



ADVISORY
MAKARIM & TAIRA S.
COUNSELLORS AT LAW

Indonesia Simplifies Market Entry, Strengthens Compliance — Insights from Head of BKPM Regulation 5/2025

In an effort to attract more foreign investment and improve legal certainty, Indonesia has streamlined its risk-based business licensing system by lowering capital thresholds and introducing automatic approvals, while also tightening post-licensing supervision and enforcement.

The system's overhaul was mandated under Government Regulation No. 28 of 2025 on the Implementation of Risk-Based Business Licensing, issued on 5 June 2025. In line with this, the Minister of Investment and Downstream Industry/Head of the Investment Coordination Board ("**BKPM**") has issued Regulation No. 5 of 2025 on Guidelines and Procedures for the Implementation of Risk-Based Business Licensing and Investment Facilities Through the Electronically Integrated Business Licensing System (Online Single Submission – "**OSS**") ("**Regulation 5/2025**"), which took effect on 2 October 2025.

Regulation 5/2025 revokes and replaces the following BKPM regulations:

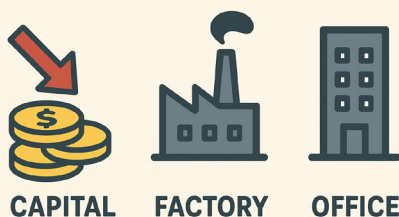


Regulation 5/2025 is an important step in Indonesia's efforts to modernize and streamline investment procedures. By reducing capital requirements, providing clearer licensing stages, expanding digital supervision, and introducing mechanisms such as the tacit approval (*fiktif positif*) policy and simplified reporting, this regulation is expected to create a more efficient, transparent, and investor-friendly environment.

The Regulation spans 256 pages, or 698 pages including its attachments, and sets out detailed provisions on risk-based business licensing. This advisory highlights fifteen key takeaways from Regulation 5/2025.

1

Minimum Capital Requirement and Investment Value



Minimum Capital Requirement: Regulation 5/2025 reduces the minimum issued and paid-up capital for foreign investment companies from IDR 10 billion to IDR 2.5 billion.

This capital cannot be transferred for 12 months after being deposited into the company's account (12-Month Restriction), unless it is used for legitimate business purposes such as buying assets, constructing buildings, or funding operations.

Minimum Investment Value: Foreign investment companies are classified as large-scale businesses and must invest more than IDR 10 billion per 5-digit Indonesian Standard Business Field Classification ("**KBLI**") per project location, excluding land and buildings.

Exceptions apply to the following sectors, where the investment threshold is measured differently:

1. Wholesale trade – per 4-digit KBLI.
2. Food and beverage services – per 2-digit KBLI per city/regency.
3. Construction services – per 4-digit KBLI.
4. Manufacturing – for multiple products produced in one production line.

Land and building values may be included in the investment total for certain sectors, such as property, accommodation, agriculture, plantations, livestock, and aquaculture.

For property development and management, the IDR 10 billion investment threshold applies:

- including land/buildings for integrated projects (entire buildings or housing complexes); or
- excluding land/buildings for individual property units outside integrated projects.

2

Basic Requirements: Spatial, Environmental, and Building-Related Approvals



Under the previous regulation, the basic licensing requirements primarily covered spatial conformity, environmental approval, and building approvals. Regulation 5/2025 expands the scope of the implementation of Risk-Based Business Licensing (“**PBBR**”) to include:

- a. Conformity of Spatial Utilization Activities (KKPR), Conformity of Marine Spatial Utilization Activities (KKPRL), and/or forest area approval;
- b. Environmental Approval (PL); and
- c. Building Construction Approval (PBG) and Certificate of Feasibility (SLF).

It also introduces a more detailed classification of basic requirements, including for land and marine spatial conformity (KKPR *Darat* and KKPR *Laut*), forest area approvals (including recommendations and technical considerations), environmental approvals, building approvals, and specific requirements for micro, small, and ultra-small businesses.

3

Issuance of Business License (“PB”), including the *fiktif positif* approach



AUTOMATIC APPROVAL AFTER SLA

The *fiktif positif* (tacit approval) mechanism means that if an applicant meets all requirements and the government fails to respond within the Service Level Agreement (SLA) period, the license will be automatically approved.

The main objective of the *fiktif positif* policy is to accelerate the licensing process and ensure legal certainty for investors. The policy will be implemented gradually for all risk-based licensing processes under

5/2025, starting with sectors such as agriculture, energy and mineral resources, marine affairs and fisheries, manpower, industry, and tourism.

