REVIEWS

LEGAL INDUSTRY

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INDONESIA

On **LEGAL MANAGEMENT**

Allen & Gledhill's

Managing Partner shares his insights on integrating local expertise, navigating cross-border challenges, and shaping the future of Southeast Asia's legal landscape

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discusses leveraging Legal Counsel in "Construct-Only" Projects

Indonesia's FDI Regime in Transition: Legal Reforms and Market Realities in 2025

Background

As of 2021, Indonesia has streamlined its foreign investment framework, making most sectors generally open to foreign investors. However, certain restrictions under the Investment List still apply, which classified sectors as: **(i)** closed (e.g., alcohol industry); **(ii)** requiring partnerships with micro, small and medium enterprises (e.g., certain fisheries and construction); and **(iii)** subject to foreign ownership caps (e.g., transport, broadcasting, construction).

Licensing authorities ensure compliance with these limits before issuing approvals, and some sectors impose additional requirements, depending on the sector, such as Indonesian board representation (e.g., banking, finance, healthcare) or technical certifications (e.g., construction).

Further changes are also enacted in 2025 with respect to the investment requirements, procedures, and facilities.

Despite Indonesia's recent attempts to streamline its investment regime, the relatively frequent revisions to the Investment List, coupled with overlapping sectoral regulations, continue to create uncertainty. Even when a sector appears open under the Investment List, foreign ownership may still be limited by industry-specific rules or by inconsistent interpretation between government authorities, reflecting the complexities of Indonesia's decentralized governance framework.

In terms of licensing, the Online Single Submission (**OSS**) system, later upgraded to a risk-based model (**OSS-RBA**), aims to simplify the Indonesian licensing regime. However, in practice, investors still face hurdles such as technical issues with the OSS platform, requirements for approvals outside the system by government authorities, and additional regional licensing obligations. As such, while Indonesia's reforms signal a more investor-friendly approach, foreign investors must still be prepared to navigate a licensing environment that remains fragmented and, at times, unpredictable.

Current FDI Realization in Indonesia

The current FDI realization in Indonesia is reflected in the Q2 2025 investment realization report published by the Ministry of Investment/ Indonesia Investment Coordinating Board (**BKPM**), which can be accessed **HERE**.

Based on this report, FDI in Indonesia was shown to be largely concentrated in a few key subsectors. Basic metals and fabricated metal products (excluding machinery and equipment) led the way with USD 3.6 billion, accounting for 28.8% of total FDI. This was followed by mining at USD 1.3 billion (10%), other services at USD 0.7 billion (8.8%), the chemical and pharmaceutical industry at USD 0.7 billion (5.1%), and housing, industrial estates, and offices at USD 0.6 billion (4.9%).

In terms of investment sources, Singapore continues to lead as the largest foreign investor with USD 4.2 billion (33.3%), followed by Hong Kong (USD 2.3 billion, 18.6%), the People's Republic of China (USD 1.8 billion, 14.4%), the United States (USD 0.8 billion, 6%), and Malaysia (USD 0.7 billion, 5.6%). Geographically, the largest inflows were recorded in Central Sulawesi, underscoring the concentration of resource-based investments, with significant activity also seen in West Java, the Jakarta Capital Region, North Maluku, and Central Java.

Business Vehicles for FDI

The following are the Indonesian business vehicles commonly used by foreign investor, namely: **(i)** a foreign investment limited liability company, domestically incorporated as a subsidiary of the foreign investor (a "**PMA Company**"); and **(ii)** a representative office of a foreign company. However, due to certain restrictions applicable to representative offices (e.g., not permitted to generate revenue in Indonesia), foreign investors often opt to establish or acquire a PMA Company from existing shareholder(s).

Capital and Investment Value Requirements for PMA Companies

Investment Value

Specifically for a PMA Company, generally, unless specifically regulated for specific line of business, the foreign investor must contribute a minimum investment amount **of over IDR 10 billion** (approximately USD 610,000) per line of business (the so-called "KBLI") and project location, excluding land and buildings.

Timelines for meeting this requirement vary by sector and are set by relevant ministries or agencies. If no timeline is provided, investors must submit an estimate and realize the investment before starting commercial operations.

Capital Requirements

Foreign investors must contribute a minimum issued and paid-up capital of IDR 10 billion (approximately USD 610,000) to the PMA Company, with at least 25% paid upfront. This capital also counts toward the required investment value. There is a plan for reducing the applicable capital requirements, but to date, the regulation has not been enacted.

Licensing

Once incorporated, a PMA Company must obtain the necessary licenses, permits, and registrations, which generally takes three to eight weeks, depending on the selected KBLI(s). Key requirements include a business identification number, tax and employment registrations, environmental approvals, and operating licenses which correspond to the line of business conducted.

Following the Job Creation Law, licensing now follows a risk-based approach through the OSS-RBA system, where requirements vary depending on whether a business activity is classified as low, medium, or high risk based on their potential impact on health, safety, the environment, and/or resource use. The higher the risk level, the more stringent the licensing requirements are. For example, a business deemed low risk typically only needs a business identification number to commence its operations.

