DOING BUSINESS GUIDE

Indonesia

Asialink Business


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Contents

1. Why Indonesia

Indonesia has transformed into a global economic powerhouse. Currently the world's 16th largest economy, it is on track to reach the top ten by 2030. Annual economic growth continues to outpace nearly all the world's major economies, while exports, foreign investment and domestic consumption are all on an upward trend. As one of Australia's closest neighbours, Indonesia is presenting new opportunities for Australian businesses.

1.1. Economy overview

As Southeast Asia's most populous nation, Indonesia's people are the driving force behind its development. With over 70 per cent of its population of working age, it is benefiting from a demographic dividend that will last until 2040. Its large and increasingly prosperous labour force is driving private consumption, innovation and demand for new goods and services.

New drivers of economic growth are emerging to complement Indonesia's traditional strengths in resources. The digital economy is growing rapidly, accounting for over half of Southeast Asia's total e-commerce revenue. Electric vehicle manufacturing is gathering pace, with investments from leading international carmakers complementing government efforts to expand the entire automotive value chain. As the world's largest producer of nickel, Indonesia is on track to become the largest lithium-ion battery manufacturing hub in Southeast Asia.

Indonesia's global profile has increased alongside its strong economic development. Jakarta continues to play a leading role in regional and international fora, hosting the G20 in 2022 and chairing the Association of Southeast Asian Nations (ASEAN) in 2023. Situated at the intersection of the Pacific and Indian Oceans and one of the world's most important trade routes, it will play an outsized role in determining prosperity and security.

The political and economic relationship with Australia has also matured. The 2020 Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) has removed barriers to two-way trade, increased worker mobility and fostered closer collaboration in key sectors, from health and education to agriculture and energy.

Indonesia has been identified as a key market for two-way trade and investment in the Australian Government's **Southeast Asia Economic Strategy to 2040**. More information on the bilateral relationship is available in **Section 5.1** and from the Department of Foreign Affairs and Trade's **Indonesia Country Brief**.

As economic and demographic trends coalesce around a concerted government effort to promote emerging industries and reduce regulatory burdens, Australian businesses will find new opportunities to trade and invest with one of the region's most dynamic economies.

Comparing key indicators: Indonesia and Australia

Indonesia	Australia
AUD 2.14 trillion GDP (current rates) (2023)	**AUD 2.5 trillion** GDP (current rates) (2023)
16th Global GDP Ranking (current rates)	**14th** Global GDP Ranking (current rates)
5% Forecast % GDP Growth (2024)	**1.2%** Forecast % GDP Growth (2024)
AUD 22,077 GDP per capita (PPP)	**AUD 95,210** GDP per capita (PPP)
45% Trade to GDP ratio	**45%** Trade to GDP ratio
1.6% FDI inflow (% of GDP) (2022)	**4%** FDI inflow (% of GDP) (2022)

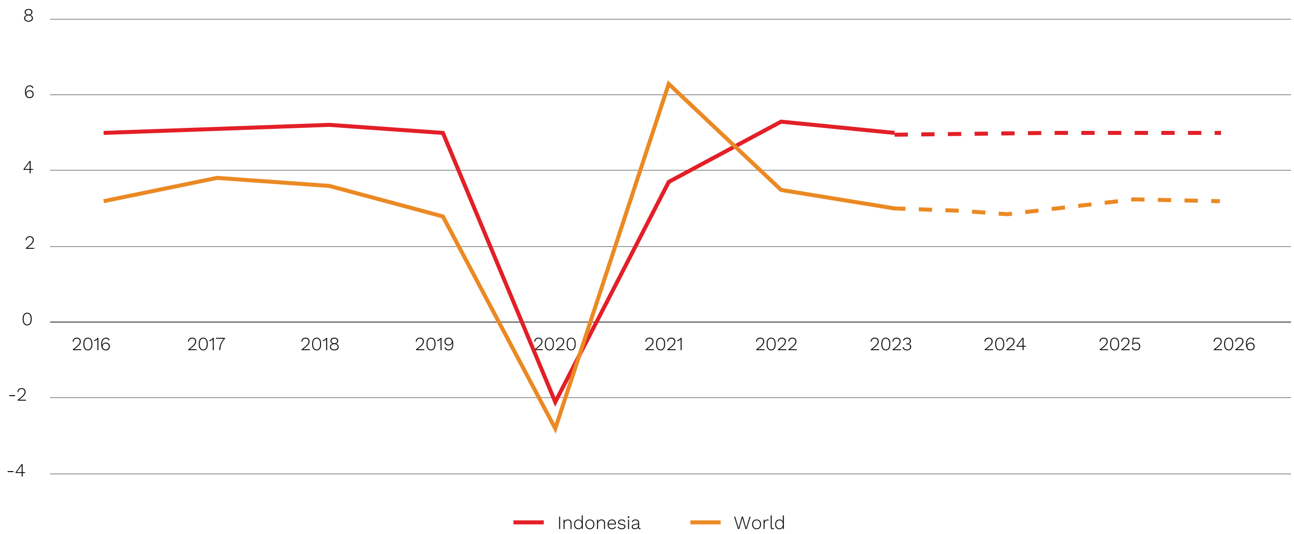
Source: IMF and World Bank

Indonesia is the fourth most populous country in the world and the largest economy in Southeast Asia. Historically dependent on the agricultural sector, industrialisation and global economic integration has seen a steady increase in prosperity and productivity. While the poverty rate has plummeted from 70 per cent in 1998 to 2.5 per cent in 2022, productivity has risen in key sectors like financial services, resources and construction. Through structural reform, technological investment and economic competitiveness, it aims to build on these achievements and reach high-income status by 2045.

After the major setback of the Asian economic crisis of the late 1990s, Indonesia's economy accelerated with annual GDP growth averaging 5 per cent in the two decades to 2023 (**Figure 1**). A range of economic reforms have been instituted by the Indonesian Government, improving the business environment and attracting foreign investment to finance infrastructure and other national development priorities.

Indonesia's economic outlook over the short to medium-term will be heavily influenced by the growth of the consumer class and rising household consumption. However, commodities will continue to play an important role considering Indonesia's significant reserves of strategic resources like nickel and bauxite. Long-term economic and productivity growth will depend on improving the business environment and investing in human development, particularly education and healthcare.

Figure 1: Real GDP Growth - Indonesia and world average (2016-2026f), %



Source: IMF

1.2. Sectoral snapshots

Indonesia's growth trajectory presents opportunities for Australian trade and investment, particularly in sectors that align with Indonesia's economic development priorities and its growing consumer class. This section provides a short overview of prospective sectors.

Education

The rapid expansion of Indonesia's economy is creating additional demand for high-quality education – a demand Indonesian tertiary institutions are currently struggling to meet. The shortage of industry-focused curricula and the positive perception of international education represents a valuable opportunity for Australian providers, both in-market and in Australia. As Australian education providers continue to climb in international rankings, demand among the 80 million Indonesians under the age of 18 will grow. Austrade has identified opportunities in **higher education** and **vocational education and training**.

Food and agribusiness

Growth in discretionary household income and evolving consumer preferences are presenting opportunities for value-added food and beverage products in Indonesia, particularly premium and organic foods. While disposable income remains relatively low, a large proportion of monthly household expenditure is spent on packaged and fresh food. Demand is particularly high for staples such as meat, vegetables, fish and seafood. As supply chain connectivity, cold storage and distribution options improve, new opportunities will emerge for Australian exporters. Austrade has identified opportunities in **dairy**, **grains**, **horticultural products**, **meat and livestock**, **packaged foods**, **seafood** and **wine and beverages**.

Health and medical

As digitisation gathers pace, digital health solutions will become more common in Indonesia. Even before the COVID-19 pandemic, digital health revenue was averaging 60 per cent growth per year. Universal access to healthcare is a key government priority – an ambitious task across an archipelago of 17,000 islands. The Ministry of Health's Digital Transformation Office is helping resolve issues of access, cost, quality and customer experience. Public-private partnerships are encouraged, including in community prevention and promotion campaigns, service provider quality assurance and electronic referral systems. Australian healthcare companies can leverage their strong reputation to enhance their value proposition in Indonesia. Austrade has identified **digital health** and **complementary medicine** as opportunities in the sector.

Green economy

To achieve its 2030 goal of an extra 35 GW in power generation capacity, the Indonesian Government is exploring ways to increase supply of renewable energy. The government aims to grow renewables to 23 per cent of the energy mix by 2030, up from 13 per cent in 2023. This is creating trade and investment opportunities in rooftop solar PV, biofuel, waste-to-energy and electric vehicles. Australian businesses are well placed to leverage commercial opportunities in support of Indonesia's clean energy transition, including through project engineering, design, construction and advisory services and technology. Austrade has identified **renewable energy solutions** as an opportunity for Australian businesses.

Infrastructure, transportation and cities

The Indonesian Government has identified infrastructure development as a key priority and actively promotes public-private partnerships (PPP) to develop road, rail, water and sanitation, port and airport infrastructure. The National Strategic Projects (PSNs) were established in 2016 and include 200 initiatives and 12 programs worth around AUD 529 billion. As Indonesia forges ahead with the construction of its new capital Nusantara, trade and investment opportunities will emerge in construction and smart city development. And with modern warehouses accounting for just eight per cent of Indonesia's total warehouse market, investment in logistics infrastructure is a priority that will have cross-sectoral benefits for Australian exporters. Austrade has identified opportunities for Australian business in **road, rail and ports**, **airport solutions** and, in line with the Indonesian Government's smart cities program, **sustainable building solutions**.

Technology

Information and communication technology (ICT) is central to Indonesia's digital agenda and wider economic development goals. Expansion in the sector has positioned Indonesia as one of the world's biggest mobile phone markets, with 354 million mobile phone subscriptions in 2023. Indonesia's ICT market is currently in a period of rapid expansion, with the Indonesian Government's rollout of 4G and 5G networks, investment in ICT and telecom infrastructure and the rise in mobile data usage driving growth. Continued expansion of Indonesia's ICT sector will present opportunities for innovative Australian tech firms.

Mining equipment, technology and services (METS)

Indonesia is estimated to account for over one quarter of the world's mineral supply. To meet growing global demand for critical minerals like copper, nickel, bauxite and tin, Indonesia will need to modernise its mining sector. This will require a wide range of equipment, technologies and services to boost productivity, improve safety and facilitate processing. As the transition to net zero progresses, demand for sustainable mining services and technologies that increase efficiency and reduce carbon emissions will grow. Austrade has identified **mining equipment, technology and services (METS)** as a key trade and investment opportunity.

2. Understanding Indonesia

Entering a new market requires knowing what makes that market unique. An understanding of Indonesia's business culture and key risks will provide a solid foundation from which to explore opportunities.

2.1. Business culture

Cultural intelligence is key to achieving sustainable business outcomes. Being able to read cultural clues and respond appropriately helps develop relationships, communicate effectively and build trust. While cultural and communication norms are changing as virtual modes of engagement increase, core cultural values remain an important factor in international business. Not understanding the particularities of doing business in Indonesia can lead to missed opportunities, delays and lost engagements.

Communication

As is common throughout Southeast Asia, communication styles in Indonesia can often be indirect. 'No' is often replaced by 'not yet'. Australian businesses need to be mindful of the impact of conflict avoidance in engaging with suppliers, distributors and clients.

Indonesia is often referred to as a 'high context' culture, in that what is not said can be as important as what is. It is also important to be aware of geographical variation – communication styles in some parts of the archipelago are known to be more direct, even than those in Australia.

