Indonesia Client Update

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EMPLOYMENT

Indonesia's New Manpower Protection Law (Law No. 27 of 2026): Part 2 - Fixed-Term Employment, Outsourcing, Foreign Workers, and Other Employment Relationships



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This alert is the second in a three-part series on the Manpower Protection Law. The Law was promulgated on 28 October 2026 and took effect on the same date. Part 1 covered termination of employment. Part 2 covers the structure of the employment relationship, namely fixed-term employment, probation, outsourcing, foreign workers, and specific work arrangements. Part 3 will cover wages, leave, and other employee benefits and protections.

Key Takeaways

- **Fixed-term employment:** A fixed-term employment agreement (PKWT) may run for an initial term of up to two years, with two extensions of up to one year each, for a maximum of four years (previously five). Each PKWT must be in writing and registered within three working days of signing.

- **Outsourcing:** Outsourcing is generally limited to cleaning, catering, security, and employee transportation. While exemption applies for mining and petroleum companies and state-owned enterprises, they can only outsource certain additional work and such outsourcing must be carried out through their own limited liability company subsidiaries. Providers must be limited liability companies, and companies have one year to align their arrangements.

- **Foreign workers:** Foreign workers may not hold any position or perform any function relating to personnel or human resources management, and shareholder-directors and shareholder-commissioners are no longer exempt from the Foreign Workforce Utilisation Plan (RPTKA) requirement. Failure by an employer other than an individual to pay foreign workers fairly or to repatriate them is a criminal offence punishable by a fine.

- **Specific work arrangements:** The Law recognises gig-economy and platform-based work as a new category, with entitlement to reasonable income, occupational health and safety protection, and social security.

- **Probation:** Probation terms must be set out in writing, failing which the employee is treated as permanent from the first day. Employees on probation must receive at least 75% of the wage for the position and be enrolled in social security. Failure to do so is a criminal offence.

Part 2 looks at how Law No. 27 of 2026 on Manpower Protection ("**Manpower Protection Law**") structures the employment relationship. Many details are left to implementing regulations, which are due within one year, and the platform-based arrangements will be governed by a separate law. Until then, existing implementing regulations remain in force to the extent they do not conflict with the Manpower Protection Law.

Approximate reading time: 9 mins

Fixed-Term Employment

The Manpower Protection Law revises the rules on fixed-term employment agreement (*Perjanjian Kerja Waktu Tertentu* or "**PKWT**"). The initial term returns to the two-year limit in Law No. 13 of 2003 on Manpower, while the total maximum of four years is shorter than the five years allowed under Law No. 6 of 2023 on Stipulation of Government Regulation in Lieu of Law No. 2 of 2022 on Job Creation into Law.

Term and extension

A PKWT may run for an initial term of up to two years and may be extended twice, each time for up to one year, thus a maximum of four years. An employer that intends to extend a PKWT must notify the employee in writing at least seven days before the expiry of the agreement.

Form, language, and registration

A PKWT must be in writing, and a PKWT that is not in writing converts automatically into an indefinite-term employment agreement (*Perjanjian Kerja Waktu Tidak Tertentu* or "**PKWTT**"). A written PKWT must be made in Bahasa Indonesia and Latin script. Employers that fail to do so are subject to a written warning and/or an administrative fine.

Each PKWT must be registered by the employer within three working days after signing. Registered agreements may be accessed by the employee and by labour inspectors.

Conversion into an indefinite-term agreement

A PKWT also converts automatically into a PKWTT where the employee performs work that is permanent in nature, or where the PKWT is entered into for work other than the types of work permitted for fixed-term employment.

Compensation and implementing regulations

The Law retains administrative sanctions for employers that fail to pay compensation (*uang kompensasi*) upon expiry of a PKWT, in the form of written warning, an administrative fine, and/or temporary suspension of business activities.

The types of work that may be performed under a PKWT, applicable term and extension limits, and other requirements will be set out in a Government Regulation. Until it is issued, existing implementing regulations, including Government Regulation No. 35 of 2021 ("**GR 35/2021**"), remain in force to the extent they do not conflict with the Law. The Law does not specifically address PKWTs entered into before its enactment.

