.5	551	3	Transportation, warehouse and telecommunication	843.4	336
4	Food crops, plantations and livestock	9,889.9	1,363	4	Electricity, gas and water supply	597.8	220
5	Construction	9,562.8	3,083	5	Vehicle and other transportation industry	597.1	505
6	Food industry	7,614.5	1,948	6	Housing, industrial estate and office building	535.8	497
7	Hotel and restaurant	5,733.6	2,767	7	Mining	508.8	274
8	Trade and reparation	4,887.8	16,744	8	Chemical and pharmaceutical industry	493.8	578
9	Mining	4,578.2	648	9	Food crops, plantations and livestock	276.6	457
10	Non-metallic mineral industry	4,216.5	314	10	Other services	236.5	1,909
11	Other services	3,689.5	4,627	11	Machinery, electronic, medical instrument, precision, optical and watch industry	225.6	539
12	Paper and printing industry	3,101.6	369	12	Paper and printing industry	123.5	183
13	Metal, except machinery and equipment industry	2,863.2	448	13	Textile industry	98.0	429
14	Chemical and pharmaceutical industry	2,238.3	727	14	Non-metallic mineral industry	84.9	124
15	Rubber, rubber and plastic based goods industry	1,226.8	555	15	Trade and reparation	77.1	2,761
16	Textile industry	813.3	387	16	Hotel and restaurant	75.9	1,440
17	Vehicle and other transportation industry	472.0	190	17	Leather goods and footwear industry	74.9	149
18	Other industries	204.5	439	18	Rubber, rubber and plastic based goods industry	59.1	438
19	Fishery	191.4	170	19	Other industries	25.0	393
20	Forestry	133.5	104	20	Forestry	16.9	44
21	Leather goods and footwear industry	115.0	125	21	Wood industry	11.2	196
22	Wood industry	56.5	304	22	Construction	5.3	156
23	Machinery, electronic, medical instrument, precision, optical and watch industry	49.0	285	23	Fishery	5.2	55
<b>TOTAL</b>		<b>108,017.3</b>	<b>39,334</b>	<b>TOTAL</b>		<b>7,652.8</b>	<b>13,010</b>

Source: BKPM website, Investment Realization in Quarter 1 2021: Based on Sector

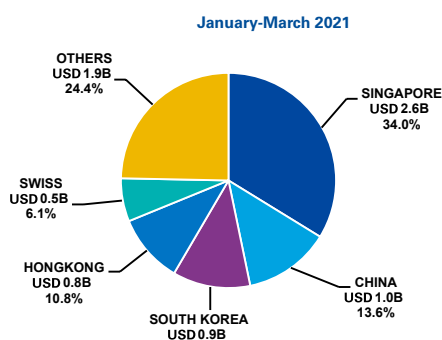
According to BKPM, there was a slowdown in the DDI investment realization in the first quarter of 2021 when compared to the same period in 2020 by 4.2 percent, namely from the investment realization value of IDR112.7 trillion to IDR108 trillion. FDI investment realization in the first quarter of 2021 increased by 14 percent compared to the same period in 2020 from IDR98 trillion to IDR111.7 trillion. DDI realization based on top five leading locations were: West Java (IDR16 trillion); East Java (IDR10 trillion); Special Territory of Jakarta (IDR8.7 trillion); Central Java (IDR8.4 trillion); and Banten (IDR7 trillion). FDI realization based on top five leading locations were: West Java (USD1.4 billion); Special Territory of Jakarta (USD1 billion); Central Sulawesi (USD0.6 billion); Riau (USD0.6 billion); and Southeast Sulawesi (USD0.5 billion).

The investment realization based on Regions in the period of January – March 2021 can be figured as follows:

- In Sumatera equal to IDR52.4 trillion (23.8 percent), consists of IDR31.6 trillion of DDI and USD1.4 billion of FDI.
- In Java equal to IDR105.3 trillion (47.9 percent), consists of IDR50.8 trillion of DDI and USD3.7 billion of FDI.