Staying connected with Indonesian stakeholders through multiple communication channels is key to building relationships and understanding cultural context. The use of instant messaging apps like WhatsApp, Telegram and Messenger is widespread in Indonesia.

Relationships

A fundamental element of doing business in Indonesia is securing strong relationships with suppliers, distributors, clients and other stakeholders. The strength of business relationships can determine many aspects of commercial life, including gaining credit, procurement and contracting, and the timeliness of bureaucratic processes. Investing in business relationships often involves large amounts of face-to-face interaction, with a strong emphasis on loyalty and trustworthiness, and may take a long time to develop.

Hierarchy

Hierarchy is an important part of Indonesian business culture and seniority often determines responsibility for decision making. Despite being across the detail of a business plan, junior staff members would often not be expected to speak openly or contradict senior staff members. Age, status and position within an organisation can determine who interacts with whom, so these details should be considered when engaging in business or administration.

Business loyalties are often personal and revolve around the 'boss', rather than the organisation itself. In this context, the patron/client relationship takes on particular significance, whereby those with influence provide for those less well placed in return for professional and personal loyalty. Australian businesses should understand the prevalence of these relationships, and how they might impact the probity and integrity of business processes.

The importance of partnerships

Successfully navigating the Indonesian business landscape often requires local talent, knowledge and expertise, and partnerships. Identifying a potential partnership requires having relationships in place that can facilitate introductions. After a potential partner has been identified, it is essential to conduct due diligence. This includes understanding their customers and clients, reach across Indonesia, support for product localisation and in-market reputation. It is essential to undertake reference checks and risk assessments before formalising any local partnerships.

The concept of group welfare is influential in Indonesian culture and an effective way to build trusted partnerships. Foreign businesses that seek to contribute to the wellbeing of those living and working in their immediate neighbourhood not only enhance their licence to operate but can gain commercial advantage.

For a more detailed understanding of business culture, business etiquette and building long term and sustainable partnerships to deliver strong business outcomes visit the **Asialink Business Academy**.

Navigating culture in business – the importance of core cultural values

	Country	
Core cultural values	**Australia**	**Indonesia**
Direct communication	Very high	Very low
Group focus	Low	High
Hierarchical approach	Very low	High
Relationship focus approach	Low	Very high

Very high | High | Medium | Low | Very low

2.2. Managing risks

While Indonesia offers opportunities for informed and well-prepared Australian businesses, doing business overseas can involve a range of new risks. These should be identified and mitigated as much as practicable – and managed carefully once business operations are established.

Risk factors in Indonesia

Economic – *including the potential for government default (sovereign risk), fiscal, monetary risk and exchange rate risk.*

What this means for your business in Indonesia

Indonesia's economic outlook is stable, with a BBB rating from both Standard & Poor's and Fitch. This balances the country's solid growth outlook, low government debt and low inflation with weak government revenue and lagging government indicators.

The Indonesian Rupiah (IDR) has depreciated moderately over the past decade. It is forecast to strengthen in 2024 as the US Dollar stabilises.

Potential mitigations for foreign exchange risk include forward contracts, foreign currency options and utilising foreign bank accounts and loans to manage currency inflows and outflows. Seek advice on your level of risk and potential mitigations.

Political – *including the potential for political instability and restrictive government policies.*

What this means for your business in Indonesia

Indonesia is considered politically stable. Most post-2024 election scenarios indicate a continuation of the government's investment-friendly policies. Politically motivated demonstrations occasionally occur, but not to the extent that it impacts foreign investment. Easing inflation, employment growth and a clear election result will reduce the likelihood of major public protests.

For significant investments, you may wish to explore political risk insurance as a potential mitigation.

Corruption – *including the potential for bribery, embezzlement and conflicts of interest.*

What this means for your business in Indonesia

Indonesia's corruption rankings have declined in recent years. It ranked 115th of 180 countries in Transparency International's 2023 International Corruption Index. Graft remains pervasive despite the prosecution of a number of high-level officials.

You should familiarise yourself with Australia's foreign corruption and bribery legislation and ensure you have a robust anti-corruption strategy.

Regulatory – *including the potential for regulations that increase the cost of doing business, reduce the attractiveness of an investment or change the competitive landscape.*

What this means for your business in Indonesia

While Indonesia has undertaken wide-ranging reforms to improve the regulatory landscape, regulatory efficiency remains relatively weak. The government's so-called Omnibus Law has improved the business environment by reforming labour laws and reducing regulatory barriers to trade and investment. However, regulations can be opaque and amended at short notice. According to the Heritage Foundation's 2023 Index of Economic Freedom, Indonesia's score for property rights and government integrity has declined, while judicial effectiveness has improved.

IA-CEPA provides some protection against sudden regulatory changes, particularly around data localisation, financial services and telecommunications. A trusted local partner can help you understand and navigate complex regulatory processes.

Intellectual property – *including the potential for weak or underdeveloped IP protections and enforcement mechanisms.*

What this means for your business in Indonesia

Indonesia's IP protection and enforcement is underdeveloped. It has limited participation in international IP treaties, barriers exist for licencing and commercialisation of IP assets and the copyright environment is challenging with high levels of piracy and counterfeiting. The 2023 Global Innovation Policy Centre's International IP Index scored Indonesia 30 out of 100 across nine IP protection categories, below the Asia average of 56. So-called 'squatters' register trademarks with no intention of using them, and distributors have been known to register a foreign brand's IP to secure 'insurance' in contract renegotiations.

Registration for patents, trademarks and copyright is an important step in IP risk mitigation. Conducting due diligence on potential distributors and partners and ensuring contracts and distribution agreements have an IP protection clause can also help mitigate risk. Continual product development can deter counterfeiting and technology solutions such as RFID tags and QR codes can add an extra layer of protection.

Geopolitical – *including the potential for trade relationships, security partnerships and territorial disputes to impact business activities.*

What this means for your business in Indonesia

While Indonesia will be affected by intensified geopolitical competition between the US and China, its economic weight, policy of non-alignment and regional leadership role will reduce the impacts of geopolitical risk.

Boards and leadership teams should familiarise themselves with geopolitical issues that may impact your business and, if relevant, develop plans in response to potential scenarios. You may also wish to seek external advice.

Supply chain – *including the quality of infrastructure, levels of corruption, corporate governance, supply chain visibility and timeliness.*

What this means for your business in Indonesia

Supply chain risk is moderate given the varying quality of Indonesia's infrastructure and logistics networks, prevalence of corruption and relatively low levels of supply chain visibility. FM Global's 2023 Global Resilience Index ranked Indonesia 55th out of 130 countries for supply chain resilience.

Potential mitigations include supplier diversification, holding additional inventory, and implementing new operating models and processes. Technology is also providing improved analytics, sensors and automation.

Climate – *including the potential for extreme weather events and rising sea levels to impact trade routes, supply chains and infrastructure.*

What this means for your business in Indonesia

Indonesia's geographic and climatic position make it vulnerable to the impacts of climate change. More severe tropical cyclones and heavier rainfall will have major impacts on economic development and labour productivity. The total cost of these and other climate-related impacts is expected to reach 1.2 per cent of GDP by 2030 and 7 per cent of GDP in the 2060s.

Identifying and mitigating climate change risks should be embedded in all elements of your strategy and operating model.

3. How to enter the market

Understanding a foreign business environment is key to a successful market entry. This chapter focuses on important considerations for businesses looking to enter Indonesia, including market entry models for exporters and investors, common business structures and adapting your product or service for the local market.

3.1. Exporting to Indonesia

Indonesia was Australia's 11th largest export destination in 2022, with total exports reaching AUD 14.6 billion. Resources and agricultural products dominate Australian exports, but emerging trends are presenting opportunities for a range of sectors, including food and beverage, education and skills and healthcare.

Market entry models for exporting goods and services

Choosing an appropriate market entry model is essential for businesses looking to export to Indonesia. Any choice should be informed by factors such as the overarching business strategy, target sector and business size and maturity. Market entry models frequently evolve over time.

Market entry model	Usually suited for
A. Agents and distributors	All exports not sold via e-commerce
B. Online sales	Selling products via e-commerce

A. Agents and distributors

To export to Indonesia, Australian businesses are required to appoint a local agent or distributor. Agents and distributors can provide advice on regulatory requirements and assist with the import process, including licences, product registration and customs clearance. For food and beverage exports, agents and distributors can manage registration with the National Agency for Drug and Food Control (BPOM).

The role of agents and distributors differ, and they can vary across industry. It is therefore critical that roles and responsibilities are clearly defined early in any agreement.

Agents: Agents act as representatives of suppliers and do not take ownership of the products they sell. They are usually paid on a commission basis, which provides an incentive for them to drive sales. Being based in Indonesia, they will often represent several complementary products or services. They can be retained exclusively as the sole agent for a company's goods or services or as one of several for the exporter.

Distributors: Unlike agents, distributors buy the goods from exporters and then resell them to local retailers. In some cases, a distributor may sell to other wholesalers who then on-sell to retailers or consumers. Distributors may carry complementary and competing lines and usually offer after-sales services. They make profit by adding margins to product prices. Distributor margins are generally higher than agent fees because of the costs associated with carrying inventory, marketing and extending credit for customers.

Some imported products are required to engage a separate importer and distributor, whether those products are sold online or offline. In this case exporters can employ an importer to manage the importation process, separate of any distribution agreement. Businesses must then engage an agent or distributor to manage distribution and sales. The Ministry of Trade (MoT) has introduced a 'reputable importer' list than provides de-facto certification for Indonesian importers.

Choosing an agent or distributor: Whether using an agent or distributor, building a close working relationship is essential. While all agents and distributors are required to register with MoT and obtain a Registration Identity (STP), due diligence is important – ask for trade references and seek a credit check through a professional agency. It is best to meet any potential agents or distributors in Indonesia. This will give them a chance to demonstrate knowledge of the market and provide an early opportunity to build the relationship.

WHEN CHOOSING AN AGENT OR DISTRIBUTOR, DO THEY...?

- ☑ **Demonstrate an understanding of the products and prices of your competitors?**
- ☑ **Have a depth of experience in your sector and sub-sector?**
- ☑ **Have a depth of knowledge of the local market and sub-markets?**
- ☑ **Demonstrate an understanding of consumer / customer trends?**
- ☑ **Have access to sales and / or marketing channels most relevant for your product?**

Halal certification: Businesses must be aware of halal certification requirements when exporting to Indonesia. As the world's most populous Muslim-majority country, halal certification plays a central role in regulating products and services entering the market. Certification is mandatory for nearly all food and beverage products and will be gradually introduced for a range of other products, including cosmetics, clothing and medical devices.

Certification is valid for four years and can be issued by Indonesia's Halal Product Assurance Organising Body (BPJPH) or certification bodies outside Indonesia. A list of approved Australian halal certification bodies has been published by the Department of Agriculture at **agriculture.gov.au**.

B. Online sales

Indonesia has one of the highest rates of e-commerce adoption in the region, with nearly two-in-three adults having purchased a product or service online in 2023. In 2022, total revenue from online sales reached AUD 78 billion – 52 per cent of Southeast Asia's total e-commerce sales. Its vast consumer base, increasing internet penetration and growing preference for online shopping will continue to drive digital commerce.

The Indonesian Government is implementing wide-ranging initiatives to promote online sales. Regulatory reform is improving the governance of online and electronic trading. A national online shopping day, known as Harbolnas, has been developed to boost sales and promote e-commerce.