Outsourcing (*Alih Daya*)

The Manpower Protection Law reintroduces restrictions on outsourcing similar to those that applied under Law No. 13 of 2003 before the Job Creation reforms. This may require companies to reassess which functions they currently outsource.

Permitted outsourcing

Companies generally may outsource only four supporting services: cleaning, catering, security, and employee transportation. The Law does not indicate that other work may still be outsourced.

Two groups have a wider scope. Mining and petroleum companies (including state-owned enterprises) may outsource supporting services specific to those sectors, and state-owned enterprises may outsource work that is not directly related to their main activities. In both cases, the work may be outsourced only to the company's own subsidiaries established as limited liability companies.

Transfer of employment

If outsourced workers perform activities directly related to the principal company's production process, their employment relationship transfers to the principal company by operation of law, restoring the position before the Job Creation reforms.

Outsourcing providers

Most obligations of outsourcing providers carry over from GR 35/2021. The Law additionally requires providers to be established as limited liability companies, develop their employees' competencies, and refrain from reducing or withholding employees' normative rights under their employment agreements. Where outsourced work continues after a change of provider, the new provider must recognise the employee's period of service with the previous provider in calculating the maximum term of fixed-term employment. Providers without a licence are subject to administrative sanctions.

Transition

Companies have one year from the promulgation of the Law to align their outsourcing arrangements, and existing outsourcing agreements remain valid until they expire. Mining and petroleum companies and state-owned enterprises without a subsidiary may use their existing providers for up to one year while they establish or acquire one.

Further provisions regarding outsourcing are intended to be regulated in implementing regulations. In the absence of new implementing regulations, existing implementing regulations continue to apply as long as they do not conflict with the Law.

Foreign Workers

Most of the foreign worker (*Tenaga Kerja Asing*) provisions in the Manpower Protection Law restate requirements already found in implementing regulations, principally Government Regulation No. 34 of 2021 ("**GR 34/2021**"), or in established practice. The change is that these obligations are now found in the Law itself, and certain breaches carry administrative and, in some cases, criminal sanctions.

Permitted positions

Previously, foreign workers were prohibited only from holding positions in charge of personnel matters. In practice, however, this prohibition was broadly applied to any role performing human resources functions. The Manpower Protection Law adopts the broader approach: employers may not employ foreign workers in any position or work that has a function in managing personnel or human resources matters. Therefore, the prohibition extends beyond the formal job title to cover the function actually performed. A breach will subject the employer to sanctions under the Law, which could lead to revocation of the business licence. The Law contains no transitional rule for foreign workers currently employed in such roles.

Additionally, the Law provides that foreign workers may only be employed in positions that cannot yet be filled by Indonesian workers, and requires employers to prioritise the employment of Indonesian workers. This priority principle is already applied under the previous framework.

RPTKA, approval, and compensation fund

Employers must still obtain a Foreign Workforce Utilisation Plan (*Rencana Penggunaan Tenaga Kerja Asing* or "**RPTKA**") approved by the Minister of Manpower, as was already required under GR 34/2021. In addition, the Law requires a separate ministerial approval for the use of foreign workers (*pengesahan penggunaan Tenaga Kerja Asing*). Previously, approval of the RPTKA itself served as that approval. Whether the new requirement will operate as a separate licensing step will depend on the implementing regulation.

The categories exempt from the RPTKA requirement have also changed. Shareholder-directors, shareholder-commissioners, foreign shareholders, and foreign workers engaged in vocational or start-up activities are no longer exempt. By contrast, foreign nationals who have been married to an Indonesian citizen for at least five years are now exempt. The existing exemptions for diplomatic and consular staff, and for emergency, business visit, and research purposes, remain.

The Law introduces a new rule for foreign workers who are children of a lawful marriage between an Indonesian citizen and a foreign national. Unlike foreign spouses of Indonesian citizens, they are not exempt from the RPTKA requirement. Instead, they may be employed under a special RPTKA and special approval, with the requirements and procedures to be set out in a Government Regulation. Until then, it remains unclear how this special regime will differ from the standard RPTKA process.