- In Kalimantan equal to IDR13.6 trillion (6.2 percent), consists of IDR10 trillion of DDI and USD0.2 billion of FDI.
- In Sulawesi equal to IDR27.3 trillion (12.4 percent), consists of IDR8.8 trillion of DDI and USD1.3 billion of FDI.
- In Bali and Nusa Tenggara equal to IDR7.6 trillion (3.5 percent), consists of IDR5.2 trillion of DDI and USD0.2 billion of FDI.
- In Maluku and Papua equal to IDR13.5 trillion (6.2 percent), consists of IDR1.7 trillion of DDI and USD0.8 billion of FDI.

The investment climate in the upstream oil & gas industry has been adversely impacted for some time now by various country investment risks and a range fast moving regulatory and policy changes. This includes MEMR Decree No. 11/2017 on gap use for power plants, and the introduction of a replacement cost recovery scheme under MEMR Decree No. 8/2017. The government has also made it mandatory for all oil & gas companies to offer a 10 percent participating interest in upstream fields to local government. Investment in the upstream sector is large scale, long term and involves significant capital investments in a low global crude oil price environment.



Other countries outside the “Top 5” are USA, EU, Japan, Malaysia, Taiwan and then Australia. Reported capital inflows are distorted to the extent this is investment originating in other countries, or “round tripping” of Indonesian capital flows.

For many years, foreign investors from numerous countries, as well as Indonesian domestic investors, have also typically structured transactions through group holding companies or other entities in Singapore for tax structuring and other reasons, including its close geographical proximity to Indonesia. This distorts to some degree the top ranking of Singapore in the foreign investment stakes.

Current inflows from Japanese are now being directed into upstream industries like steel and chemicals (plastics): it is relevant that these are raw materials for the automotive sector. Japanese automotive investment remains strong. New domestic industry sectors being targeted include food and beverage, logistics, information technology and retail sectors.

With domestic organic and acquisition growth opportunities in Japan having been shrinking for some time now, Japanese corporates continue to aggressively look for expansion opportunities abroad. The Japanese know emerging markets well and are well received in Southeast Asian countries like Indonesia, Thailand and Vietnam which the Japanese generally prefer to China.

Regarding the realization of Chinese investment in Indonesia, as stated by BKPM, at the virtual press conference on investment realization for the 4<sup>th</sup> quarter of 2020, 25 January 2021, China ranks 2<sup>nd</sup> largest foreign investor in Indonesia with investment realization reaching USD4.8 billion in in 2020, an increase from the realization of investment of USD4.7 billion in 2019. This figure does not include the realization of Hong Kong investment which again ranks 3<sup>rd</sup> for the largest foreign investment in Indonesia in 2020 with a value of USD3.5 billion, an increase from the previous year of USD2.9 billion. This value is consistent with the realization of Chinese investment in Indonesia which has continued to increase every year since

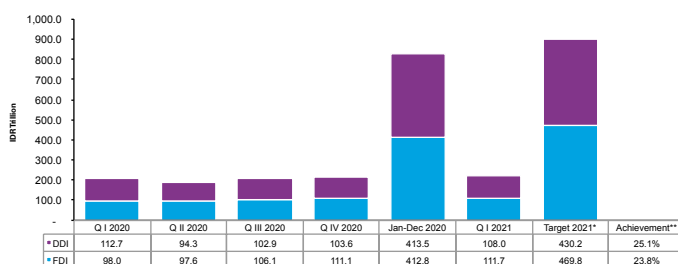
2016. Several large Chinese investors have also stated their commitment to invest in new energy, which, if realized, will play an important role in Indonesia’s contribution to the global electric car development industry.

BKPM has announced plans to establish a China Desk alongside established Japan and South Korea Desks. These are the three countries KPMG sees as most active in investing in Indonesia, notwithstanding investments may end up being structured through and reported as being from other countries.