4

Issuance of Supporting Business Licensing (“PB UMKU”)



PB UMKU can be applied for through the OSS System, either before or during a company’s operational or commercial phase.

PB UMKU covers licenses for: (i) product distribution; (ii) operational feasibility; (iii) product or service standardization; and (iv) other business facilitation needs.

Certain high-risk business activities may obtain accelerated PB UMKU if they are:

- located in Special Economic Zones, Free Trade Zones, or Industrial Estates; or
- part of a National Strategic Project.

5

Supervision Measures



Coordinated Supervision and Data Integration: Regulation 5/2025 envisions a coordinated supervision system, where supervision results from one authority are recognized across others. To enable this, the OSS System is expected to enhance its data integration capabilities, linking with national registries, regional licensing databases, as well as sectoral information systems. In practice, this could mean less duplication but more accountability, as supervision results will be centrally recorded and accessible across institutions.

Two-tier Supervision: Regular and Incidental: Regular supervision refers to periodic and planned monitoring activity conducted according to a predefined schedule. Incidental supervision, on the other hand, refers to trigger-based and unplanned monitoring conducted in response to, among other things, public complaints (**either through complaint channels or social media**), indications of non-compliance, as well as urgent and unforeseen events. Therefore, it is conducted through incidental site inspections with no prior notification to the targeted businesses.

Business Actor Profiling: Business actors will have a profile that aggregates data from licensing records, supervision reports (either regular or incidental), and other administrative databases. This profile allows authorities to categorize businesses according to their compliance behavior and operational characteristics.

The OSS System automatically processes Investment Activity Report (*Laporan Kegiatan Penanaman Modal* – “**LKPM**”) verification data and regular site inspection results to assign each business actor a compliance score (either very good, good, fair, or poor), which then determines the compliance profile of the business. The follow-up actions prescribed include:

- a. coaching or assistance, intended to maintain a high level of compliance and provide continuous support, including technical guidance;
- b. administrative sanctions for businesses with a compliance level of ‘fair’ or ‘poor’; and
- c. site inspections, either through regular or incidental supervision.

6

Minimum Investment for Public Electric Vehicle Charging Stations (SPKLU)

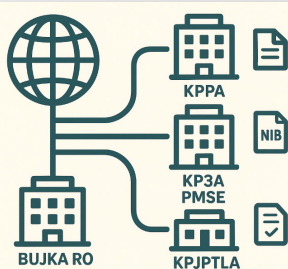


> IDR 10 billion investment

Regulation 5/2025 introduces a new minimum investment requirement of more than IDR 10 billion, excluding land and buildings, for public electric vehicle charging stations (SPKLU) **within one province**.

7

Representative Offices – KPPA and KP3A



Regulation 5/2025 updates the framework for Representative Offices (“RO”), covering the following types:

- Representative Office of a Foreign Company (*Kantor Perwakilan Perusahaan Asing* – KPPA);
- Representative Office of a Foreign Trading Company (*Kantor Perwakilan Perusahaan Perdagangan Asing* – KP3A);

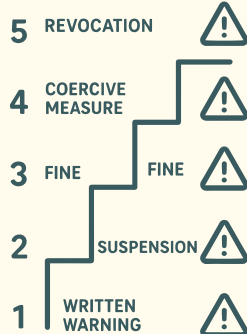
- KP3A in Electronic Commerce (*Bidang Perdagangan Melalui Sistem Elektronik – KP3A PMSE*);
- Representative Office of a Foreign Construction Services Business Entity (*Kantor Perwakilan Badan Usaha Jasa Konstruksi Asing – BUJKA RO*); and
- Representative Office of Foreign Electricity Support Services (*Kantor Perwakilan Jasa Penunjang Tenaga Listrik Asing – KPJPTLA*).

All ROs must now obtain a Business Identification Number (“**NIB**”), which was not mandatory under the previous regime. The NIB is valid for three years and can be renewed.

In addition, ROs must now submit Investment Activity Reports (LKPM) through the OSS System every six months, except for BUJKA Construction ROs and Foreign Electricity Support ROs, which are required to report annually.

8

Sanctions



Administrative sanctions for business actors who violate basic requirements, business licensing (PB), or supporting business licensing (PB UMKU) now include **administrative fines** and **administrative coercive measures**, applied in a more systematic and tiered manner to provide a restorative mechanism for violators.