Employers must also continue to pay the Foreign Worker Compensation Fund (*Dana Kompensasi Penggunaan TKA*), subject to the existing exemptions.

Wages and repatriation

Employers must now pay foreign workers on the basis of fairness and non-discrimination, having regard to the worker's competency and position. Employers also remain obliged to repatriate foreign workers to their country of origin when the employment relationship ends. While this obligation already existed under GR 34/2021, it carried no sanction. Now, under the Law, a corporate employer that fails to comply with either obligation commits a criminal offence punishable by a fine of currently IDR200 million to IDR2 billion. Payment of the fine does not release the employer from the underlying obligation to pay fair wages or to repatriate the foreign worker.

Language training and skills transfer

Employers must continue to facilitate Indonesian language training for foreign workers, with the same exemptions as under GR 34/2021 for directors and commissioners, heads of representative offices, supervisors and management and supervisory board members of foundations, and foreign workers employed on a temporary basis. Non-compliance now attracts a written warning, an administrative fine, and/or temporary suspension of business activities, replacing the previous sanction of suspension of the RPTKA process.

Sanctions

The Law introduces a broader range of administrative sanctions, in some cases extending to revocation of the employer's business licence, where employers:

1. do not have an RPTKA and an approval for the use of foreign workers;
2. employ foreign workers in positions or functions relating to personnel management or human resources;

3. fail to appoint or provide appropriate education and training to an Indonesian counterpart employee for technology and skills transfer purposes; or
4. fail to facilitate Indonesian language education and training for foreign workers.

Separately, failure to pay foreign workers fairly or to repatriate them constitutes a criminal offence, as described above.

Specific Work Arrangements

The Manpower Protection Law introduces Specific Work Arrangements (*Hubungan Pekerjaan Tertentu*), a new category for the performance of specific work that may take the form of a partnership, including work through digital platforms, or another agreement for the performance of work. Partnership arrangements will be regulated by a separate law, while other arrangements will be governed by a Ministerial Regulation.

Individuals engaged under these arrangements are entitled to reasonable income, occupational health and safety protection, social security protection, and other rights agreed between the parties. The Law does not link reasonable income to the minimum wage applicable to employees, and the applicable standard remains to be clarified.

Probation and Appointment Letters

The Manpower Protection Law adds requirements for probation and documentation of PKWTT.

Probation

As before, probation may only be imposed under a PKWTT, may not exceed three months, and is prohibited under a PKWT. The Law emphasises firmly that the probation terms must be set out in the PKWTT or in a written appointment letter. Otherwise, the probationary period is treated as not existing, and the employee will be treated as a permanent employee from the first day. This means that employers cannot pay probationary wages or end the employment based on failed probation, and an employee who meets the requirements and completes the probation must be appointed as a permanent employee.

Employers remain prohibited from paying wages below the applicable minimum wage. Additionally, employers are now required, at a minimum, to pay employees on probation at least 75% of the wage applicable to the relevant position and to enrol them in BPJS programmes. Paying less or failing to enrol the employee is a criminal offence, punishable by imprisonment of up to two years and/or a fine of currently up to IDR50 million and, for corporations, by a fine of currently IDR200 million to IDR2 billion.

Appointment letters

Where a PKWTT is entered into verbally, the employer must issue a written appointment letter stating the employee's name and address, commencement date, type of work and salary, as well as the employer's name and signature. Without the letter, any probationary period is treated as not existing because the probation terms have not been agreed in writing. Failure to issue the letter is now subject to administrative sanctions in the form of a written warning, an administrative fine, and/or restrictions on business activities, replacing the criminal fine under Law No. 13 of 2003.

What Employers Can Do Now

The Manpower Protection Law took effect on 28 October 2026, and employers should consider reviewing their employment arrangements now.

- **Foreign workers:** Check foreign workers' roles for any personnel or human resources function, and whether any foreign worker previously exempt from the RPTKA requirement now requires one. Check wage policies against the fairness and non-discrimination requirement, and check language training and counterpart arrangements. Monitor the implementing regulation on the approval for the use of foreign workers.