### Total investment composition

BKPM classifies investment into three categories: FDI, DDI and non-direct investment which includes foreign and local domestic expenditure on housing and commercial buildings, transportation, machinery and heavy equipment. Both FDI and DDI will comprise the following investment types:

- Merger & acquisition (“M&A”)
- Greenfield
- Existing capacity expansions (which also require BKPM approval and licensing)



\*) The adjustment of investment realization target for 2021 based on the BKPM Regulation No. 2 of 2020 on the Strategic Plan of BKPM of 2020-2024 is 858.5T.  
\*\*) Towards the 2021 investment realization target

As indicated, important points for the achievement of investment realization in the first quarter are:

- investment realization outside Java Island increased by 11.7 percent compared to 2020 in the same period,
- the manufacturing industry dominates the achievement of investment realization, namely metal, metal-based goods, non-machinery and equipment industry; food industry; and vehicle and other transportation industry,
- Switzerland entered rank 5<sup>th</sup> for the first time as the FDI contributor to Indonesia.

Compared to the last quarter of 2020, DDI experienced a breakthrough by 4.2 percent, from IDR103,6 trillion in the fourth quarter of 2020 to IDR108.8 trillion in the first quarter of 2021. Meanwhile, FDI increased by 14 percent from IDR98 trillion in the fourth quarter of 2020 to IDR111.7 trillion

***“The foreign direct investment realization comprised 50.8 percent of the total investment realization if the first quarter of 2021 shows the world’s confidence in the investment climate and potential in Indonesia. This achievement certainly needs to be appreciated, especially for the cooperation of all parties who have helped us in encouraging investment growth, especially when the Covid-19 pandemic is still being felt today.”***

in the first quarter of 2021. FDI realization hold 50.8 percent of the realization in the first quarter of 2021.

Foreign investors have a number of options in terms of market entry:

- Share acquisition (buy-out majority and minority) through M&A
- Asset acquisition deals or transfer through M&A
- Greenfield through establishment of a PMA company
- Partnership arrangements under distribution agreements with an Indonesian distributor or importer.

Analysis and discussion of the benefits, risks, challenges, opportunities and pitfalls surrounding each of the above is outside the scope of this publication. The steps involved in establishment of a PMA company, a representative office and other fewer common options are addressed as part of Business Structures and Establishment in Chapter 6.

Political instability and economic uncertainty together with some other country risks that prevailed post-Asian economic crisis and, in the years, leading up to the 2008 global financial crisis (“GFC”) largely disappeared, with the major remaining ones being:

- Regulatory risk around foreign investment and other laws; underpinned by
- Legal uncertainty from unclear, conflicting laws and regulations and delayed law changes. This also applies to the tax regime; and
- A judicial system still in need of significant reform. Enforcing rights under contracts and agreements in the Indonesian courts is not a preferred route for foreign or Indonesian investors (refer to Chapter 2 and “The type of legal system”).

In addition, a lack of adequate infrastructure, crucial to sustained long-term economic growth, including basic road, as the platform for other primary and secondary infrastructure, continues to hamper development across the country, as well as adversely impacting cost structures and the international competitiveness of Indonesian companies. Investment in education and healthcare is also crucial to maintain sustained levels of economic growth.

A new key country investment risk that emerged post GFC, when the Indonesian economic growth story really took flight, is a human capital shortage which is restricting Indonesian companies from reaching their potential, and is now a potentially key constraint to economic growth. This is a function of deficiencies in the formal and tertiary education sectors which would benefit from investment by foreign higher education strategic corporates and private equity houses. Also, continuing rapid population growth, a reducing rate of poverty reduction and increase in the number of Indonesians living below the poverty line, are restraining economic growth by stagnating domestic consumption in the lower income class.

Foreign currency risk has resurfaced as a potential country investment risk when in 2013 the IDR encountered some volatility before progressively depreciating through 2014, adversely impacting the operating performance of foreign exchange risk exposed Indonesian companies.

Corruption is still endemic in government and some other circles, but not uncommonly viewed by many foreign investors as being manageable, particularly those which have had a presence in Indonesia or Asia for a long time.