Despite rapid expansion and government support, navigating Indonesia's e-commerce market can be challenging. The government has introduced a blanket ban on e-commerce platforms selling foreign goods worth less than USD 100 (AUD 150) per unit and a ban on purchases via social media platforms, both of which will limit low-value cross-border transactions. E-commerce strategies also require careful supply chain planning given Indonesia's geography, particularly regarding warehousing, fulfilment and the use of omni-channel distribution.

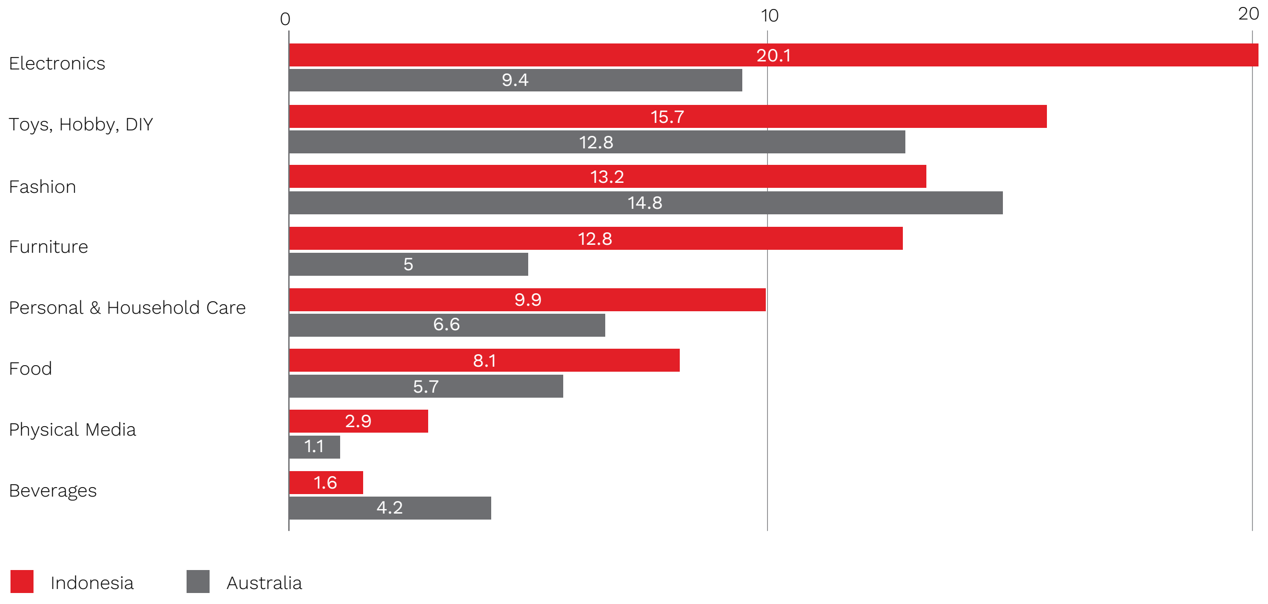
Accessing digital consumers: While 63 per cent of Indonesian consumers now spend their rupiah online, one third of the country is yet to engage with e-commerce. Effective marketing is vital to establish trust and brand loyalty, particularly among those discovering online retail for the first time.

Top product categories for online sales include electronics, toys, fashion, furniture, and personal and household care (**Figure 2**). Smartphone use is enabling mobile and social commerce, with 82 per cent of internet users using social media for brand research. While regulations have restricted social media operators from facilitating purchases, platforms are still permitted to advertise - offering businesses unprecedented reach when promoting their products and services.

Search engines: Search engines are a key tool for brand research, with 57 per cent of internet users using them as a primary source of information when researching brands. Google is the dominant search engine in Indonesia, followed by Bing, Yandex and Yahoo.

Search engine	Market share (%)
Google	95.3
Bing	1.4
Yandex	1.1
Yahoo	1.1
DuckDuckGo	1.05

Figure 2: E-commerce spending on consumer goods (2023), AUD billion



Source: We Are Social

Online sellers and marketplaces: Online marketplaces have become a popular way to enter the Indonesian market, with platforms like Shopee, Tokopedia and Lazada providing access to an existing customer base, online infrastructure, logistics capabilities and marketing services. Businesses should take time to evaluate and compare fees, competition and customer reviews of Indonesia's online marketplaces.

Social media: There were 167 million social media users in Indonesia in January 2023. These users are having a major impact on the digital economy, with over half using social media platforms to find inspiration for products and services to buy. The most used social media platforms in Indonesia include WhatsApp, Instagram, Facebook, TikTok and Telegram.

Platform	Key product range	Market share (%)	Address
Shopee	Electronics, fashion, health and beauty, home and living, groceries, mother and baby, automotive, sports, stationary, books	36	shopee.co.id
Tokopedia	Offers a range of services including online retail, digital payments, ticketing and investments	35	tokopedia.com
Lazada	Electronics, fashion, beauty, home and living, groceries, sports, books, toys, automotive	10	lazada.co.id
Bukalapak	B2B platform that helps small businesses enter the online marketplace. Offers additional services like streamlining bill payments and supply chains	10	bukalapak.com
TikTok Shop	Lower-value products, including clothes, accessories, cosmetics and food and beverage.	5	seller.tiktok.com
Blibli	Household and lifestyle goods. Offers services like Blibli Click & Collect, BliPay and Blibli Pay Later	4	blibli.com

3.2. Investing in Indonesia

Investment environment

Indonesia has emerged as one of Southeast Asia's most attractive markets for foreign investment. Foreign ownership limitations have been relaxed, business establishment processes streamlined, and the establishment of an Indonesian sovereign wealth fund is attracting record levels of foreign investment for infrastructure projects. At the end of 2021, total FDI stock stood at AUD 391 billion.

The Indonesian Government offers a range of investment incentives in priority sectors. These come in three forms:

- **Corporate Income Tax (CIT):** A 50 per cent CIT reduction for investments between IDR 100 billion (AUD 9.9 million) and IDR 500 billion (AUD 49.4 million) for five years, and a 100 per cent CIT reduction for investments over IDR 500 billion (AUD 49.4 million) for a period between 5 and 20 years.
- **Import duties/tax:** An exemption or reduction of import duties or tax on goods imported as fixed assets for the project.
- **Land rent and levies:** A 30 per cent reduction in taxable income for six years, a special withholding tax rate of 10 per cent on dividends, and tax losses carried forward for up to 10 years.

Investment incentives are also offered in Indonesia's special economic zones (SEZs) (details can be found in Section 5.1). These zones are an entry point for foreign firms and offer easy access to ports and infrastructure, specialised labour and networks of suppliers. Businesses that enter via SEZs with a minimum investment of IDR 100 billion (AUD 9.9 million) are eligible for a 100 per cent CIT reduction for 10 years.

Investment rules and regulations

The Indonesian Government has reformed its foreign investment regime. Significant developments include the introduction of a Positive Investment List in which previously restricted sectors are now open to 100 per cent foreign ownership. These priority sectors include over 200 business lines, including telecommunications, transportation, energy, and distribution and construction services.

A risk-based approach to foreign investment has been introduced for specific sectors and business licences are now issued after a government risk assessment. Business activities are classified as low, medium-low, medium-high and high risk. The lower the business risk, the simpler the business licencing requirements. Guidance on the business application process can be found on the Indonesia Investment Coordinating Board's (BKPM) Online Single Submission (OSS) system at oss.go.id/en.

Market entry models for investing

Choosing an appropriate market entry model is essential for businesses looking to invest in Indonesia. A business' size, sector and growth strategy will help determine which market entry model fits best. Investment models frequently evolve over time as businesses enter and expand in a market.

Market entry model	Usually suited for
A. Representative office	Exploring the market
B. Franchising	Selling localised products or services
C. Foreign-owned enterprise	Establishing a local business with full ownership
D. Joint Venture	Establishing a specific business project with an Indonesian partner
E. Public-Private Partnership	Establishing a long-term business arrangement with the Indonesian Government

A. Representative office

Opening a representative office (RO) can be a useful and economical first step to explore business opportunities in Indonesia. ROs cannot conduct direct commercial or revenue generating activities such as the execution of contracts, receipt of funds, sale or purchase of goods, or provision of services.

However, ROs can provide a wide range of support activities to head offices back in Australia. They are a common form of presence in Indonesia for foreign companies, particularly those in the early stages of a market entry strategy.

The most common form of RO in Indonesia is a foreign representative office (KPPA). Its main function is to manage the parent company's interests and prepare for the establishment of a local company. KPPAs must be established in the capital city of the province in which they are based. They can be 100 per cent foreign owned, have no capital requirements and can employ local and foreign staff.

Establishing a representative office (KPPA) in Indonesia

Step	Procedure	Timeframe
1	**Submit necessary documents to BKPM**	6-8 weeks
2	**Obtain a Business Identification Number (NIB) through BKPM's OSS system**	
3	**Obtain a Tax Registration Number (NPWP) from the Directorate General of Taxes**	
4	**Obtain a Letter of Approval from BKPM**	

B. Franchising

Franchising allows business owners to retain a measure of control while harnessing the energy of franchisees to drive expansion. Franchises project a company's reputation and brand, and while it can be expensive, building a network of franchises is generally cheaper than owning and operating retail or branch offices in foreign markets.

Indonesia's franchise industry began to gain traction in the 1990s and has since grown to include many well-known international chains. In 2023, there were 520 international franchise brands in the market. Indonesian franchise seekers are interested in both established and innovative food and beverage businesses and retail outlets. Emerging franchise sectors include entertainment, training, home services and security franchises.

Certain criteria must be met before opening a franchise in Indonesia, including:

- The franchise is proven to be profitable
- It has a written standard operating procedure relating to the goods and/or services
- The business methods are easily transferable
- The intellectual property rights relating to the franchise have been registered or filed for registration in Indonesia.

Franchise activities are governed by MoT. Franchise regulations were simplified in 2019, making it easier for franchisees and franchisors to establish a business. Before entering into a franchise agreement, a franchisor must first obtain a franchise registration certificate (STPW) from MoT. There are no local content requirements, no limitation on the number of outlets and STPWs are not time limited.

Franchise trade events and associations can provide helpful information on opportunities and procedures. These include the **International Franchise, Licence and Business Concept Expo & Conference**, the **Franchise and Licence Expo Indonesia** and the **Indonesia Franchise Association**.

Establishing a franchise in Indonesia

Step	Procedure	Timeframe
1	**Complete and deliver a franchise agreement and prospectus to the franchisee**	2 weeks before executing the contract
2	**Apply for a Business Identification Number (NIB) and franchise registration certificate (STPW) on BKPM's OSS system**	5 days

C. Foreign-owned enterprise

Businesses may establish a separate, wholly-owned legal entity in Indonesia: a foreign investment company or PT PMA. Indonesia's Omnibus Law introduced new criteria for granting PT PMA licences, including a minimum invested capital of IDR 10 billion (AUD 990,000). For certain sectors, a business licence is only granted after a government risk analysis. Under the Positive Investment List, PT PMAs can be 100 per cent foreign owned unless subject to a specific limitation.

A PT PMA can take the form of a trading company. A trading company can import without the need for local importers, agents and distributors. Since regulations were introduced in 2021, a trading company can now use a Business Identification Number (NIB) as an import licence. As well as the NIB, importers must secure additional licences depending on the type of product to be imported.

