



Indonesia Recasts Local Content as Investment Incentive: Key Highlights from the Ministry of Industry's New Regulation

In response to longstanding concerns that local content rules were hindering foreign investment, Indonesia has revamped its domestic content framework in an effort to make it more flexible, transparent and rewarding for companies that produce locally. The changes aim to attract onshore manufacturing, technology development and job creation.

Minister of Industry (“**MOI**”) Regulation No. 35 of 2025 on the Terms and Procedures for Certification of Local Content and Company Benefit Weights (“**MOI 35/2025**”) simplifies local content (*Tingkat Komponen Dalam Negeri* – “**TKDN**”) requirements and expands the incentives available to businesses. The new regulation, which is set to take effect on 11 December 2025, formally revokes the previous MOI Regulation No. 16 of 2011 on the Terms and Calculation of Local Content (“**MOI 16/2011**”).

The Indonesian government has issued a new regulation simplifying local content (*Tingkat Komponen Dalam Negeri* – “**TKDN**”) requirements, offering greater incentives for businesses and investors through the issuance of Minister of Industry (**MOI**) Regulation No. 35 of 2025 on the Terms and Procedures for Certification of Local Content and Company Benefit Weights (“**MOI 35/2025**”). This regulation, officially revokes several MOI regulations on local content,¹ including the key MOI 16/2011, and consolidates their provisions under a single framework.

While the overall approach to calculating TKDN remains largely consistent with the previous regime – considering factors such as the type of entity (local or foreign-owned), origin of materials, place of assembly or manufacture, and use of local labor – MOI 35/2025 introduces clearer formulas, designed to deliver greater benefits and flexibility to investors.

¹ MOI 35/2025 revokes the following regulations: (1) MOI Regulation No. 16 of 2011; (2) MOI Regulation No. 2 of 2014; (3) MOI Regulation No. 3 of 2014; and (4) MOI Regulation No. 46 of 2022.

Stronger Push for Investors: Expanded TKDN Incentives for PT PMA in Goods Production

Specifically for calculating TKDN for Goods (*TKDN Barang*), MOI 35/2025 now assigns fixed percentage weights to each production factor, as outlined below:

Production Factor	Weight in Calculation
Direct materials	75%
Direct labor	10%
Factory overhead (indirect costs)	15%

For example, if a company's direct materials have a local content level of 60%, its direct labor has a local content level of 60%, and its factory overhead (indirect production costs) has a local content level of 100%, the total TKDN value would be calculated as follows:

$$(60 \times 75\%) + (60 \times 10\%) + (100 \times 15\%) = 66\% \text{ TKDN.}$$

Under MOI 16/2011, there was no specific percentage weight for each production factor referred to for the calculation of TKDN for Goods.² In addition, a fully foreign-owned limited liability company in Indonesia (*Perusahaan Penanaman Modal Asing* – “**PT PMA**”) could only be credited for a maximum of 75% of the TKDN value³ for goods, even if all production inputs were sourced locally.

MOI 35/2025 now allows entities investing in Indonesia to claim up to the full TKDN value for factory overhead or indirect costs, which makes up 15% of the total TKDN score, as long as the goods contributing to this overhead are manufactured in the company's own industrial facilities in Indonesia.⁴ This change allows a PT PMA to achieve a higher overall TKDN⁵ for the factory overhead thereby allowing a higher overall TKDN for Goods percentage than the previous 75% cap under MOI 16/2011.⁶ Even without achieving 100% TKDN in the other factors, a PT PMA may still claim at least 25% overall TKDN for Goods, provided it has onshore investment, operates its own industrial facilities, and employs local workers.

² We note this approach had already been adopted in the TKDN calculation formulas for certain sectors and applied in practice before the enactment of MOI 35/2025.

³ Under MOI 16/2011, if a PT PMA is jointly owned by local and foreign investors, the 75% TKDN value may be increased by 25% multiplied by the local investors' shareholding percentage.

⁴ If the goods are manufactured in other industrial facilities in Indonesia not owned by the PT PMA, then the TKDN value will be 60% (if the production is still done by PT PMA) or 30% (if the production is done by another industrial entity in Indonesia). If there is no investment in Indonesia, then no TKDN percentage can be claimed.

⁵ Under MOI 35/2025, a “business actor” is defined as an individual or entity that carries out business and/or activities in a particular sector.

⁶ See Article 2 of MOI 16/2011.

Clearer Rules on Local Manpower in TKDN for Goods

“Direct labor” now carries a weight of 10% in the overall TKDN calculation for goods. It refers to workers directly involved in the production (manufacturing) process of the assessed goods, such as machine operators, welders, helpers, quality control staff and foremen, but excludes management-level personnel.