A potential exception exists if an investor needs to formally comply with Foreign Corrupt Practices Act (“FCPA”) or UK Anti-bribery Act (“UKBA”) due diligence (but even then adverse findings can have remedial options). What are considered common practices forming part of day-to-day business in Indonesia in order to “get things done” might not pass corporate governance standards in developed western markets. Efforts by recent governments to tackle corruption have generally been commended. It is slightly ironic that a myriad of local Indonesian anti-bribery and corruption laws, regulations and decrees administered by various different regulatory authorities are actually more onerous than the corresponding FCPA and UKBA.

Uncompetitive labor laws create challenges for employers, particularly those operating in highly labor-intensive industries. The revised Omnibus Law on Job Creation and Law No.13/2003 on Labor imposes onerous obligations on employers in the areas of the ability to involuntary terminate and severance benefits: refer to Chapter 9.

Common complaints from foreign investors and demands for reform largely relate to day-to-day problems present “in the field”; a condition acknowledged by BKPM:

- complicated and unclear tax policies and procedures
- diffident handling mechanisms for imported goods and prolonged difficulties around customs clearance
- complicated (six months) work permit procedures
- unpredictability of rules and regulations.

### *Practical insights and observations*

Indonesia has an abundance of foreign capital lining up for investment, but a relative lack of readily identifiable targets and deals to invest in. For a combination of reasons, deal origination, execution and completion present significant challenges right across the transaction cycle for foreign and local investors alike. Sustained investment interest and transaction activity are accompanied by high deal execution risks which translate into volatile country FDI inflows. It is common for transaction and due diligence timetables to experience slippage, and the rate of deals “falling over” or aborting is high. Reasons include overcooked pricing or pricing mismatch, transactions structuring complications and other “deal breakers” or deficiencies found in due diligence.

Despite all the challenges and frustrations, for foreign investors that “get it right” by finding the right local Indonesian partner, and the right “best fit” target at the right price, a not uncommon story is that a multinational’s

Indonesian investment can be its most profitable and favorite in Southeast Asia.

Many global and local private equity firms, foreign strategic corporates and international trading houses from diverse countries (with Japan and Korea featured prominently) have prioritized Indonesia as one of their “Top 3” preferred FDI destinations in Southeast Asia, if not the destination of choice. A number of governments have also openly signaled that Indonesia is their country’s preferred investment destination.

Post GFC, the large international private equity houses generally started to shift attention away from China and India finding those countries’ investment landscapes too difficult, crowded or overpriced, with better opportunities and less competition for foreign capital in Southeast Asia. Local private equity houses have been active to varying degrees for many years.

Previous “willingness to sell” barriers may finally be starting to alleviate within these often large diversified groups. A “prodigal son” or daughter returning from overseas studies and/or business experience is usually more approachable and commercial than his or her father,

also bringing home a recognition that partnering with the right foreign investor can deliver scale, expertise, a new customer platform or other values to a business operating in a competitive Indonesian domestic environment to preserve is longevity.

Asian companies have demonstrated greater motivation to identify transaction opportunities, driven by a need to acquire global scale, expertise and technology. Indonesian cooperates are no exceptions, opening up noticeably more visible opportunities for the right foreign investors.

To conclude, there are risks and challenges in investing and doing business in this emerging, high growth market, and Indonesia continues to be a difficult country in which to do business, relative to western or more developed Asian markets. A successfully planned and executed investment; however, can be very rewarding. Foreign investors, of course, take a country’s investment risk profile into their overall investment models and decision-making policies. Indonesia is no different. To successfully invest in Indonesia and reap the benefits from a large, rapidly expanding population and all the upside of a quite remarkable economic growth story, having a degree of risk appetite is fundamental.