A Limited Liability Company (PT PMDN) can also be established, but as these can only be owned by Indonesian nationals, foreign investors' rights will not be recognised under Indonesian law. Seek professional advice on the best structure for your business.

Establishing a foreign-owned enterprise in Indonesia

Step	Procedure	Timeframe
1	**Reserve a company name with the Ministry of Law and Human Rights**	6-8 weeks
2	**Determine the industrial business classification code (KBLI), based on the intended business activities**	
3	**Establish a legal entity with a Deed of Establishment and ratify it with the Ministry of Law and Human Rights**	
4	**Obtain a Tax Registration Number (NPWP) from the Directorate General of Taxes**	
5	**Obtain a Business Identification Number (NIB) through BKPM's OSS system**	
6	**Apply for additional business licences (depending on sector and based on the assessment of business risk level)**	

D. Joint Venture

A joint venture (JV) is an agreement between two or more parties to work together on a short-term or long-term project. JVs can be an effective way to undertake research and development, create a new product or provide a new service. By bringing together businesses that operate in different segments of the same industry, they can also be an effective way to build comprehensive product and service offerings. A local Indonesian partner can provide knowledge and contacts, as well as a realistic assessment of risk.

Each party is responsible for the profits, losses and costs associated with the activity, but a JV is an independent entity, separate from the parties' other businesses.

A JV is underpinned by a legal agreement between the parties. A typical agreement should include details on the:

- Legal basis for the agreement (which may not be Indonesian law)
- Structure, governance and obligations of the joint venture
- Division of profits and losses
- Ownership of intellectual property
- Disagreement or dispute resolution processes
- Leave or termination conditions

E. Public-Private Partnership

A Public-Private Partnership (PPP) is a contractual arrangement between the Indonesian Government and the private sector. Under a PPP, the private sector can build, operate and maintain public infrastructure facilities and provide services traditionally delivered by government. Examples of these are roads, airports, bridges, hospitals, schools, railways, and water and sanitation projects.

Indonesia adopted the PPP model in 2005 and has actively promoted private sector investment in key infrastructure projects. As of 2024, there are 34 projects in progress and a robust pipeline of potential projects and investment opportunities. PPPs are complex to structure and implement, but present opportunities for established businesses to enter the Indonesian market.

Establishing a PPP in Indonesia (from transaction phase)

Step	Procedure	Timeframe
1	**Apply to form a Special Purpose Company (SPC) as a legal entity**	12-18 months
2	**Sign a PPP agreement with the Government Contracting Agency (GCA)**	
3	**If there is a government guarantee, sign the guarantee agreement with the Indonesian Infrastructure Guarantee (PT PII)**	
5	**Depending on the business activity, an SPC must complete post-licencing procedures, including opening a bank account, and tax and labour registration**	
6	**Financial arrangements relating to the PPP must be completed within one year of signing the project contract. PJPK can extend this for a maximum of six months**	

3.3. Go to market strategy

Success in Indonesia requires businesses to tailor their product or service to the market. This should be based on detailed analysis of consumer trends, price consciousness, branding, marketing and advertising, and payment methods.

The Indonesian middle class is expected to grow by 76 million by 2030, making it the world's fourth largest consumer market after China, India and the US. Median disposable household income is forecast to grow by 30 per cent over the five years to 2026 (**Figure 3**). Understanding the characteristics, aspirations and spending habits of this emerging group of consumers is crucial for businesses looking to tap into the segment.

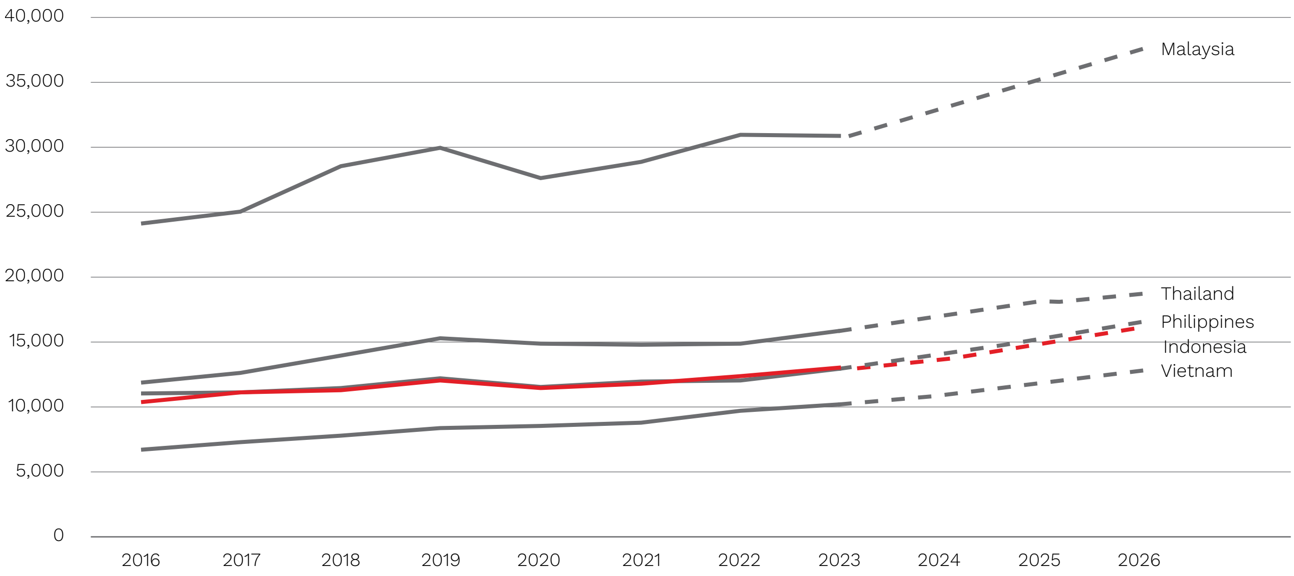
As more Indonesian consumers move into the middle-income segment, they are becoming more sophisticated in their spending habits and product choices. Products and services are increasingly targeting Indonesia's young consumer base, with personal wellbeing and development a growing segment. While many are spending cautiously in the context of inflationary pressures and fears of an economic slowdown, Indonesian consumers are confident in their economic outlook.

Businesses entering Indonesia should adjust their value propositions to cater to middle class consumer trends. Responding to more discerning spending habits by introducing tiered product lines, differentiating product offerings and avoiding product portfolio stagnation can help businesses succeed in the competitive Indonesian market.

Consumer trends in 2023

	Indonesia	Australia
Total consumer expenditure	**AUD 1.1 trillion**	**AUD 1.3 trillion**
Consumer Expenditure as % of GDP	**52.4%**	**51%**
Median Disposable Income per Household	**AUD 13,485**	**AUD 118,616**

Figure 3: Median disposable income per household (2016-2026f), AUD current prices



Source: Euromonitor International

Price consciousness

Despite rapid economic growth, average incomes in Indonesia are still relatively low. The national income per capita was AUD 4,856 in 2021, significantly lower than both Thailand (AUD 8,138) and Malaysia (AUD 11,850). Businesses must remember that price points designed for the middle class in one market may be out of reach for the middle class in another - slight price modifications to an already successful product can significantly boost sales.

Branding

Branding is an essential part of product differentiation, and companies need to research and understand the specific tastes of consumers to achieve success. Indonesian consumers value local and prominent high-quality brands. While this can be a disadvantage for new brands entering the market, targeted promotional campaigns can build a product's reputation and reach.

Australian businesses in some sectors enjoy a branding advantage simply by virtue of their products being made in Australia. Generally, Australian products have a strong reputation in Indonesia and an emphasis on Australian origin can be a marketing tool for businesses expanding into Indonesia, particularly in the food and beverage and agricultural sectors. Austrade's **Nation Brand toolkit** provides a range of free branding assets for businesses looking to export.

Marketing

A trade show can be a useful starting point for marketing in Indonesia. These are productive ways to reach out to new consumer bases and potential clients, while also offering insights into the operations of competitors.

Sales promotions may also help establish your brand with high-impact campaigns. Providing special discounts and events centred on your brand can be an effective way to build consumer loyalty and product awareness – particularly in sectors that are crowded with incumbents.

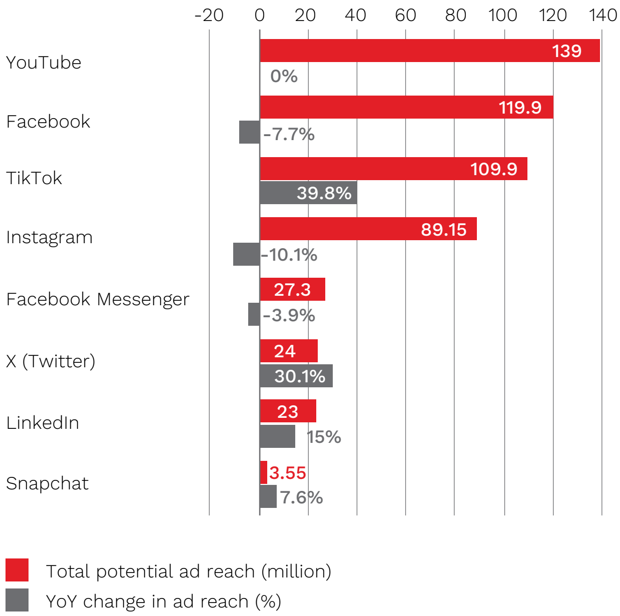
Digital marketing methods are becoming more common as smartphone penetration continues to grow. Email, text, search engine optimisation and social media marketing are now integral parts of a comprehensive marketing campaign.

Any marketing and promotional efforts – at trade shows, sales promotions or anywhere else – should translate information into Indonesian to ensure the greatest reach.

Advertising and media

Indonesia's young population is driving the uptake of mobile technologies and increasing the reach of digital advertising (**Figure 4**). YouTube advertisements reached 139 million Indonesians in early 2023 and TikTok advertisements reached 40 per cent of all adults aged 18 and above. Television and print advertisements remain a trusted marketing source across Southeast Asia, but with 82 per cent of Indonesians using a social media platform for brand research, a digital strategy is now an essential part of any advertising campaign.

Figure 4: Digital advertising audiences in Indonesia (2023)



Source: We Are Social

Foreign businesses should consider advertising in both English and Bahasa Indonesia – particularly with the growing use of English in Indonesia. When translating from English, however, care should be taken to ensure cultural and linguistic sensitivities. Local interpreters can aid in ensuring the suitability of your campaign.

Australian businesses looking to promote their products or services in Indonesia can seek professional help from local and international advertising and media companies.