The administrative sanctions consist of:

- Written warnings (including (i) first, second and third warnings, and (ii) first and final warning);
- Temporary suspension of business activities;
- Administrative fines;
- Administrative coercive measures;
- Revocation of basic requirements, PB and/or PB UMKU.

Highlights of the more detailed administrative sanctions under the new regulations include:

- **Temporary suspension:** now explicitly includes situations where a business actor is: (i) prohibited from conducting business activities; and/or (ii) **restricted from conducting corporate actions in the OSS System**.
- **Administrative fines:** business actors who fail to pay an imposed fine may face administrative coercive measures or revocation of risk-based business licensing (PBBR).
- **Administrative coercive measures** may include:
 - temporary suspension of public services;
 - seizure of goods or equipment that may cause or contribute to a violation;
 - withdrawal of products from circulation;
 - prohibition from operating;
 - closure of premises;
 - demolition of buildings;
 - other actions intended to stop violations that cause damage; and/or
 - other actions in accordance with the provisions of laws and regulations.

9

Steps in Engaging and Performing Business Activities

STARTING A BUSINESS



OPERATING A BUSINESS



The previous regulations only addressed the subsystem of business licensing services without providing a clear breakdown of the stages of business activities. Regulation 5/2025 now establishes a structured framework that divides business operations into two distinct stages:

- Starting a business (*memulai usaha*); and
- Operating a business (*menjalankan usaha*).

Starting a business stage consists of three sub-stages:

- Fulfilment of business legality, such as Minister of Law decree on the legalization of a company's legal entity status;
- Fulfilment of basic requirements, namely KKPR (for land or marine locations), 9 Steps in Engaging and Performing Business Activities and PL (for activities not requiring an Environmental Impact Analysis ("AMDAL") or Environmental Management Effort-Environmental Monitoring Effort ("UKL-UPL")); and
- Obtaining or submitting PB/PB-UMKU, where renewal no longer requires re-submission of basic requirements as long as they remain valid.

Once these steps are completed, businesses proceed to the operating stage, which is divided into:

- Preparation sub-stage (land acquisition, environmental approvals for AMDAL or UKL-UPL projects, building construction, equipment procurement, human resource preparation, trial production, and business standard compliance); and
- Operational/commercial sub-stage (production, logistics, distribution, marketing, and the requirement to obtain SLF prior to occupying any building).

10

Investment Activity Report (LKPM)



**DUE EVERY
QUARTER –**



OSS

The underlying principle for supervision remains unchanged: all investment activities in Indonesia must be monitored through LKPM submission. Large-scale enterprises, including foreign investment companies, are still required to submit LKPMs quarterly, but the deadline has been extended to the 15th day after the end of each quarter (previously the 10th).

In terms of business stages, the regulation distinguishes between:

- LKPM for the Preparation Stage, for business actors that have not yet commenced operations and/or commercial transactions; and
- LKPM for the Operational and/or Commercial Stage, for business actors that are ready to or already operating or conducting commercial transactions.

Both reports generally contain information on investment realization, employment data, revenue, fulfillment of business obligations, and operational challenges encountered.

11

Outward LKPM

QUARTERLY REPORTS via OSS

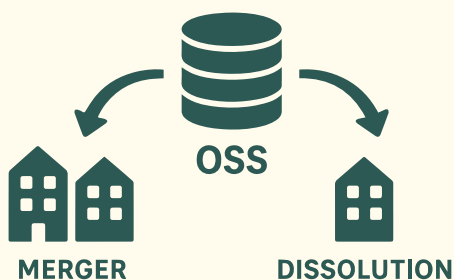


Indonesian companies investing abroad must now file quarterly LKPM reports (every three months) through the OSS System. The reporting obligations follow the same timelines and principles as those for domestic investment LKPM.

We understand this requirement is part of the government's effort to supervise anti-money laundering practices. Outward LKPM is also expected to form part of the compliance checklist in legal due diligence processes.

12

Merger, Spin-off, and Dissolution



Corporate restructuring actions such as merger (*penggabungan*), consolidation (*peleburan*), spin-off (*pemisahan kegiatan usaha*), and dissolution (*pembubaran*) are now explicitly accommodated under Regulation 5/2025.

Any deed effecting such actions must be validated in coordination with the Ministry of Law, and the OSS System must be updated with the new licensing data for the surviving or new entity. The NIBs and business

licenses of merged, dissolved, or otherwise terminated entities will be automatically cancelled once the deed is accepted and validated in the OSS System.

