

EMPLOYMENT

Third Time's the Charm? What Indonesia's Draft Manpower Protection Law Means for Employers



Key Takeaways

- The DPR is deliberating a bill that would replace Indonesia's current manpower framework. It is not yet law, but the DPR aims to pass it by 8 October 2026.
- Termination rules would tighten. The two efficiency-based termination grounds would be removed, preventive measures would become a precondition to bipartite negotiation, and severance multipliers would rise for several grounds.
- A new employer-funded severance programme (*jaminan pesangon*) would pre-fund severance obligations. Employers would remain liable for any shortfall.
- Sectoral minimum wages would have to be at least 5% above the regional minimum wage, and employers would have to negotiate their wage structure and scale with worker representatives.
- Fixed-term contracts (PKWT) would be capped at four years, and outsourcing would be limited to five categories of supporting services. Outsourced workers doing production work would be converted as employees of the user company.
- Digital platform workers would gain statutory protections, including social security, algorithm transparency, and protection against unilateral account deactivation.
- Employers should also note what is missing. The Draft has almost no transitional rules for terminations that are currently under way, existing PKWT, or existing outsourcing arrangements.

Approx. 8 min read

Indonesia's manpower law may be heading for another major overhaul. The House of Representatives ("**DPR**") is considering a draft Law on Manpower Protection dated 27 August 2026 ("**Draft**"). The Draft follows the amendments made by the Job Creation Law (Law No. 6 of 2023) and Constitutional Court Decision No. 168/PUU-XXI/2023 ("**Decision 168**").

Decision 168 partially granted a challenge to the manpower provisions of the Job Creation Law, modifying 21 provisions covering, among other things, foreign workers, fixed-term employment, outsourcing, working time, wages, termination, and severance. The Court also directed lawmakers to enact a standalone manpower law within two years, by the end of October 2026.

The Draft would replace the current statutory framework on manpower, principally Law No. 13 of 2003 on Manpower as amended from time to time. The DPR adopted the Draft as its own initiative bill on 27 August 2026, so the next stage is deliberation with the Government. The DPR has said that it aims to pass the law by 8 October 2026.

This update discusses a bill, not an enacted law. None of the Draft's provisions are in force, and until a new law is passed, the current framework, including Decision 168, continues to apply. The text may change materially during deliberations, and several key mechanisms are left to implementing regulations. This update reflects the 27 August 2026 version as at 2 October 2026.

What matters most for employers

Not all of the Draft is new. Its provisions broadly fall into three categories.

- Provisions that codify rules already in force, including those reflecting the Constitutional Court's interpretation of the current regime;

- Provisions that restore rules or entitlements changed by the Job Creation Law; and
- New provisions with no equivalent in either the pre-2020 or the current framework.

For employers, the most significant changes, discussed below in no particular order, concern termination, a new severance benefit programme (*jaminan pesangon*), wages, fixed-term employment (*perjanjian kerja waktu tertentu* or "PKWT"), outsourcing, and informal and digital platform work.

1. Tighter restrictions on termination

The Draft would change the termination regime in three ways:

- **Narrower termination grounds**

The Draft lists 14 grounds for termination. Most mirror the current grounds, but the Draft does not retain the two forms of efficiency-based termination: termination due to financial losses and termination to prevent anticipated financial losses.

In practice, this would materially limit employers' options for reducing headcount outside a corporate transaction or closure. Where no unilateral ground applies, employers may need to rely on mutual separation agreements.

- **Preventive measures**

Measures to avoid termination currently appear mainly in ministerial circulars as guidance, largely aimed at mass terminations and financial difficulty. The Draft would make them a statutory condition that must be completed before bipartite negotiation could begin. The measures include reducing overtime and working hours, temporary lay-offs (*merumahkan*), not renewing fixed-term contracts when they expire, and offering early retirement.

The Draft does not make it clear whether employers would need to take every measure, in order, or whether showing that appropriate measures were considered and taken would be enough to establish that termination was a last resort. Implementing regulations may address this.

- **Higher severance multipliers**

The Draft would increase the multiplier applied to statutory severance pay (*uang pesangon*) for the following termination grounds. Each increase returns the multiplier to the level in Law No. 13 of 2003 as originally enacted, before Government Regulation No. 35 of 2021 reduced it:

Termination Grounds	Current (Government Regulation 35 of 2021)	Draft
Employee does not wish to continue after a merger or change of ownership	0.5x	1x
Closure due to sustained losses	0.5x	1x
Force majeure	0.5x	1x
PKPU (suspension of debt payments) or bankruptcy	0.5x	1x
Employee breach after warning letters	0.5x	1x

Termination Grounds	Current (Government Regulation 35 of 2021)	Draft
Employer does not retain employee after merger	1x	2x
Employee resigns due to employer misconduct	1x	2x
Retirement	1.75x	2x

The above increase does not affect long-service pay (*uang penghargaan masa kerja*).

Together, these changes would add time and cost to headcount reductions, fewer grounds for unilateral termination, additional steps before bipartite negotiation can begin, and higher severance where termination proceeds.