Digital payments

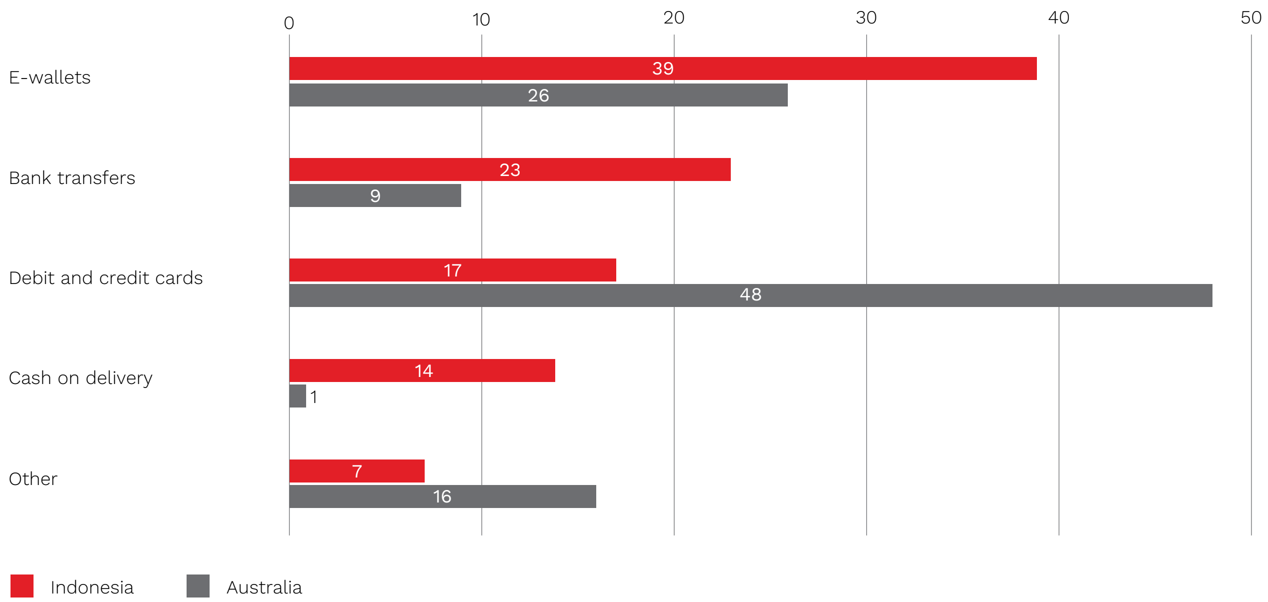
Cashless payments have become a major trend in Indonesia, with 179 million people making at least one digital payment in 2023. QR codes have become ubiquitous alongside rising smartphone penetration and financial inclusion rates.

Bank Indonesia's Quick Response Code Indonesian Standard (QRIS) has made all banks and e-wallets interoperable, resulting in an annual tripling of QR payments each year since its introduction in 2020. QR codes are also facilitating seamless and secure cross-border payments with the introduction of a regional QR code payment system linking Thailand, Malaysia, Vietnam, Singapore, the Philippines and Brunei.

The most popular B2C digital payment methods in Indonesia include e-wallets, bank transfers, debit and credit cards, and cash on delivery (**Figure 5**). The most popular app-based payment platforms are GoPay, OVO, Shopee Pay and Dana.

Digital payments can make financial transactions safer, cheaper and more convenient. As digital payment options continue to expand and evolve in the Indonesian market, businesses should consider integrating them into their business model.

Figure 5: Payment methods for B2C e-commerce, (2023) %



Source: We Are Social

3.4. Developing your market entry strategy

A well-considered market entry strategy should take a systematic approach that supports long-term success. This section distils the factors businesses should consider when formulating an approach to the Indonesian market into a series of key questions.

Asialink Business provides advisory services and capability training programs to help organisations understand and access opportunities in Asian markets. Should you have questions about any aspect of your Indonesia market entry strategy, please **contact us**. Austrade's Indonesia office also provides services and support to Australian businesses with an interest in Indonesia (details can be found in **Section 5.2**).

CALIBRATING AMBITION

- What is your company's aspiration for the market?
- What are the challenges and risks you will need to mitigate?

CONSUMERS

- What is the current or potential demand for your product or service in Indonesia?
- Who are the primary customers / consumers for your product or service in the market?
- How will you tailor your product or service to local preferences?

COMPETITORS

- Who are your competitors in the market, and what is their offering?
- How does your product or service compare to competitors on price?

SALES, BRAND AND MARKETING

- What is your unique value proposition for the market?
- What is the ideal mix of marketing and sales channels to reach your target customers?
- Is your marketing strategy aligned with your identified consumer base and value proposition?

MODE OF ENTRY

- What is the right market entry model for your business?
- What are the specific geographies you should target?

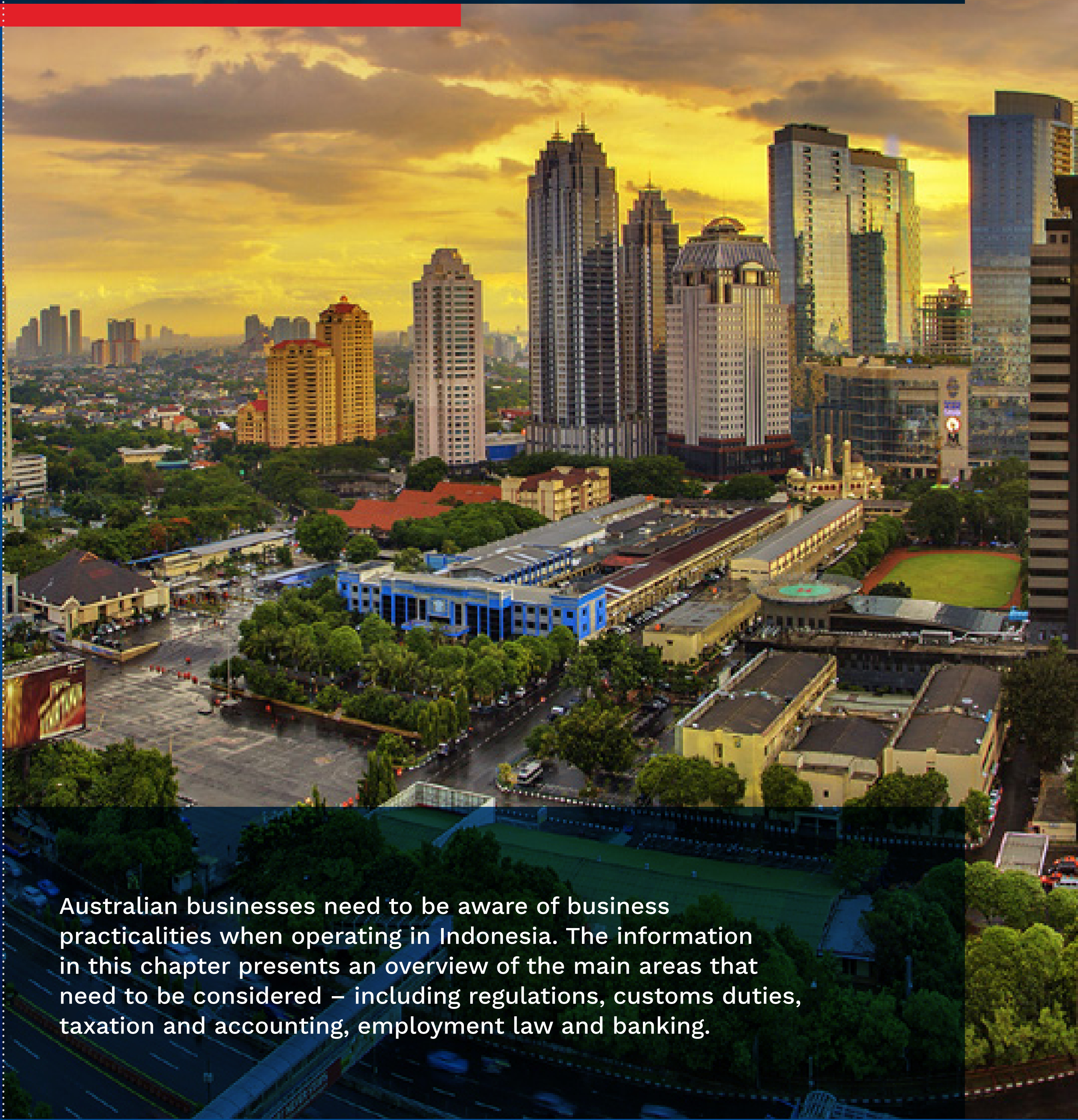
DELIVERY PARTNERS

- Does your team have the right mix of skills and expertise to support your market entry?
- What partnerships will contribute to your business' success in the market?
- What external advice do you need to commission?

OPERATING MODEL

- What changes do you need to make to your business across areas such as operations, HR, finance and IT?

4. Business practicalities



Australian businesses need to be aware of business practicalities when operating in Indonesia. The information in this chapter presents an overview of the main areas that need to be considered – including regulations, customs duties, taxation and accounting, employment law and banking.

4.1. Laws and regulations

Land and property rights

Australian businesses will encounter three key land rights regulations when establishing a company in Indonesia. These include:

- The right to use (*Hak Pakai*): Locals, foreign nationals and foreign legal entities that have a representative office can be granted the right to use land. This includes state land, freehold land and the right to manage land. The title is valid for 30 years and extendable for another 20 years for a maximum of 80 years.
- The right to build (*Hak Guna Bangunan*): A title that is granted on state or freehold land to Indonesian nationals and foreign companies PT PMAs to construct a building. The title is valid for 30 years and extendable for another 20 years for a maximum of 80 years.
- The right to cultivate (*Hak Guna Usaha*): Normally granted on state land, this title enables foreign PT PMAs to develop plantations. The title is valid for 35 years and extendable for another 25 years for a maximum of 95 years.

If businesses are granted title to use, build or cultivate, they must commence activities on the land within two years of the title being granted.

Foreigners and foreign legal entities can own apartments and houses located within SEZs, free trade zones (FTZs) and industrial estates, provided they are worth more than the minimum threshold for the province where the property is located.

Intellectual property

Indonesia's legal framework supporting intellectual property (IP) rights is underdeveloped. While it is a signatory to the Paris Convention, the Berne Convention, the Madrid Protocol and the WIPO Copyright Treaty, there is still uncertainty around patent protection, compulsory licenses and design rights.

The government body responsible for registration of IP rights in Indonesia is the Directorate General of Intellectual Property Rights (DGIP). You can acquire and register IP protection for trademarks, copyright, designs and patents through DGIP. Existing IP can be searched on the DGIP database at **dgip.go.id/**.

There are three main types of intellectual property in Indonesia: trademarks, patents and copyright. The following mechanisms are used for registration:

Protection	Detail	Duration
Trademarks	Granted by DGIP, trademarks protect letters, numbers, compositions, symbols, figures and colours that are used to identify a business' products or services. Indonesia uses the 'first to file' principal, in which prior use is not sufficient to qualify as a trademark.	Trademarks last for 10 years and can be renewed indefinitely. Registration can take up to 5 months.
Patents	Patents must be registered at DGIP. Patents are regulated under the Patent Law (2016), which defines a patent as a novel invention. Indonesia has two types of patents for technical inventions: patent protection for goods and processes, known as 'patents'; and patent protection for product improvements, known as 'simple patents'.	'Patents' are granted for 20 years; 'simple patents' are granted for 10 years. Registration takes up to 30 months for 'patents'; 10 months for 'simple patents'.
Copyright	As Indonesia is a member of the Berne Convention, copyright protection arises automatically when an original work is produced. Although not required, it is beneficial for artists to file copyright to the DGIP to validate the protection of the work.	As per the Berne Convention, the minimum protection from publication is: • 75 years for cinematographic works, photographic works, dramatic works, works of applied art and anonymous works. • 50 years after the death of the author for other works.

Violation of IP and enforcement options: Despite a challenging environment for IP enforcement, Indonesia's DGIP continues to work on improving enforcement mechanisms through anti-counterfeiting, dedicated taskforces, and an online portal for tracking cross-agency IP enforcement activities.

Businesses seeking to enforce their IP rights can file proceedings with Indonesia's Commercial Courts. Commercial Courts hear cases on IP cancellation, deletion, infringement and appeals of decisions of the Trademark Appeal Commission and Patent Appeal Commission. In 2023, the Central Jakarta District Court introduced an e-court registration system that provides a simplified filing system for civil IP proceedings.