For spin-offs, business activities, assets, and liabilities may be transferred partially or fully to either affiliated or non-affiliated entities. Both the transferring and receiving entities must update the OSS System accordingly, including registering lines of business and applying for any required licenses. The OSS validation ensures that the newly spun-off entity is properly licensed according to its business activities under the updated structure.

This new update, particularly on spin-offs, provides greater legal certainty. It comes as state oil and gas company Pertamina prepares to spin off its non-core businesses as part of a restructuring strategy, which includes the potential merger of its aviation subsidiary, Pelita Air, with state-owned airline Garuda Indonesia. Another signal in the market is that the Financial Services Authority (OJK) recently disclosed that several major Islamic banks are planning spin-offs or restructurings in the near future.

13

Ease of Direct Construction in Industrial Estates (*Kemudahan Langsung Konstruksi di Kawasan Industri – KLIK*)



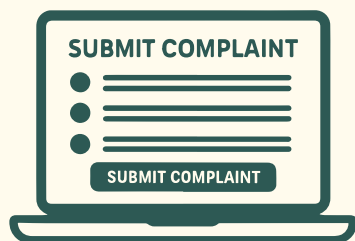
Businesses engaging in high- or medium-high-risk activities in Industrial Estates may benefit from direct construction facilitation, which allows construction to begin before all permits are finalized. This is part of the government's investment simplification policy.

Through the OSS System, eligible businesses automatically receive an NIB and supporting documents (an unverified Standard Certificate or a provisional license) authorizing pre-operational activities such as construction and trial production.

Before commencing full operations, a business must fulfill all licensing requirements, standards, and applicable payments. If these are not met, the provisional license will become invalid. The OSS System will automatically issue reminders to the business of any pending requirements.

14

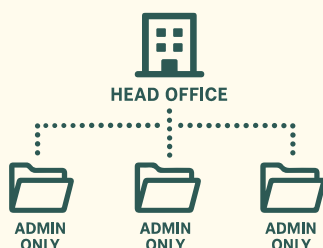
Public Participation and Reports



Public participation is now formally recognized. The public and business actors may participate in supervising business activities by submitting complaints either directly or electronically via the OSS System. Each complaint must be substantiated and will trigger verification, clarification, and, where necessary, enforcement actions or sanctions.

15

Administrative Branch Office



Regulation 5/2025 introduces the requirement to register administrative branch offices through the OSS System. These branches function solely for administrative purposes and are located separately from the head office or main business site. They are not allowed to conduct commercial activities. If a company has multiple administrative branches, it must submit data for each location.

Regulation 5/2025 required the OSS Agency to adjust the OSS System to comply with the new provisions by 5 October 2025. Its transitional provisions state that verified and approved basic requirements, business licensing (PB), and supporting business licensing (PB UMKU) issued through the risk-based OSS System before Regulation 5/2025 took effect remain valid in accordance with applicable laws and regulations.

Furthermore, applications for basic requirements, PB, PB UMKU, or investment facilities that were still being processed when the OSS System under Regulation 5/2025 became operational (i.e., by 5 October 2025) continue to be processed under BKPM Regulation No. 4 of 2024. Applications that remained unprocessed after that date are returned to the business actors, who must then submit new applications in accordance with Regulation 5/2025.

As Indonesia continues to streamline its investment environment, understanding the impact of Regulation 5/2025 will be key for businesses looking to stay compliant and competitive in this evolving market. Contact us to learn more about how these changes may affect your business in Indonesia.

Authors



Vincent Ariesta Lie
Partner
Vincent.Lie@makarim.com



Stephanie Kandou
Partner
Stephanie.Kandou@makarim.com



Maharanny Hadrianto
Senior Associate
Maharanny.Hadrianto@makarim.com



Rininta Shafira
Senior Associate
Rininta.Shafira@makarim.com



Ivan Juan Alfreda
Associate
Ivan.Alfreda@makarim.com



Kaila Arinta Nazneen Z
Associate
Kaila.Nazneen@makarim.com



Flaviana Meydi Herditha
Associate
Flaviana.Herditha@makarim.com



Alya Azalia Permata Sari
Associate
Alya.Sari@makarim.com

M&T Advisory is a digital publication prepared by the Indonesian law firm, Makarim & Taira S. It informs generally on the topics covered and should not be treated as legal advice or relied upon when making investment or business decisions. Should you have any questions on any matter contained in M&T Advisory, or other comments in general, please contact us at the emails provided at the end of this article.