Recent Regulatory Update

Government Regulation No. 28 of 2025 on Implementation of Risk Based Business Licensing ("**GR 28/2025**") was issued and came into effect on June 5, 2025. The regulation revokes and replaces Government Regulation No. 5 of 2021 and introduces a significant overhaul of the risk-based business licensing regime currently applicable to business undertakings incorporated in Indonesia.

The scope of risk-based licensing has expanded from previously 16 to 22 sectors, with the inclusion of new sectors such as legal metrology, creative economy, geospatial information, and electronic systems and transactions. Furthermore, GR 28/2025 imposes a clearer structure for the stages of business activity (founding and operating), and the licensing authorities at central and regional levels are clearly differentiated. In addition, GR 28/2025 mandates the BKPM to issue an implementing regulation to GR 28/2025 by October 5, 2025. This forthcoming regulation is expected to potentially reduce the minimum issued and paid-up capital requirement for foreign investment companies from IDR 10 billion (approximately USD 610,000) to IDR 2.5 billion (approximately USD 152,500). As of the time of writing, however, the implementing regulation has not yet been issued.

This article was written in collaboration with ***Sheila Ramadhani Alam***.

M&A

Key Points of Mergers and Acquisition in Indonesia

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Indonesia, the largest emerging market economy in Southeast Asia, recorded a solid economic growth rate of 4.87% in the first quarter of 2025, compared to the same period in 2024 (read more **HERE**). According to the Quarter I 2025 Investment Realization Report issued by the Investment Coordinating Board (*Badan Koordinasi Penanaman Modal* or **BKPM**), the Basic Metal Industry and Fabricated Metal Products subsector (excluding machinery and equipment) emerged as the top contributor to foreign direct investment, accounting for 25.3% of total Foreign Direct Investment ("**FDI**") realization during the period.

This highlights the continued confidence of foreign investors in Indonesia as a key investment destination — particularly in its industrial sector.

FDI in Indonesia encompasses a wide range of entry strategies, which also includes Mergers and Acquisitions (**M&A**) of existing Indonesian companies. This approach is especially appealing to investors aiming for investors looking for faster market entry, access to established distribution channels, and/or existing regulatory license and approvals.

The M&A process in Indonesia begins with the identification of the proposed business activities to determine whether they are partially or fully open or closed to FDI. Once this assessment is completed, the transaction must follow a series of procedural steps. If the acquisition results in a change of control, the acquiring party must publish a public announcement in an Indonesian-language daily newspaper at least 30 days prior to the shareholders' approval. The employees of the target company must also be notified. Following the lapse of this period, the acquisition (along with amendments to the Articles of Association) must be approved by the General Meeting of Shareholders ("**Resolution**").

The Resolution must be made into an Indonesian notarial deed and submitted to the Ministry of Law to obtain the relevant approval or notification, marking the legal effectiveness of the acquisition. As a final step, the target company must do the post-acquisition announcement in an Indonesian-language daily newspaper at least 30 days after the effective date of the acquisition.

Assets Acquisition

As an alternative, foreign investors may also consider asset acquisitions. This approach is generally more straightforward in terms of regulatory procedures and timelines. However, the process can vary significantly based on the type of assets and may require separate approvals, licenses, or registrations from relevant authorities. The legal title or ownership of the assets must be updated in the name of the transferee.

Despite the relatively simpler structure, asset acquisitions often involve the novation of existing agreements, which may introduce additional legal and commercial considerations.

Regardless of the structure, investors must carefully evaluate both options from multiple perspectives, including legal, regulatory, tax, and accounting considerations, to ensure alignment with their objectives.

KPPU Notification Requirement

If the transaction meets certain asset or sales value thresholds as stipulated under Indonesian competition law, it must be reported to the Business Competition Supervisory Commission (*Komisi Pengawas Persaingan Usaha* – **KPPU**) within 30 business days from the effective date of the transaction. A transaction is notifiable if it meets one or both of the following thresholds:

1. Combined **Indonesian** assets value exceeds IDR 2.5 trillion; and/or
2. Combined **Indonesian** sales value exceeds IDR 5 trillion.

The above threshold is not applicable if the transaction is conducted between affiliated parties that fulfil the criteria under the applicable regulations.

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Today, with a team of around 120 legal professionals –including 20 partners and 3 foreign counsels– ABNR stands as Indonesia's largest independent, full-service law firm. We are proud to have female partners at the partnership level, reflecting our commitment to diversity and inclusion.

ABNR has consistently maintained its position as a top-tier law firm since its establishment. As the exclusive Indonesian member of Lex Mundi since 1991 –the world's leading network of independent law firms with representation in over 100 countries– we provide seamless global reach for our clients.

We also embrace innovation and are technology-minded, ensuring that we stay ahead of the curve in delivering effective legal solutions. At ABNR, we take pride in blending legal expertise with a deep understanding of business needs. Our commitment to responsiveness, timeliness, and value for money ensures we deliver tailored solutions that meet the unique requirements of our clients.

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