Government authorities can issue fines up to IDR 2 billion (AUD 198,000) and four years imprisonment for trademark violations, IDR 1 billion (AUD 99,000) for patent violations and IDR 4 billion (AUD 395,000) and 10 years imprisonment for copyright violations.

Local content requirements

Local content requirements (LCRs) mandate the use of domestic inputs in industrial production to protect local industries or generate employment. Indonesia has one the most extensive LCR regimes in the world, impacting the telecommunications, pharmaceutical, METS, renewable energy and EV sectors, among others. Businesses should be aware of any LCRs for their respective sector when investing.

4.2. Customs duties

Import duties and tariffs

Import duty rates come in three categories: ordinary rates, preferential rates and special preferential rates.

- **Ordinary rates** apply to goods imported from countries outside the WTO system. Rates range from 0 to 170 per cent, although most imported items attract duties between 0 to 15 per cent.
- **Preferential rates** apply to goods from countries that have MFN status with Indonesia. MFN rates are applicable to goods imported from any WTO member state.
- **Special preferential rates** apply to goods from countries that have a preferential trade agreement with Indonesia. Australian businesses qualify for special preferential rates through the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA), the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and the Regional Comprehensive Economic Partnership (RCEP).

To find the tariff rate for specific goods, visit the Department of Foreign Affairs and Trade's FTA Portal at **ftaportal.dfat.gov.au/**.

The Directorate General of Customs and Excise (DJBC) is responsible for levying tariffs on imported goods. For up-to-date information visit **beacukai.go.id**.

Special Sales Tax (SST) applies to some products in addition to import duties. Value Added Tax (VAT) will also be applied to imported goods and services at a rate of 11 per cent (unless exempt under the VAT regulations).

An import tax of 7.5 per cent applies to consumer goods sold via e-commerce with a value between USD 3 (AUD 4.5) and USD 1,500 (AUD 2,260). Imported textiles, clothes, bags, shoes and cosmetics are subject to taxes ranging from 10 to 30 per cent.

Calculations and payments

Indonesia follows the WTO Valuation Agreement on imported goods with certain variations. Import duty is calculated by multiplying the imported good's dutiable value by the corresponding import duty rate. The dutiable value of imported goods is typically based on the cost, insurance and freight (CIF) level.

Exemptions

Import duty exemptions are provided for a range of goods and entities, including:

- Materials used for the production of export goods
- Newly established or expanding foreign companies in the construction and mining sectors.

Export duties

Export duties are charged on only a few items – leather, wood, cocoa beans, palm oil and metal mineral products.

Import and export regulations

MoT and the Ministry of Finance (MoF) are responsible for regulating trade in Indonesia. Under the Omnibus Law, MoT has the authority to issue approvals, verifications, obligations and licences on import-export activities.

Businesses require a Business Identification Number (NIB) to begin exporting, in addition to a range of other approvals depending on their product or service.

As discussed in **Section 3.1**, halal certification is required for most food and beverage imports and will be gradually introduced for a range of other products. Certification by Indonesia's Halal Product Assurance Organising Body (BPJPH) or an approved certification body in Australia is required.

Import restrictions apply to low-value items imported via cross-border e-commerce and quotas apply to products covered by the Commodity Balance System. This system has introduced a new process for acquiring import licences for specific commodities and permits the government to regulate imports based on domestic supply and demand.

4.3. Taxation

Indonesia's Directorate General of Tax (DJP) imposes a wide-ranging tax regime that includes income taxes (corporate and personal), turnover and indirect taxes (VAT and specific business tax), as well as land and buildings tax, stamp duty, carbon taxes and regional taxes.

This section provides an overview of the taxes Australian businesses can expect to face when operating in Indonesia. Not all applicable taxes are covered in this guide, and the information provided is general. Businesses should seek professional tax advice for understanding the taxes specific to their activities and the tax practices specific to Indonesia, including how tax rates and refunds are applied.

Table 1: Overview of Indonesia's taxes for businesses

Tax	Tax rate (%)
Corporate income tax	22
Capital gains tax	20
Branch tax	20
Withholding	
Dividends	15
Interest	0-10
Royalties	10-15
Branch remittance tax	0

Corporate Income Tax (CIT)

Businesses are subject to the tax rates imposed under the Harmonised Tax Law (2021). The standard CIT rate is 22 per cent. Companies incorporated in Indonesia are taxed on their worldwide income.

Branches of foreign companies are only taxed on profits from operations in Indonesia. Laws have been passed but not yet implemented that require businesses that engage in offshore e-commerce and meet certain economic presence criteria to be treated as a permanent establishment and subject to CIT.

Indonesia has signed double taxation avoidance agreements with more than 70 other countries, including Australia. These treaties eliminate double taxation by identifying exemptions or reducing liabilities in Indonesia for Australian businesses and residents.

Personal income tax

Individuals who meet one or more of the following criteria are classified as tax residents under Indonesian law:

- Have been physically present in Indonesia for 183 days or more in any 12-month period
- Have a permanent residence in Indonesia
- Are present in Indonesia during a fiscal year and intends to reside in Indonesia.

Personal income tax (PIT) generally applies to tax residents' worldwide taxable personal income, although the Omnibus Law has added a provision to the Income Tax Law that foreigners who have become domestic tax subjects can be taxed only on Indonesian-sourced income (including if paid offshore) if they meet certain skill requirements. This provision is available for the first four years from becoming a tax resident.

For individuals not classified as tax residents, a flat PIT rate of 20 per cent applies to employment income from Indonesia. However, the double taxation agreement between Australia and Indonesia may affect this rate.

Table 2: Personal income tax rates

Annual taxable income	Tax rate (%)
Residents – Employment income	
IDR 0 – 60 million (AUD 0 – 5,930)	5
IDR 60 – 250 million (AUD 5,930 – 24,708)	15
IDR 250 – 500 million (AUD 24,709 – 49,416)	25
IDR 500 million – 5 billion (AUD 49,419 – 494,167)	30
More than IDR 5 billion (AUD 494,167)	35
Residents – Other income	
Business income	0.5
Interest/dividends	10
Sale of shares	0.1 (of proceeds)
Sale of real estate	2.5-5
Income from franchising/ royalties	15
Non-residents	
Employment income	20
Business income	0.5
Interest/dividends	10-20
Sale of shares/capital assignment	0.1 (of proceeds)
Sale of real estate	2.5-5

Indirect taxes

Value added tax (VAT): VAT is a broadly-based consumption tax applied to most goods and services bought and sold in Indonesia. All companies and individuals conducting business in Indonesia must pay VAT on applicable goods and services.

VAT is charged at two different rates:

- **0 per cent:** Applies to exports of goods and services
- **11 per cent:** The standard VAT rate that applies to all goods and services.

The VAT law allows the Indonesian Government to change the rate within the range of 5 to 15 per cent.

Non-resident suppliers of digital services within Indonesia are required to collect 11 per cent VAT.

Luxury-goods sales tax (LST): In addition to VAT, some imported goods are subject to LST, including motor vehicles, luxury boats and aircraft. Rates range from 10 to 125 per cent.

Land and buildings tax (PBB): Land and buildings tax is a regional tax. It covers all land and buildings except for those in forestry, plantation, mining and industries located in national waters outside the territory of the regional area. The maximum PBB rate is 0.5 per cent on the sale value of the land or building.

Carbon tax: A carbon tax is imposed on carbon emissions. The carbon tax rate is a minimum of IDR 30/kg CO_2e (AUD 0.003) for all emissions that exceed a specific cap. The tax will be implemented in stages according to market readiness, beginning with the coal-fired power sector.

4.4. Audit and accountancy

Auditing and accountancy play a vital role in enhancing transparency and accountability in a business, especially one engaged in a foreign market. It increases business performance by identifying risks and highlighting areas for improvement.

Accounting standard

Local and foreign businesses are required to comply with the Indonesian Financial Accounting Standards (SAK) when recording financial transactions.

Australian businesses with Indonesian operations often manage two accounting records, one based on SAK and the other on Australian Accounting Standards (AAS).

The Indonesian Financial Accounting Standards Board (DSAK) - the independent national accounting standard-setting body - has committed to full adoption of the International Financial Reporting Standards (IFRS).

Statutory audits

Annual financial statements of foreign-invested business entities must be audited by an independent auditor in Indonesia if they have assets exceeding IDR 50 billion (AUD 4.9 million).

Books and records

Accounting records must be in the Indonesian language. However, foreign investment companies, permanent establishments, subsidiaries of foreign companies and taxpayers can present their financial statements in English. Approval must be granted by DJP.

The Indonesian Rupiah should be used as the accounting currency. Companies need permission from DJP to use the US Dollar, the only other eligible currency.

The Indonesian financial year is the calendar year (1 January – 31 December). All companies must retain records used in the preparation of their accounting books for 10 years.

Quality control

MoF's Centre for Supervision of Financial Service (PPPK) is the independent audit oversight authority and is responsible for the supervision of the accountancy profession, including monitoring the professional activity of statutory auditors.

The PPPK issues practicing licenses to individual auditors and audit firms, establishes the requirements to obtain and maintain a practicing license, sets continuing professional development requirements for auditors, and investigates and disciplines individual auditors and audit firms.

The PPPK is a member of the International Forum of Independent Audit Regulators and the ASEAN Audit Regulators Group.

4.5. Employing workers

Doing business in Indonesia will often require employing local and foreign workers. Understanding Indonesia's labour market regulations, recruitment methods and country-specific management styles is crucial to building and supporting an effective team.

Labour market

Skill level: Indonesia has a large, young but under-skilled workforce. Skills shortages have emerged due to outward migration of skilled workers, an aging population and a lack of capacity to provide education and training. Although an upper secondary qualification is often the minimum requirement for successful labour market participation, 42 per cent of Indonesians aged between 25 and 34 years have not received one.

Employment contracts: Businesses can hire workers on either fixed term (PKWT) or ongoing (PKWTT) contracts. Fixed term contracts can be either project-based, time-based or based on non-permanent work. The contract type determines the nature of work and contract period.

Contract type	Type of work	Contract period
Fixed-term contract		
Project based	Temporary or one-off	No specific maximum period but contract must include details on the expected time for project completion
Time based	Short-term, seasonal or related to product development	Maximum five years (including extension)
Non-permanent	Based on volume or time	Maximum 20 days per month
Ongoing	Not specified	Not specified, but usually a three-month probationary period

Ongoing contracts are the most common type of employment contract in Indonesia. A probationary period of three months is standard, during which time either party can terminate the contract with one to four weeks' notice. Once the probationary period is over, an employer must issue a letter declaring the employee ongoing.

Minimum wage: Indonesia's Omnibus Law has changed the formula for calculating the minimum wage, eliminated sectoral minimum wages and introduced provisions for hourly wages.

The minimum wage applies to all workers who have worked less than one year in a company. After one year, the employee is paid in accordance with the wage scale of the company. Provincial governments determine the minimum wage based on economic and employment conditions.

