

EMPLOYMENT

Indonesia's New Outsourcing Rules: Minister of Manpower Regulation No. 7 of 2026 and What It Means for Employers



Indonesia has introduced a new framework for outsourcing (alih daya) under Minister of Manpower Regulation No. 7 of 2026 on Outsourcing ("Regulation 7/2026"), which came into force on 30 April 2026.

While concise in form, Regulation 7/2026 reflects a significant policy shift. It is expressly issued as a follow-up to Constitutional Court Decision No. 168/PUU-XXI/2023 and arrives shortly ahead of International Labour Day (May Day) 2026. The Ministry of Manpower has publicly framed the regulation as part of the government's effort to enhance legal certainty, strengthen worker protection, and preserve business continuity.

For employers, the message is direct: outsourcing remains permissible, but within a narrower, more formalised, and with increased exposure to labour inspection.

Key Takeaways

Regulation 7/2026 introduces five principal changes:

1. Outsourcing is restricted to specified supporting activities;
2. Mandatory provisions must be included in outsourcing agreements;
3. Registration of outsourcing agreements is required;
4. User companies are expressly required to ensure that outsourcing providers comply with statutory worker protections; and
5. Administrative sanctions apply for non-compliance.

Permitted Scope of Outsourcing

Regulation 7/2026 confirms that outsourcing is now expressly limited to supporting activities in the form of labour service provision. The permitted categories are:

- Cleaning services;
- Supply of food and beverage;
- Security;
- Supply of drivers and employee transportation;
- Operational support services; and
- Supporting work in mining, oil, gas, and electricity sectors.

The inclusion of "operational support services" introduces flexibility, but also interpretive risk. Companies should not assume that any non-core operational function qualifies simply because it is labelled "support". The safer approach remains a functional analysis, namely whether the activity is genuinely ancillary to the user company's core business.

Mandatory Outsourcing Agreement Requirements

Regulation 7/2026 requires all outsourcing arrangements to be documented in a written outsourcing agreement containing, at a minimum:

- Description of the outsourced work;
- Term of the agreement;
- Work location;
- Number of outsourced workers;
- Worker's rights and protections, which at least include provisions regarding:
 - a. Wages and overtime pay;
 - b. Working hours and rest periods;
 - c. Annual leave;
 - d. Occupational safety and health;
 - e. Social security;
 - f. Religious holiday allowance (THR); and
 - g. Rights upon expiry or termination;
- Rights and obligations of both the outsourcing company and the user company.

This minimum content requirement effectively elevates the outsourcing agreement into a core compliance document, subject to potential scrutiny by labour inspectors. In practice, labour inspectors will be able to test not only whether an agreement exists, but also whether its content satisfies the regulation.

Increased Compliance Burden for User Companies

A notable feature of Regulation 7/2026 is the express obligation on the user companies to ensure that outsourcing companies comply with statutory labour protections and rights of outsourced workers.

This is a critical development in the outsourcing regime in Indonesia. The user companies can no longer treat worker protection as purely the outsourcing companies' internal employment matter. While outsourcing companies remain the direct employers of the outsourced workers, user companies are now required to take an active oversight role. This requirement shifts outsourcing from a purely commercial arrangement to one requiring ongoing compliance monitoring.

In practice, user companies must not only accommodate their commercial pricing and service-level assessment concerns, but also incorporate in their outsourcing vendor management:

- Legal and HR compliance checks or due diligence on outsourcing vendors;
- Ongoing compliance audits; and
- Stronger contractual protections (e.g. indemnities, reporting obligations).

Registration Requirement

Outsourcing companies must register the outsourcing agreements with the local manpower office where the work is performed within three working days of execution.

The local manpower office may suspend issuance of the registration if:

- The outsourced activities fall outside permitted categories; or
- The outsourcing agreement does not meet mandatory content requirements.

This creates a practical regulatory checkpoint for businesses, as deficiencies in documentation may create contractual risk and delay or jeopardise registration.

Sanctions

Regulation 7/2026 introduces progressive administrative sanctions for user companies that violate the permitted scope of outsourcing, including written warnings and business activity restrictions.

Business activity restrictions may include restriction on production capacity and/or delay in issuance of business licenses, particularly for multi-location operations.

This underscores that outsourcing compliance is no longer a technical or documentation issue, but one with potential operational consequences.

Transition Period

Existing outsourcing agreements remain valid until expiry. However, the types and fields of outsourced work currently used by outsourcing companies and user companies must be adjusted to comply with Regulation 7/2026 no later than two years from the Regulation's effective date (i.e. by 30 April 2028).

While this transition period provides some flexibility, it should not delay actions, particularly for long-term or operationally significant outsourcing arrangements. Companies with long-running outsourced operational roles should begin mapping those roles to determine which fall within the permitted categories, which require restructuring, and which should be brought in-house or converted into another lawful arrangement.

Recommended Next Steps for Businesses

Companies using outsourced manpower should immediately review:

- Whether the outsourced roles fall within the six permitted categories;
- Whether "operational support" roles are overly broad or misclassified;
- Whether existing outsourcing agreements meet mandatory content requirements;
- Whether agreements have been or can be registered within the required timeline;
- Whether vendor contracts include sufficient audits and adequate compliance safeguards such as indemnity, reporting, and compliance-monitoring mechanisms;
- Whether legacy outsourcing structures require adjustment within the two-year transition period or require insourcing;
- Whether the current business models align with the new outsourcing regulatory framework; and
- The duration of the existing outsourcing agreements between the outsourcing and user companies.

Conclusion

Regulation 7/2026 does not eliminate outsourcing in Indonesia. Rather, it makes outsourcing more structured, more document-driven, and more enforceable.

From a policy perspective, the government appears to be balancing two competing objectives: maintaining outsourcing as a legitimate business tool, while addressing long-standing labour concerns over job security and worker protection. For employers, the main risk is no longer only whether the outsourcing company is properly licensed. The more critical question is whether the outsourced activity itself can withstand regulatory scrutiny.

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