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# Glossary

2016 Negative List	PR No. 44 of 2016
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEO	Authorized Economic Operator
AHU	<i>Administrasi Hukum Umum</i> or administration of general laws
AML	Anti-Money Laundering
AoA	Articles of Association
AP I	Angkasa Pura I
AP II	Angkasa Pura II
APA	Advance Pricing Agreement
APBN	<i>Anggaran Pendapatan dan Belanja Negara</i> or state budget
API	<i>Angka Pengenal Impor</i> or import identification number
API-P	<i>Angka Pengenal Importir Produsen</i> or producer importer identification number
API-U	<i>Angka Pengenal Importir Umum</i> or general importer identification number
ASEAN	Association of Southeast Asian Nations
B2B	Business-to-business
B2C	Business-to-customer
BAPEPAM-LK	<i>Badan Pengawas Pasar Modal dan Lembaga Keuangan</i> or capital market and financial institution supervisory board
BAPPEBTI	<i>Badan Pengawas Perdagangan Berjangka Komoditi</i> or commodity futures trading regulatory agency
BAPPENAS	<i>Badan Perencanaan Pembangunan Nasional</i> or Indonesian national development agency
BCBS	Basel Committee on Banking Supervision
BEPS	Base Erosion and Profit Shifting
BHI bank	<i>Bank Berbadan Hukum Indonesia</i> or legal entity bank
BI	Bank Indonesia or Indonesian central bank
BI Regulation 18	BI Regulation No. 18/40/PBI/2016
BKPM	<i>Badan Koordinasi Penanaman Modal</i> or Indonesian investment coordinating board
BOC	Board of Commissioners
BOD	Board of Directors
BOO	Build, Own and Operate
BOOT	Build, Own, Operate and Transfer
BP Migas	<i>Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi</i> or executive agency for upstream oil and gas business activities
BPH Migas	<i>Badan Pengatur Hilir Minyak dan Gas Bumi</i> or regulatory agency for downstream oil and gas
BPHTB	<i>Bea Perolehan Hak atas Tanah dan Bangunan</i> or levy/transfer title tax on tax and building
BPJS	<i>Badan Penyelenggara Jaminan Sosial</i> or social security administrative bodies
BPJS Kesehatan	Health social security agency
BPJS Ketenagakerjaan	Workers social security agency
BPJS Pensiun	Social security pension plan
BPJT	<i>Badan Pengatur Jalan Tol</i> or toll road regulatory agency
BPLJSKPB	<i>Balai Pengujian Laik Jalan dan Sertifikasi Kendaraan Bermotor</i> or vehicle test and certification
BPM	<i>Badan Pemberdayaan Masyarakat</i> or investment board
BPN	<i>Badan Pertahanan Nasional</i> or national land agency
BPOM	<i>Badan Pengawas Obat dan Makanan</i> or food and drug administration
BPP	<i>Biaya Pokok Penyediaan Pembangunan</i> or basic production price
BPS	<i>Badan Pusat Statistik</i> or central statistic agency
BRT	Bus Rapid Transit
BUMD	<i>Badan Usaha Milik Daerah</i> or regional-owned business entities
CAGR	Compound Annual Growth Rate