Table 3: Monthly minimum wage

Province	IDR	AUD
DKI Jakarta	5,067,381	501
Papua	4,024,270	398
Bangka Belitung	3,640,000	360
North Sulawesi	3,545,000	350
Aceh	3,460,672	342
Central Sulawesi	3,434,298	339
Riau Islands	3,402,492	336
West Papua	3,393,000	335
North Kalimantan	3,361,653	332
East Kalimantan	3,360,858	332
Riau	3,294,625	326
Central Kalimantan	3,282,812	324
South Kalimantan	3,282,812	324
West Kalimantan	3,261,616	322
North Maluku	3,200,000	316
Gorontalo	3,025,100	299
Maluku	2,949,953	291
Southeast Sulawesi	2,885,964	285
South Sumatra	2,811,499	278
West Sumatra	2,811,499	278
North Sumatra	2,809,915	278
Banten	2,727,812	270
Bali	2,713,672	268
Bengkulu	2,507,079	248
West Nusa Tenggara	2,444,067	241
Lampung	2,276,496	225
East Nusa Tenggara	2,186,826	216
East Java	2,165,244	214
Special Region of Yogyakarta	2,125,897	210
West Java	2,057,495	203
Jambi	2,037,121	201
Central Java	2,036,947	201

Note: City minimum wages can be different to the province in which they are located.

Human resources and employment law: Key pieces of human resources and employment law include the Job Creation Law No. 2 (2022), the Labour Union Law No. 21 (2000) and the Industrial Relations Dispute Settlement Law No. 2 (2004). The Job Creation Law No. 2 (2022) has reformed major elements of Indonesia's labour law framework. Changes include alterations to minimum and hourly wage calculations, income support for redundant workers and severance payments.

Working hours: 40 hours per week, either seven hours per day for six days or eight hours per day for five days.

Holidays: Workers are entitled to 12 days of annual paid leave.

Overtime: Employers must provide overtime pay if work exceeds seven hours per day across six working days or eight hours per day across five working days. Employees are paid overtime for work on weekends and public holidays.

Overtime Rates

Weekdays	First hour: Hourly wage x 1.5 Second and subsequent hours: Hourly wage x 2
Weekends or public holidays	
Companies with five working days	First eight hours: Hourly wage x 2 Ninth hour: Hourly wage x 3 Tenth and subsequent hours: Hourly wage x 4
Companies with six working days	First seven hours: Hourly wage x 2 Eighth hour: Hourly wage x 3 Ninth and subsequent hours: Hourly wage x 4

Sick leave: Employees are entitled to sick leave as certified by a doctor. There is no set number of days for sick leave, but an employee's salary is reduced depending on the duration of the leave:

- 0 – 4 months: Employer pays 100 per cent compensation
- 4 – 8 months: Employer pays 75 per cent compensation
- 8 – 12 months: Employer pays 50 per cent compensation
- + 12 months: Employer pays 25 per cent compensation.

Social, health and unemployment contributions: All employees in Indonesia, including expatriates and their families, are required to participate in the National Social Security System (SJSN). Contributions include accident protection (AP), death insurance (DI), unemployment insurance (UI), old age saving (OAS), health insurance (HI) and pension (P).

Contribution rates are as follows:

	Employee (%)	Employer (%)
AP	-	0.24-1.74
DI	-	0.3
UI	-	Reallocated from AP and DI
OAS	2	3.7
HI	1	4
P	1	2
Total	10.5%	21.5%

Ending employment: Indonesia's Omnibus Law has relaxed regulations around employee termination. Employers can now terminate an employment contract with 14 days' notice by notifying the employee in writing, outlining the reasons for termination and any termination payments and entitlements.

Severance pay: Severance pay is based on an employee's length of employment. Rates range from one month salary for less than one year service to nine months' salary for more than eight years of service.

Recruiting staff

Online advertising: Online job advertisements are an effective way to access talent. There are several useful websites in Indonesia for online advertising:

- **Jobstreet** is a popular Jakarta-based generalist online jobs board and part of the SEEK Ltd group jobstreet.co.id/
- **Indeed Indonesia** is part of the Recruit Holdings group with a database of over 175 million resumes id.indeed.com/
- **Kalibrr** has around 2.5 million active job seekers and partnerships with 18,000 companies kalibrr.id
- **Jobindo** is a popular jobs board used by over 6,000 companies and 150,000 job seekers jobindo.com/.

Executive search: Executive search firms can provide tailored searches for more senior roles. International firms such as Robert Walters, Keller, Monroe and BTI have offices in Indonesia.

Work permits: Indonesian entities can recruit foreign workers by preparing a Foreign Worker Utilisation Plan (RPTKA) and submitting it to the Ministry of Manpower (MoM). This document must provide details of employment, including the nature of the work, position and length of employment. The company must prove that the foreign applicant is required to fill the role. Work permits are granted for between six months and five years, with the possibility of extension.

4.6. Banking

Foreign companies establishing a presence in Indonesia will need a local bank account to conduct business. To open a bank account in Indonesia, companies will need to visit a branch and present certain legal documents, including a deed of establishment, a decree from the Ministry of Law and Human Rights, Business Identification Number, tax card and BKPM approval.

Most banks offer both rupiah and foreign currency saving accounts for USD, Singapore Dollar, Japanese Yen, Euro, Hong Kong Dollar, Swiss Franc and AUD. The most common foreign currency used by businesses in Indonesia is USD.

There are three common bank accounts available in Indonesia:

- **Savings account.** The most common account that allows for real-time transfers.
- **Deposit account.** Offers higher interest rates and withdrawals require an agreement with the bank.
- **Checking account.** Payments can be made through cheques or demand deposit (GIRO).

Australian banks in Indonesia:

- **ANZ** operates in Indonesia as PT Bank ANZ Indonesia. It offers a range of products and services for corporate clients, including corporate and commercial banking, trade finance and cash management services. It has an established presence in Jakarta.

Foreign exchange controls

The IDR is freely convertible. However, Bank Indonesia (BI) prohibits the purchase of foreign exchange against the rupiah for amounts greater than USD 25,000 (AUD 38,000) per month without evidence of an underlying transaction.

All domestic financial transactions must be conducted in IDR, but regulatory exemptions have moderated the effect on foreign businesses operating in Indonesia. Among others, these exemptions include:

- Transactions for the purpose of international trade
- Bank deposits in foreign currencies
- International transactions where either the provider or receiver of the financing is domiciled overseas.

BI can issue exemptions from the mandatory use of rupiah for non-cash transactions based on the maturity of the businesses, the continuity of the business activity, any investment activity and the broader interests of national economic development.

5. Appendices

Understanding the relationship between economics, politics and government can give businesses an edge when entering Indonesia. This chapter provides general information on political and legal structures, relevant government agencies, key economic zones and the bilateral relationship with Australia.

5.1. Country information

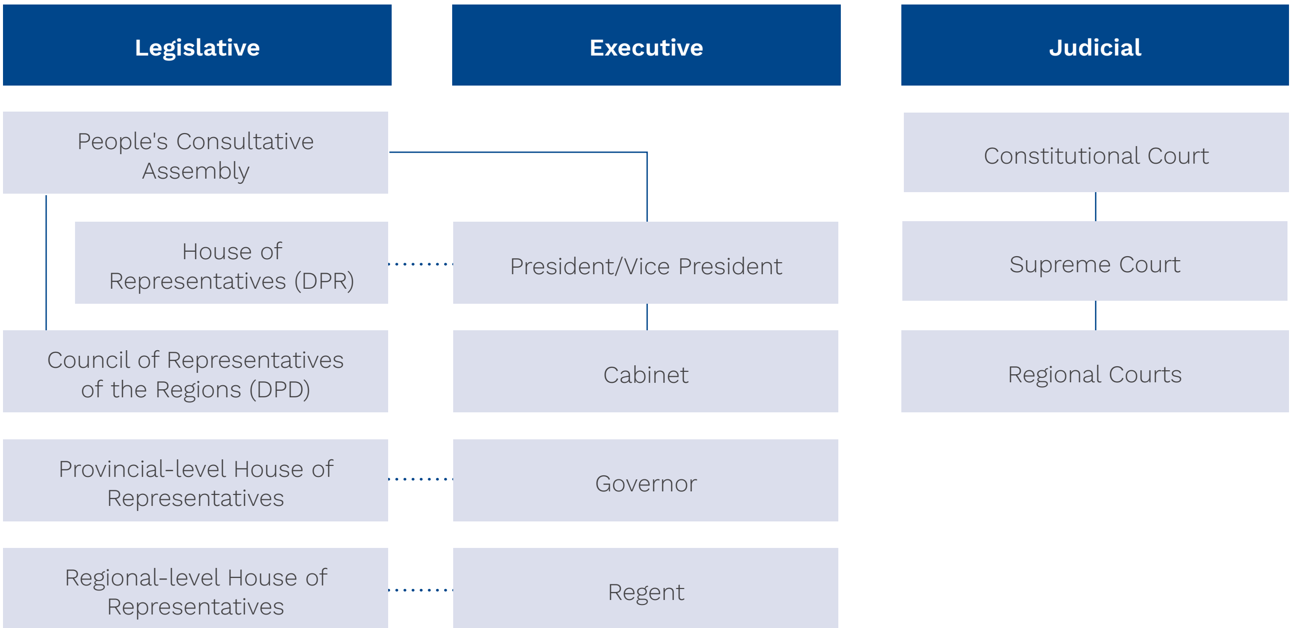
Politics and government

Indonesia is a presidential republic divided into 38 provinces. Parliamentary representatives are elected to the People's Consultative Assembly (MPR) every five years. The MPR has two houses: the House of Representatives (DPR) made up of 575 seats, and the Council of Regional Representatives (DPD) made up of 136 seats. The DPR adopts legislation, passes the budget and ratifies international agreements. The DPD debates and presents bills on regional matters.

The president is the head of state and government, appoints government ministers and approves legislation adopted by the DPR. The president and vice president are elected as a pair by popular vote for a maximum of two consecutive five-year terms. The president can issue government regulations instead of laws, but these must be approved by the DPR at its next session to remain in force.

No single party dominates the political scene. In the 2019-2024 legislature, nine parties have seats in the DPR. No single party has ever held a majority in Parliament. A lack of strong ideological positions among the major parties enables the formation of broad coalitions.

Indonesia's government and judicial structure



Legal system

Indonesia's judiciary is based on the legal system inherited from the Dutch colonial administration. Elements of Islamic law exist, including in dispute resolution mechanisms between Muslims, but Sharia law is practiced only in the province of Aceh.

The Supreme Court manages the judicial system. Supreme Court judges are proposed by the Judicial Commission and approved by the president. Members of the Judicial Commission are approved by the DPR and appointed by the president.

Specialised courts have responsibility for specific matters. These include the Commercial Court, Anti-Corruption Court, Fisheries Court, Human Rights Court, Tax Court, Religious Court, State Administrative Court and Military Court.

Key government agencies

Key government agencies and industry associations will need to be consulted throughout the process of setting up a business in Indonesia. Some of these agencies can also be useful for providing advice and initiating contacts.