2. A new severance security programme

The Draft would introduce *jaminan pesangon*, a new social security programme funded by employer contributions. The contribution rate and detailed mechanism would be set by a Government Regulation. The programme would not replace the employer's severance obligation. If the amount available under the programme fell short of the employee's statutory entitlement, the employer would pay the difference. Any excess would be returned to the employer.

In effect, the programme would change how severance is funded rather than create a new entitlement. Employers would pay towards potential severance costs throughout employment, instead of meeting them in full when employment ends.

3. Expanded wage-related obligations

The Draft would make several main changes to employers' wage obligations.

First, sectoral minimum wages would apply in sectors designated by the governor on the recommendation of the wage council. Provincial sectoral minimum wages would be mandatory, as required by Decision 168, while regency or city sectoral minimum wages would remain discretionary. Each would have to be at least 5% above the corresponding provincial or regency/city minimum wage, and would be reviewed annually. The 5% premium and the annual review are new.

Second, employers would have to negotiate their wage structure and scale with worker representatives or trade unions, and attach it to their company regulations (*peraturan perusahaan*) or collective labour agreement (*perjanjian kerja bersama*).

4. Shorten PKWT period

The Draft would reduce the maximum total duration of a PKWT, including extensions, from five years to four years. A PKWT could be extended no more than twice, for up to one year each time, and the employer would have to give written notice of an extension at least seven days before the current term expires.

For work expected to be completed within a relatively short period, the maximum PKWT duration would be two years.

A PKWT that did not meet these requirements would automatically become a PKWTT (*perjanjian kerja waktu tidak tertentu* or permanent employment).

5. Outsourcing restrictions

The Draft would limit outsourcing to either supporting services or services that are not directly connected with the production process. The Draft further identifies five activities as supporting services:

- cleaning services;
- catering for workers;
- security services;
- supporting services in the mining and petroleum sectors; and
- worker transportation.

Compared with the list under Ministry of Manpower Regulation No. 7 of 2026 on Outsourcing Work, the Draft no longer expressly includes operational supporting services or supporting work in the gas and electricity sectors. Article 80(2) of the Draft separately permits outsourcing of work that is not directly connected with the production process, which suggests that the five categories are not an exhaustive list.

An outsourced worker who performed work directly connected to production would by law become an employee of the company using the outsourced services.

The Draft would also give outsourced workers a way to enforce this status. If bipartite negotiations failed, the worker could ask a labour inspector to examine the arrangement, and then apply to the District Court to ratify the inspector's findings (*nota pemeriksaan*).

6. Protections for informal and digital platform workers

The Draft would extend statutory protections beyond conventional employment to informal workers and digital platform workers.

For informal workers, the Draft would require the person engaging them to pay fair and decent remuneration, taking into account working time, the risk of the work, and the operating costs the worker bears. Informal workers would have a right to social security, with government contribution assistance for vulnerable workers covering at least work accident and death benefits. Disputes would go first to deliberation and then to the District Court.

For digital platform workers, the Draft describes them as having flexible working time, task organisation and workplace, and as being paid based on completed tasks, app algorithms and performance incentives. They would be entitled to:

- social security protection;
- reasonable earnings;
- occupational health and safety protection;
- transparency about the algorithms used to allocate work, assess performance and determine pay;
- protection against having their accounts deactivated unilaterally without clear reasons;
- a mechanism to object to deactivation; and
- the right to form and join trade unions.

The Draft does not specify who would owe these obligations, although the nature of the rights points to the platform company. The reference to termination of the partnership also suggests that the Draft would keep the existing partnership (*kemitraan*) model rather than treat platform workers as employees.

Transition

The Draft does not provide a transitional period for existing arrangements. Implementing regulations would have to be issued within one year of promulgation, and existing implementing regulations would remain in force to the extent they do not conflict with the new law.

It is unclear how the new rules would apply to arrangements already in place when the law takes effect, such as fixed-term contracts that would exceed the new limits, terminations already under way, and outsourcing arrangements outside the permitted scope. The final text or the implementing regulations may address this.

What employers can do now

The Draft may still change, and employers do not need to change their practices yet. They can, however, start identifying where they would be affected:

- **Restructuring:** Review any planned terminations against the narrower grounds, the new preventive steps, and the higher multipliers.
- **Employment costs:** Estimate the effect of higher severance multipliers, future *jaminan pesangon* contributions, and changes to the sectoral minimum wage requirements.
- **Wage structure and scale:** Consider how negotiating the structure and scale with worker representatives would work in practice, particularly where there is no union.
- **Fixed-term contracts:** Identify PKWT that would exceed the four-year limit or the two-extension cap, and check renewal procedures, including notice.
- **Outsourcing:** Check each outsourced activity against the five permitted categories.
- **Platform and informal workers:** Map where the business relies on platform or informal workers. Platform operators should also review their account deactivation and algorithmic decision processes.
- **Documentation:** Make sure records such as overtime and working-hours data would show that preventive measures were taken before any termination.
- **Contingency planning:** Identify the decisions that would need to be made once the law and its implementing regulations are issued.

What to expect next

The DPR has said it aims to pass the law by 8 October 2026. Several key details, including the *jaminan pesangon* contribution rate and the detailed termination, wage and outsourcing rules, would be set by implementing regulations, and the practical impact will depend on those as much as on the law itself.

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