

Indonesia: Minister of Employment issued New Regulation on Outsourced Work

In brief

Three years after Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation was enacted as a law by Law No. 6 of 2023, the Minister of Employment issued Regulation No. 7 of 2026 on Outsourced Work ("**Regulation 7**"). Regulation 7 provides guidelines on the implementation of outsourcing arrangements, particularly labor supply arrangements.

Below are some of key provisions in Regulation 7.

Permitted Activities

Companies are permitted to outsource the following supporting activities to an outsourcing company through a labor supply arrangement:

- a) Cleaning services
- b) Supply of food and beverages
- c) Security
- d) Supply of drivers and transportation
- e) Operational support services
- f) Supporting work in mining, oil, gas and electricity

The permitted activities under Regulation 7 are broader than those under the previous regulation (i.e., Minister of Employment Regulation No. 19 of 2012 on the Conditions for Outsourcing Part of the Implementation of Work to Another Company). One of the permitted activities under Regulation 7 is 'operational support services' (in Indonesian, *layanan penunjang operasional*). Regulation 7 does not provide further explanation on 'operational support services'. Broadly interpreted, 'operational support services' could cover many activities, as long as they are supporting the operations of a company. It remains to be seen if further guidelines will be issued to clarify this.

Outsourcing Company

In line with Government Regulation No. 35 of 2021 on Definite Period Employment Agreements, Outsourcing, Working and Resting Hours and Termination of Employment, Regulation 7 requires an outsourcing company to be in the form of a limited liability company. It also re-emphasizes that an outsourcing company must be licensed and must fulfil the following obligations:

- a) Implement a standard of work safety, health and environment
- b) Register outsourcing agreements at the relevant Local Employment Office
- c) Perform business activities at the latest one year after its business license is issued

The above obligations are not new as they are based on those set out for the business of labor supply and resource function management through outsourcing under the 2020 Indonesian Standard Business Classification (KBLI) Code 78300.

The Local Employment Office can postpone the issuance of the proof of registration if the outsourced work in the outsourcing agreement is not one of the permitted activities or if the outsourcing agreement does not include the required minimum content.

Outsourcing Agreement

- **Minimum Content**

An outsourcing agreement between a user company and an outsourcing company must be made in writing. Regulation 7 requires an outsourcing agreement to include provisions on:

- a) The work being outsourced to the outsourcing company
- b) The period of the outsourcing agreement
- c) The location for the implementation of work
- d) The number of outsourced workers
- e) The protection of outsourced workers, covering (at least) wages, overtime pay, working and resting hours, annual leave, right to occupational health safety, social security, religious festivity allowance and entitlements upon expiry or termination of employment
- f) Rights and obligations of the outsourcing company and the user company

Regulation 7 emphasizes that the protection of outsourced workers (point (e)) must be at least equal to the statutory requirement. In addition, the outsourcing company is liable in ensuring the protection of the outsourced workers.

While an outsourcing company must ensure that its workers (who are being outsourced to the user company) are protected, the user company is responsible for ensuring that the outsourcing company fulfils its obligations towards the outsourced workers. Regulation 7 does not address how the user company should implement this. Regulation 7 also does not specify any sanction if a user company does not implement this.

In the absence of specific requirements, a possible way to do this is by allowing the user company to conduct periodical audits on the outsourcing company during the period of the outsourcing agreement. Another way is by requiring the outsourcing company to provide periodical reports to the user company covering details of the matters listed in point (e) above. In any event, the outsourcing agreement should address the mechanism for the user company to ensure that the outsourcing company fulfils its obligations towards the outsourced workers.

- **Registration**

The outsourcing company must register the outsourcing agreement at the Local Employment Office where the work is performed at the latest three working days after the signing of the outsourcing agreement. A copy of the signed outsourcing agreement must be submitted to the Local Employment Office for this registration. Proof of registration will be issued by the Local Employment Office.

The Local Employment Office can postpone the issuance of the proof of registration if the outsourced work in the outsourcing agreement is not one of the permitted activities or if the outsourcing agreement does not include the required minimum content.

Sanctions

User companies that outsource activities other than those permitted under Regulation 7 may be subject to the following sanctions (which are to be implemented in stages):

- a) Written warning
- b) Restriction of business activities which can be done by one or both of the following means:
 - i. Restriction on production capacity of goods or services
 - ii. Suspension of the granting of business licenses in one or several locations for companies that have projects in multiple locations

Restriction of business activities will be imposed by the government authority that issues the relevant license for the company based on the recommendation of a labor inspector (i.e., an official of the Ministry of Employment or its local offices who are authorized to supervise and inspect compliance with the labor laws and regulations).

Regulation 7 does not impose a specific sanction for outsourcing companies that fail to fulfill their obligations. Instead, Regulation 7 provides that those outsourcing companies may be subject to administrative sanctions according to the laws and regulations on risk-based business licensing.

Regulation 7 took effect on 30 April 2026. Under Regulation 7, existing outsourcing agreements will remain valid until their expiry. However, user companies and outsourcing companies must adjust the types and fields of outsourced activities to be in line with Regulation 7 at the latest two years after the effective date of Regulation 7 (i.e., by 29 April 2028).

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