The main agencies and their areas of authority relating to foreign businesses are:

Government agency	Responsibilities	Website
Indonesia Investment Coordinating Board (BKPM)	Regulates and promotes domestic and foreign investment in Indonesia. BKPM administers the Online Single Submission (OSS) system and is the first point of contact when establishing a business in Indonesia.	regionalinvestment.bkpm.go.id/portal/
Ministry of Trade (MoT)	Services and supports the domestic and international commercial and trading sector in Indonesia.	representative.kemendag.go.id/
Ministry of Law and Human Rights	Approves the establishment of foreign owned companies in Indonesia.	centralauthority.kemenkumham.go.id/
Ministry of Manpower (MoM)	Oversees corporate governance, industrial relations, worker social security and regional development. Also responsible for granting work permits to companies employing foreign nationals in Indonesia.	kemnaker.go.id/
Ministry of Finance (MoF)	Formulates fiscal and financial sector policy and oversees budgeting, taxes, customs and excise.	kemenkeu.go.id/en/home
Directorate General of Tax (DJP)	Under the Ministry of Finance, DJP collects state revenue via taxes and ensures taxpayer compliance. It also makes, implements and interprets tax laws and handles tax assessment related disputes.	pajak.go.id/en
Directorate General of Customs and Excise (DJBC)	Responsible for collecting state revenue associated with import activities including import duties.	beacukai.go.id/
Bank Indonesia (BI)	The central banking agency sets monetary policy, supervises financial institutions and regulates payment system. It is a useful source for Australian businesses seeking an overview of economic conditions in Indonesia.	bi.go.id/en
Directorate General of Immigration	Controls and monitors all immigration related matters including issuance of visas and stay permits for foreigners, expatriate workers and residents in Indonesia.	kemenkumham.go.id/

Free trade and special economic zones

Indonesia has launched a system of free trade zones (FTZ) and special economic zones (SEZ) to encourage the establishment of businesses and industries. These zones offer various administrative incentives, including easier licensing processes, tax concessions and advanced infrastructure.

The largest free trade zone is the FTZ islands of Batam, Bintan and Karimun. Located just south of Singapore, this FTZ is designed to create an international logistics hub to support Indonesia's industrial, trade, maritime and tourism sectors. Investors are exempt from import duty, income tax, VAT and sales tax on imported capital goods, equipment and raw materials.

Buoyed by the success of the Batam, Bintan and Karimun FTZ, SEZs were created to attract greater levels of foreign investment. SEZs offer similar benefits, including a reduction of CIT, customs duty and expedited import/export processes. Special incentives exist for technology start-up investments. There are twelve SEZs in operation (see illustration on right) and seven in the planning phase.

Indonesia-Australia bilateral relationship

The Indonesia-Australia relationship is underpinned by regular high-level visits and institutional cooperation, including through the G20, East Asia Summit and ASEAN Regional Forum. In addition to promoting regional stability and prosperity, both countries are committed to defence and security cooperation, ASEAN centrality and people-to-people exchange. The relationship was elevated to a Comprehensive Strategic Partnership in 2018.

Backed by integration and professional exchange, the trade and investment relationship has the potential to develop into one of Australia's most important. Both countries are members of the Asia-Pacific Economic Cooperation (APEC) and the Regional Comprehensive Economic Partnership (RCEP). The 2021 **Blueprint for Trade and Investment with Indonesia** aims to take advantage of the opportunities afforded by the Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA).

Further information on the bilateral relationship is available from **DFAT**.

Indonesia's Special Economic Zones (SEZ)

Arun-Lhokseumawe SEZ

Province: North Aceh

Year of completion: 2017

Primary industries: Energy, petrochemical, agriculture, logistics and paper production

Sei Mangkei SEZ

Province: North Sumatra

Year of completion: 2012

Primary industries: Palm oil and rubber

Tanjung Api-Api SEZ

Province: Central Sumatra

Year of completion: 2014

Primary industries: Palm oil, rubber, petrochemicals and logistics

Tanjung Lesung SEZ

Province: Banten

Year of completion: 2012

Primary industries: Tourism and creative economy

Tanjung Kelayang SEZ

Province: Bangka Belitung	
Year of completion: 2016	
Primary industries: Tourism	

Maloy Batuta Trans-Kalimantan SEZ

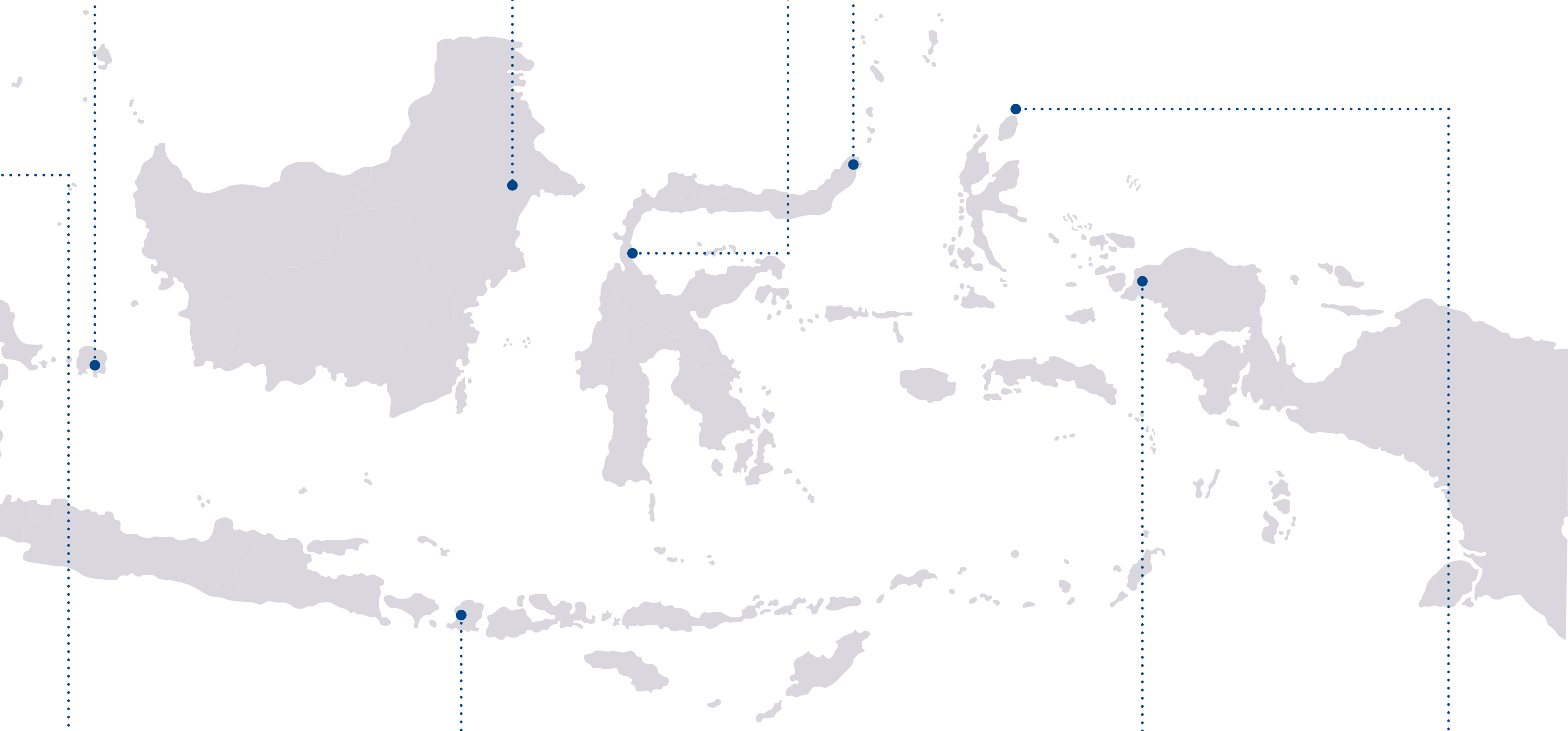
Province: East Kalimantan	
Year of completion: 2014	
Primary industries: Palm oil, timber and logistics	

Palu SEZ

Province: Central Sulawesi	
Year of completion: 2014	
Primary industries: Mining, cocoa, rubber, rattan, sea grass, heavy equipment manufacturing, automotive, electronics and logistics	

Bitung SEZ

Province: North Sulawesi	
Year of completion: 2014	
Primary industries: Fish, manufacturing (coconut and medicinal plants) and logistics	



Mandalika SEZ

Province: West Nusa Tenggara	
Year of completion: 2014	
Primary industries: Tourism	

Galan Batang SEZ

Province: Riau Islands	
Year of completion: 2017	
Primary industries: Mineral processing, textiles, garments, automotive and light industry	

Sorong SEZ

Province: West Papua	
Year of completion: 2016	
Primary industries: Fishery and marine transportation, shipyard, logistics, agriculture and mining	

Morotai SEZ

Province: North Maluku	
Year of completion: 2014	
Primary industries: Tourism, fish processing, manufacturing and logistics	

5.2. Useful contacts and support resources

Government organisations

Australian Department of Foreign Affairs and Trade (DFAT)

dfat.gov.au/geo/indonesia

DFAT manages Australia's international network, including in Indonesia. Australia has an Embassy in **Jakarta**, and three Consulates-General in **Bali**, **Makassar** and **Surabaya**.

Austrade

austrade.gov.au/en/contact-us/international-offices/indonesia

Austrade is the Australian Government agency responsible for facilitating international trade and investment. Austrade can provide advice on the market, potential in-market partners and export marketing services. Austrade has offices in Jakarta and Surabaya.

Export Finance Australia

exportfinance.gov.au

EFA provides information, support and export finance solutions to Australian businesses looking to expand overseas.

State government agencies

Many state government agencies have representatives or offices in Indonesia, including **New South Wales**, **Queensland**, **Victoria**, **Western Australia**.

Business and industry associations

AustCham ASEAN

austchamasean.com/

The ASEAN-Australia Chamber of Commerce represents and promotes Australian businesses operating in Southeast Asia. AustCham ASEAN coordinates a regular program of business seminars, networking and social functions for the business community in Indonesia.

Australia Indonesia Business Council / Indonesia Australia Business Council

aibc.com.au/

The Australia Indonesia Business Council (based in Australia) and its counterpart the Indonesia Australia Business council (based in Indonesia) promote bilateral trade and investment opportunities between Australia and Indonesia. They offer networking, cultural awareness programs and resources on the Indonesian market.

Export Council of Australia

export.org.au/

The Export Council of Australia is the peak industry body for the Australian export community.

Programs and support

Go Global Toolkit

export.business.gov.au/

Austrade's Go Global Toolkit provides market advice, legal and regulatory guidance and export readiness assessments.

Export Market Development Grants (EMDG)

austrade.gov.au/en/how-we-can-help-you/grants/export-market-development-grants

Austrade seeks to help small to medium Australian enterprises grow their exports in international markets through their EMDG grant program.

Industry Growth Program

industry.gov.au/science-technology-and-innovation/industry-innovation/industry-growth-program

The Industry Growth Program supports innovative SMEs undertaking commercialisation or growth projects in **the National Reconstruction Fund priority areas.**

State or territory government trade and investment agencies may also run programs and provide support to businesses looking to expand into international markets. Please consult your relevant state or territory agency for more information.

5.3. References

A select list of sources used in the development of this publication are included below.

Australian Department of Education

Australian Department of Foreign Affairs and Trade

Australian Trade and Investment Commission (Austrade)

Dezan Shira and Associates

Economist Intelligence Unit

Euromonitor

EY

Google

IMF

Indonesian Government (various sources)

International Federation of Accountants

International Labour Organisation

King & Wood Mallesons

McKinsey & Company

OECD

PWC

The Heritage Foundation

Transparency International

S&P Global

US Chamber of Commerce

US Department of State

US International Trade Administration

We Are Social

World Bank

5.4. A note on currency

All money amounts are in Australian Dollars unless otherwise indicated.

Exchange rate used is the historical rate for the previous twelve months.

AUD 1 = USD 0.664

AUD 1 = IDR 10,123

5.5. Acknowledgements

Asialink Business gratefully acknowledges the assistance and information from the following individuals and organisations in the production of this Doing Business Guide:

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Department of Foreign Affairs and Trade

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5.6. Disclaimer

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