CBCR	Country-by-Country Reporting
CBD	Central Business District
CBU	Completely Built-Up
CCOW	Coal Contract of Work
CEP	Comprehensive Economic Partnership
CFC	Controlled Foreign Company
CFT	Counter Terrorism Financing
CIF	Cost, Insurance and Freight
Circular 31	OJK Circular Letter No. 31/SEOJK.05/2015
Circular Letter 31	Ministry of Manpower Circular Letter No. B.31/PHIJSK/I/2012
Circular Letter 17	Circular Letter 17/11/DKSP
CITES	Convention on International Trade in Endangered Species of Wild Fauna and Flora
CITR	Corporate Income Tax Return
CLA	Collective Labor Agreement
Company Law	Law No.40/2007
COW	Contract of Work
Currency Law	Law No.7/2011
Customs Office	The Indonesian Directorate General of Customs and Excise
CV	<i>Commanditaire Venootschap</i> or limited partnership
DDI	Domestic Direct Investment
Decision 27	Constitutional Court Decision No. 27/PUU-IX/2011
Declaration Letter	Assets declaration letter for the application of Tax Amnesty
Decree 228	Ministry of Manpower Decree No. No. 228/2019
DER	Debt-to-Equity Ratio
DGCE	Director General of Customs and Excise
DGT	Directorate General of Taxes
DKP-TKA	<i>Dana Kompensasi Penggunaan Tenaga Kerja Asing</i> or compensation for the use of foreign manpower
DPD	<i>Dewan Perwakilan Daerah</i> or Council of Regional Representatives
DPR	<i>Dewan Perwakilan Rakyat</i> or House of Representatives
DTA	Double Tax Agreement
DWT	Deadweight Tonnage
EDI	Electronic Data Interchange
EPI	English Proficiency Index
ERP	Electronic Road Pricing
ETT	Electronic Transaction Tax
FA	Firma or general partnership
FCPA	Foreign Corrupt Practices Act
FDI	Foreign Direct Investment
Forex	Foreign Exchange
FPA	Free Port Area
FTA	Free Trade Area
FTZ	Free Trade Zone
G20	Group of twenty, a strategic multilateral platform connecting the world's major developed and emerging economies
GATT	General Agreement on Tariffs and Trade
GCG	Good Corporate Governance
GDP	Gross Domestic Product
GESF	General Expenditure Support Fund
GFC	Global Financial Crisis
GMS	General Meeting of Shareholders
GOI	Government of Indonesia

GR	Government Regulation
GR 1/2019	Government Regulation No. 1 of 2019
GRR	Grass Root Refinery
GT	Gross Tonnage
GW	Giga Watt
HGB	<i>Hak Guna Bangunan</i> or right to build
HP	<i>Hak Pakai</i> or right to use
HR	Human Resources
IBC	Insurance Business Company
ICAAP	Internal Capital Adequacy Assessment Process
IDR	Indonesian Rupiah
IDX	Indonesia Stock Exchange
IFRS	International Financial Reporting Standards
IIF	Indonesia Infrastructure Finance
IIGF	PT Penjaminan Infrastruktur Indonesia or Indonesian Infrastructure Guarantee Fund
IMB	<i>Izin Mendirikan Bangunan</i> or building permit
IMD	International Institute of Management Development
IMF	International Monetary Fund
IMTA	<i>Izin Mempekerjakan Tenaga Kerja Asing</i> or working permit
INSW	Indonesian National Single Window
Investment Law	Law No.25/2007
IO	<i>Izin Operasional</i> or operational license
IPO	Initial Public Offering
IPP	Independent Power Producers
ISCO	International Standard Classification of Occupation
ISRM	Indonesian Single Risk Management
ITAS	<i>Izin Tinggal Terbatas</i> or limited stay permit
ITO	Indonesian Tax Office
IUP	<i>Izin Usaha Pertambangan</i> or mining business license
IUPK	<i>Izin Usaha Pertambangan Khusus</i> or special mining business license
JAMSOSTEK	<i>Jaminan Sosial Tenaga Kerja</i> or workers social security
JKN	<i>Jaminan Kesehatan Nasional</i> or national healthcare benefits program
JO	Joint Operation
JV	Joint Venture
KAPET	<i>Kawasan Pengembangan Ekonomi Terpadu</i> or economic development zones
KBJI	<i>Klasifikasi Baku Jabatan Indonesia</i> or Indonesian standard classification of positions
KBLI	<i>Klasifikasi Baku Lapangan Usaha Indonesia</i> or Indonesian standard industrial classifications
KBMI	<i>Kelompok Bank berdasarkan Modal Inti</i> or bank based on core capital
KITAS	<i>Kartu Ijin Tinggal Terbatas</i> or limited stay permit card
KPBU	<i>Kerjasama Pemerintah dengan Badan Usaha</i> or PPP joint office
KPPIP	<i>Komite Percepatan Penyediaan Infrastruktur Prioritas</i> or committee for acceleration of priority infrastructure delivery
KSBSI	<i>Konfederasi Serikat Buruh Sejahtera Indonesia</i> or confederation of Indonesian prosperous labor unions
KSPI	<i>Konfederasi Serikat Pekerja Indonesia</i> or confederation of Indonesian labor unions
KSPSI	<i>Konfederasi Serikat Pekerja Seluruh Indonesia</i> or all-Indonesian workers union confederation
l/s	Liters per second
Labor Law	Law No.13/2003
Lao PDR	Lao People's Democratic Republic
LF	Local File
LKPP	<i>Lembaga Kebijakan Pengadaan Barang/Jasa Pemerintah</i> or national public procurement agency
LLL	Legal Lending Limits