- **Fixed-term employment:** Check PKWT terms and templates against the new limits, including written form, Bahasa Indonesia, registration, and extension notice.

- **Probation and appointment letters:** Check offer letters and PKWTT templates for written probation terms, probation wages, and social security enrolment. Remove probation clauses from PKWT templates, issue written appointment letters for oral PKWTTs, and set documented assessment criteria for probation.

- **Outsourcing:** Check which functions are outsourced against the permitted services, whether outsourced workers perform activities directly related to the production process, and whether providers are licensed limited liability companies. Plan any restructuring within the one-year adjustment period. State-owned enterprises and mining and petroleum companies without a subsidiary should plan to establish or acquire one.

Specific work arrangements: Companies engaging individuals under partnership or platform-based arrangements should check them against the new entitlements and monitor the separate law and Ministerial Regulation.

If you have any queries on the above, please reach out to our team set out on this page.

For regional Employment matters, please see Rajah & Tann Asia's Employment Practice for more information.

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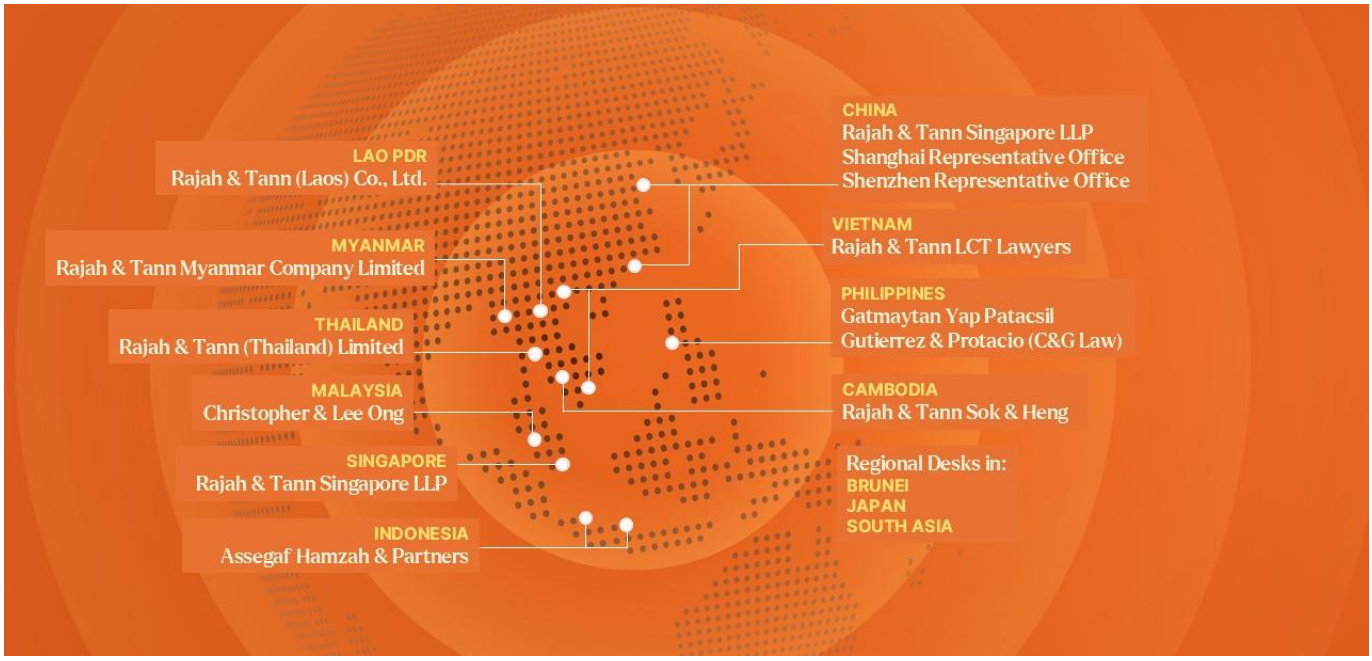
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