“Direct labor” is assessed based on the number and nationality of the workers and the type of production activities. If the goods are manufactured in the producer’s own facilities in Indonesia, and more than 50% of the production workforce are Indonesian citizens, the producer may claim the full 10% allotted to the direct labor component in the overall TKDN calculation.⁷

Clear Thresholds for Direct Materials in Goods Production for TKDN Calculation

Direct materials carry the highest weight in the overall TKDN calculation for goods. Under MOI 35/2025, ‘direct materials’ are assessed based on the accumulation of the results obtained from multiplying the proportion of the cost of each main component used against the total cost of all components, with the TKDN value of each main component used to produce one unit of goods.

A clear threshold is now established to determine the applicable TKDN percentage for each component of the direct materials used in the production of goods, depending on whether the component has obtained a TKDN certificate.

For certified main components, the applicable TKDN value varies from 25% to 100%,⁸ based on the TKDN value stated in the respective certificates. For main components without TKDN certificates, the assessment is based on whether the component is entirely produced locally and whether it is made from raw materials sourced domestically. If both conditions are met, the TKDN value is 100%. However, if the raw materials are imported but the component is produced locally, the TKDN value is 25%. There will be no TKDN value if the components are produced outside of Indonesia.

Expanded R&D Incentives in TKDN Calculation for Goods

Before the enactment of MOI 35/2025, incentives for entities that established or developed a research and development (R&D) department applied only to certain sectors. Under the new regulation, all industries that contribute to enhancing intellectual capability (*brainware*) may now enjoy an additional TKDN value of 20%, which will be counted toward the overall TKDN calculation for goods.⁹

⁷ The applicable TKDN percentage for direct labor is 100%, 60%, or 30% if at least 50% of the workers are Indonesian citizens and production is conducted, respectively in the company’s own factory, another company’s factory, or by another company in its own factory in Indonesia. A 0% TKDN applies if fewer than 50% of the workers are Indonesian citizens.

⁸ For main components with a TKDN certificate, the applicable TKDN value is **100%** if the certified TKDN exceeds 80%; **80%** if it is above 60% and up to 80%; **60%** if it is between 40% and 60%; **40%** if it is between 25% and 40%; and **25%** if it is below 25%.

⁹ The TKDN value for R&D activities is assessed based on: (i) the company’s average R&D investment over the past 5 years (0–100% of a 30% weight); (ii) the existence of an in-house or domestic third-party R&D unit (50–100% of a 20% weight); (iii) the availability of documented R&D programs (0–100% of a 20% weight); and (iv) the implementation of R&D results in certified goods (0–100% of a 30% weight).

From Services to ‘Industrial’ Services: A Shift in TKDN Scope

One of the most notable changes introduced under MOI 35/2025 is the shift in terminology – what was previously referred to as “TKDN for services” is now specifically termed “**TKDN for industrial services**”. This means that the earlier references to “TKDN for services” under prior regulations are no longer applicable.

The industrial services subject to TKDN calculation under MOI 35/2025 are as follows:

1. Industrial Design and Construction Services;
2. Industrial Equipment Installation and Commissioning Services;
3. Industrial Research, Engineering, and Design Services;
4. Industrial Process Services;
5. Maintenance and Repair Services;
6. Industrial Management Consulting Services;
7. Certification, Testing, Inspection, and Calibration Services;
8. Packaging Services;
9. Industry 4.0 Support Services;
10. Environmental and Sustainability Services;
11. Publishing, Printing, and Creative Content Services; and
12. Performance and Efficiency Support Services.

MOI 35/2025 also introduces a clearer, more technical method for calculating TKDN in industrial services. The calculation compares the total cost of the industrial service – after deducting any foreign service components – against the total overall service cost. “Industrial service cost” under MOI 35/2025 consists of: (i) labor costs; (ii) costs of tools or work facilities; and (iii) general services.

The TKDN value for industrial services must be calculated for each activity involving the provision of those services. The calculation should be traceable to level-2 goods and/or services supplied by domestic providers. If any components are found to include level-3 industrial services performed by domestic providers, the TKDN value of those level-3 components is automatically deemed to be 100%.

Combined TKDN for Goods and Services

MOI 35/2025 introduces clearer guidance on the calculation of the Combined TKDN for Goods and Services. Under the new framework, the Combined TKDN is determined by comparing the total domestic component value of goods and services against the overall value of the combined goods and services.

The regulation also introduces a distinct approach for calculating the domestic component for ‘goods’ in the context of Combined TKDN. Specifically, even if the ‘goods’ are domestically produced, they must be assigned a 0% TKDN value if no official TKDN determination has been made.¹⁰

¹⁰ Arguably, this means that the goods must have a separate TKDN certification. The current MOI 35/2025 provides no further explanation, and further observation may be necessary.