LMAN	<i>Lembaga Manajemen Aset Negara</i> or national asset management agency
LPI	Logistics Performance Index
LRT	Light Rail Transit
M&A	Merger & Acquisition
MAP	Mutual Agreement Procedure
MDBs	Multilateral Development Banks
MEMR	Ministry of Energy and Mineral Resources
MF	Master File
MINT	Mexico, Indonesia, Nigeria and Turkey
MITA	Mitra Utama or main partner priority
MLI	Multilateral Instrument
MOF	Ministry of Finance
MOH	Ministry of Health
MOLHR	Ministry of Law and Human Right
MOM	Ministry of Manpower (formerly known as Ministry of Manpower and Transmigration or "MOMT" or Manpower Affairs)
MOT	Ministry of Trade
MPBI	<i>Majelis Pekerja Buruh Indonesia</i> or Indonesian labor movement council
MPR	<i>Majelis Permusyawaratan Rakyat</i> or People's Consultative Assembly
MRT	Mass Rapid Transit
MSME	Micro Small and Medium-scale Enterprise
New Insurance Law	UU No. 40/2014
NIA/INA	Nusantara Investment Authority or Indonesia Investment Authority
NIB	<i>Nomor Induk Berusaha</i> or single business number
Non-PDAM	Non-regional water supply companies
NPWP	<i>Nomor Pokok Wajib Pajak</i> or taxpayer identification number
NRE	New Renewable Energy
OECD	Organization for Economic Cooperation and Development
Oil & Gas Law	Law No.22/2001
OJK	Otoritas Jasa Keuangan or Indonesia financial services authority
Omnibus Law	Law No. 11 of 2020
OSS	Online Single Submission
PBAS	Performance Based Annuity Schemes
PBI 17/2015	BI regulation No. 17/3/PBI/2015
PDAM	Perusahaan Daerah Air Minum or regional water supply companies
PE	Permanent Establishment
PEB	<i>Pemberitahuan Ekspor Barang</i> or declaration of goods exported
PERTAMINA	PT Pertamina (Persero) or state-owned oil & gas company
PIB	<i>Pemberitahuan Import Barang</i> or customs import declaration
PIP	Priority Infrastructure Projects
PLN	PT Perusahaan Listrik Negara (Persero) or state-owned power company
PMA	<i>Penanaman Modal Asing</i> or foreign investment
PMDN	<i>Penanaman Modal Dalam Negeri</i> or domestic investment
PMK-213	Minister of Finance regulation No.213/PMK.03/2016
POJK 45	<i>Peraturan Otoritas Jasa Keuangan</i> (POJK) or OJK regulation No. 45/POJK.03/2020
POJK 67	OJK regulation No. 67/POJK.05/2016
PP	<i>Peraturan Perusahaan</i> or company rules
PPA	Power Purchase Agreement
PPP	Public Private Partnerships
PPU	Private Power Utility
PR	Presidential Regulation