For the services component, the calculation follows the same structure as that for Industrial Services, covering labor, work tools or facilities, and general services.¹¹ Under this framework, Indonesian-based factors – including local labor,¹² domestically made equipment (irrespective of the owner’s nationality),¹³ and Indonesian service providers¹⁴ – are each assigned a 100% TKDN value, ensuring that all locally sourced or performed activities are fully recognized in supporting domestic industry participation.

Company Benefit Weights: Additional Components Now Considered

Company Benefit Weights (*Bobot Manfaat Perusahaan* – “BMP”) serves as an additional recognition or incentive granted to businesses that contribute to Indonesia’s industrial ecosystem through investment and domestic production activities. BMP has been recognized since the previous MOI 16/2011, and under the current MOI 35/2025, the incentive cap remains unchanged – up to 15% of the total TKDN calculation.

While the percentage is the same as before, MOI 35/2025 has significantly expanded the scope by introducing 15 assessment components for BMP calculation (with TKDN value varied from 1%-4%),¹⁵ compared to only 4 components under the previous regulation. This change reflects the government’s broader approach to acknowledging various forms of industrial contribution and encouraging deeper local participation.

Streamlined TKDN Certification and Self-Declaration Procedures

Under MOI 35/2025, the process for obtaining TKDN certification has been simplified. Small-scale industrial businesses can now self-declare their TKDN values through the National Industry Information System (“SIINas”), which are then reviewed by a validation team from the Ministry of Industry before formal approval. Other businesses, including industrial companies, industrial service providers, and producers of combined goods and services, can apply for a TKDN Certificate or Statement Letter electronically through SIINas, with an Independent Verification Agency (LVI) verifying the TKDN and/or BMP values. This streamlined digital process makes certification faster, clearer, and more accessible, reducing the regulatory timeline for certification from 22 working days to 10 working days, while the self-declaration process is shortened from 5 working days to 3 working days.

The validity period for both TKDN and BMP values has also been extended under this regulation. The TKDN value stated in the certificate is now valid for 5 years from the date of issuance, while

¹¹ “General services” include, but are not limited to, shipping, handling, and insurance.

¹² Indonesian workers are assigned a TKDN value of 100%, while foreign workers are assigned a TKDN value of 0%.

¹³ The applicable TKDN percentage for tools or work facilities made domestically is 100% (regardless of whether they are owned by local or foreign entities), while for those made overseas, the applicable percentage is: (i) 50% if Indonesian-owned, (ii) 0% if fully foreign-owned, and (iii) 50% multiplied by the proportion of Indonesian shareholding if jointly owned.

¹⁴ If such services are provided by domestic providers, the TKDN value is 100%. If they are provided by foreign providers, the TKDN value is 0%.

¹⁵ The new 15 components factored into the BMP under MOI 35/2025 are: workforce absorption, new investment, partnerships and supply chain strengthening, pioneer industry or import substitution, use of locally made machinery and production equipment, production location, Industry 4.0 adoption, industrial human resource development, ownership of local brand, green industry practices, export value, certificates or accreditations, environmental, societal and governance (ESG) implementation, awards or recognition, and reporting SIINas compliance.

the BMP value remains valid for 5 years from the issuance of the first TKDN Certificate listing the BMP value. Businesses that have obtained a TKDN Certificate or Statement Letter may now affix the TKDN mark on their products. Any ongoing TKDN and/or BMP verification processes must now be aligned with the requirements of this regulation.

Compliance Monitoring and Administrative Sanctions

Once a TKDN Certificate is issued, the Ministry of Industry will monitor the certificate holder's compliance with the TKDN requirements stated in the certificate. If the certificate holder is found to have committed violations – such as submitting false documents or information, failing to meet the committed or verified TKDN value, producing goods or services inconsistent with the submitted documents, or forging the TKDN Certificate – administrative sanctions may be imposed. These sanctions, which can include suspension or revocation of the TKDN Certificate and/or blacklisting of the certificate holder, follow a similar approach to the enforcement framework under the previous regulation, maintaining continuity in how compliance is monitored and enforced.

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A Summitmas I, 16th & 17th Floors
Jl. Jend. Sudirman Kav. 61-62
Jakarta 12190

P +6221 5080 8300
+6221 252 1272



makarim.com



Makarim & Taira S.



Vincent Ariesta Lie

Partner

vincent.lie@makarim.com



Anastasia Anggita

Senior Associate

anastasia.anggita@makarim.com



Demi Narendra Soegandhi

Associate

alfitras.tavares@makarim.com