PSC	Production-Sharing Contract
PSIP	Payment System Infrastructure Providers
PSN	<i>Proyek Strategis Nasional</i> or national strategic projects
PSP	Payment Service Providers
PSSPs	Payment System Services Providers
PT	<i>Perseroan Terbatas</i> or limited liability company
PUPR	<i>Pekerjaan Umum dan Penataan Ruang</i> or Minister of Public Works and Public Housing
RBC	Risk-Based Capital
RCEP	Regional Comprehensive Economic Partnership
RDTR	<i>Rencana Detail Tata Ruang</i> or detailed spatial plan
Reg 21/2019	BI Regulation No. 21/1/PBI/2019
Reg. No. 16/20	BI Regulation No. 16/20/PBI/2014
Reg. No. 16/21	BI Regulation No. 16/21/PB/2014
Reg No. 16/22	BI Regulation No. 16/22/PBI/2014
Reg. No. 5/2019	Ministerial Regulation No. 5/2019
Regulation 10	Presidential Regulation No. 10 of 2021
Regulation 12	BKPM Regulation No. 12/2013
Regulation 19	Regulation No.19/2012
Regulation 4	Regulation No. PER-04/MEN/1994
Regulation 41	Government Regulation No. 41 of 2021
Regulation 85	Government Regulation No. 85 of 2015
Regulation No. 23/2020	BI Regulation No. 22/23/PBI/2020
RITJ	<i>Rencana Induk Transportasi Jabodetabek</i> or greater Jakarta transportation plan
RMDP	Refinery Development Master Plan
RPJMN	<i>Rencana Pembangunan Jangka Menengah Nasional</i> or national medium-term plan
RPTKA	<i>Rencana Penggunaan Tenaga Kerja Asing</i> or expatriate manpower utilization plan
RUEN	<i>Rencana Umum Energi Nasional</i> or national energy general plan
RWA	Risk-Weighted Assets
SAFE FoS	Safe Framework of Standard to Secure and Facilitate Global Trade
SAK	<i>Standar Akuntansi Keuangan</i> or Indonesia financial accounting standard
SEZ	Special Economic Zones
SIPB	<i>Surat Izin Penambangan Batuan</i> or rock mining license letter
SIPT	<i>Sistem Informasi Perizinan Terpadu</i> or licensing information system
SIUP-MB	<i>Surat Izin Usaha Perdagangan Minuman Beralkohol</i> or business license certificate of liquor business
SJSN	<i>Sistem Jaminan Sosial Nasional</i> or national social security system
SKK Migas	<i>Satuan Kerja Khusus Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi</i> or special task force for upstream oil and gas business activities
SKSP Migas	<i>Satuan Kerja Sementara Pelaksana Kegiatan Hulu Minyak dan Gas Bumi</i> or temporary working unit for upstream oil and gas activities
SME	Small and Medium-scale Enterprise
SMI	PT Sarana Multi Infrastruktur
SOEs	<i>Badan Usaha Milik Negara</i> (BUMN) or State-Owned Enterprises
SREP	Supervisory Review and Evaluation Process
STLG	Sales Tax on Luxury Goods
Supporting Providers	Parties who support PSP and PSIP to organize payment system services
TA Law	Tax Amnesty Law No. 11 of 2016, effective during the period from 1 July 2016 until 31 March 2017
Taxable Entrepreneur	A person or body, in whatever form, which in the course of its operations, produces, imports or exports taxable goods, conducts trading activities or renders taxable services
TDP	<i>Tanda Daftar Perusahaan</i> or company registration certificate
TEU	Twenty-foot Equivalent Units
THR	<i>Tunjangan Hari Raya</i> or religious festivity allowance
UK	The United Kingdom

UKBA	UK Anti-Bribery Act
UMK	<i>Upah Minimum Kabupaten/Kota</i> or regency minimum wage
UMP	<i>Upah Minimum Provinsi</i> or provincial minimum wage
UNCTAD	United Nations Conference on Trade and Development
UPPKB	<i>Unit Pelaksanaan Penimbangan Kendaraan Bermotor</i> or motor vehicle weighing implementation unit
USA/US	The United States of America
USD	United States Dollar
VAT	Value-Added Tax
VITAS	<i>Visa Izin Tinggal Terbatas</i> or limited stay visa
WG4	Working Group Four
WHT	Withholding Tax
WIUP	<i>Wilayah Izin Usaha Pertambangan</i> or mining business license area
WIUPK	<i>Wilayah Ijin Usaha Pertambangan Khusus</i> or or special mining business license area
Work Contract	Working agreement for a specified period
WtE	Waste-to-Energy

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