
Newsletter

June 10, 2026

Indonesia - Outsourcing Revisited: Key Changes under the 2026 Regulation



Robbie Julius
Partner
robbie.julius@morihamada.com



Fatah Adzkia
Senior Associate
fatah.a@morihamada.com



M. Ghiffari
Associate
ghiffari.m@morihamada.com



Dave Wiryawan
Associate
dave.w@morihamada.com

Introduction

Following the Constitutional Court's Decision No. 168/PUU-XXI/2023 ("**Decision 168/2023**") of 31 October 2024, which called for clearer limits on permissible outsourcing under Article 64(2) of Law No. 13 of 2003 on Labor ("**Labor Law**"), as amended by Law No. 6 of 2023 on Job Creation ("**Job Creation Law**"), the Minister of Manpower issued Regulation No. 7 of 2026 on Outsourcing Work ("**MOM Reg. 7/2026**") on 30 April 2026, which came into effect on the same date. Previously, outsourcing was governed by the Labor Law (both before and after the Job Creation Law) and, after the Job Creation Law, by Government Regulation No. 35 of 2021 on Fixed-Term Employment Agreement, Outsourcing, Working Hours and Breaks and Termination of Employment Relationships ("**GR 35/2021**").

Although outsourcing is not prohibited in principle, it is now subject to a more clearly defined list of permitted activities, prescriptive requirements on agreements and recordation, and an expectation that user companies monitor their outsourcing providers' compliance with worker-protection requirements. Non-compliance carries administrative sanctions.

What Was Previously Unclear?

Before MOM Reg. 7/2026, the framework introduced by the Job Creation Law simplified the outsourcing provisions under the Labor Law but did not clearly specify the categories or fields of work that could be outsourced. This created uncertainty, particularly for arrangements structured broadly as manpower supply or production support.

Under the pre-Job Creation Law framework, outsourcing had generally been associated with non-core or supporting work. However, after Minister of Manpower and Transmigration Regulation No. 19 of 2012 on the Requirements for Delegating Part of the Performance of Work to Another Company ("**2012 Regulation**") ceased to be in force, the same level of detail was not available until MOM Reg. 7/2026 was issued.

What Has Changed?

1. The permitted scope is now expressly set out

MOM Reg. 7/2026 provides that outsourced work must form part of the types and fields of work of the user company, take the form of the provision of worker/labor services, and constitute supporting activities. The permitted categories are:

- (i) cleaning services;
- (ii) food and beverage provision;
- (iii) security services;
- (iv) the provision of drivers and transport for workers/laborers;
- (v) operational support services; and
- (vi) supporting work in the mining, oil and gas, and electricity sectors.

Although the list broadly resembles earlier outsourcing categories under the 2012 Regulation, it is not identical. The inclusion of operational support services is significant because it creates a broader category, but also leaves uncertainty as MOM Reg. 7/2026 does not define its boundaries.

MOM Reg. 7/2026 imposes administrative sanctions on a user company that outsources work that falls outside the listed categories. The list should therefore be treated conservatively as exhaustive.

2. The outsourcing agreement becomes a core compliance document

Consistent with the provisions under the Labor Law (both before and after the Job Creation Law) and GR 35/2021, MOM Reg. 7/2026 requires the user company and the outsourcing provider to enter into a written outsourcing agreement. However, under MOM Reg.7/2026, at a minimum, the agreement must include:

- (i) the outsourced work;
- (ii) the term of the agreement;
- (iii) the work location;
- (iv) the number of outsourced workers/laborers;
- (v) workers' protections and rights, including wages, overtime pay, working hours and rest periods, annual leave, occupational safety and health, social security, religious holiday allowance, and rights upon the expiry or termination of employment; and
- (vi) the parties' rights and obligations.

If these mandatory minimum provisions are not included, the Manpower Office may suspend the recordation process for the outsourcing agreement.

While the outsourcing provider remains responsible for providing outsourced workers/laborers with statutory protections and rights, the user company is separately responsible for ensuring that the outsourcing provider provides those protections and rights.

Given that this may represent a significant shift in practical risk allocation, user companies should no longer treat worker-protection compliance as a matter solely for the outsourcing provider. As a practical matter, user companies should consider including certain compliance features in the outsourcing agreement, such as workable monitoring mechanisms, occupational safety and health undertakings, audit rights, indemnities, and termination rights for failure to comply.

3. Recordation is now an important regulatory checkpoint

The outsourcing provider must maintain evidence of recordation of the outsourcing agreement. The application for recordation must be submitted to the relevant Manpower Office within the prescribed period in order to obtain evidence of recordation.

The local Manpower Office may suspend the issuance of evidence of recordation if the outsourcing agreement does not comply with the permitted outsourcing categories or mandatory content requirements for the agreement.

As a result, the outsourcing provider may become non-compliant, exposing it to administrative sanctions under the applicable business-licensing regulatory framework.

4. Sanctions may affect business operations

A user company that outsources work that falls outside the permitted categories may be subject to administrative sanctions imposed in stages, starting with a written warning, followed by restrictions on business activities if the non-compliance continues. Restrictions may include (i) temporary limitations on the production capacity of goods and/or services; and/or (ii) delays in the issuance of business licenses in one or more locations for user companies with projects in multiple locations.

These sanctions are imposed by the competent licensing authority based on a recommendation from a labor inspector. Non-compliance may therefore create operational risk.

MOM Reg. 7/2026 does not—and, as a Ministerial Regulation, could not—reinstate the automatic reclassification by operation of law (*demi hukum*) that existed under the former Articles 65(8) and 66(4) of the Labor Law. Instead, the prescribed consequence for outsourcing outside the permitted categories is now the imposition of administrative sanctions, which can have significant implications for the user company.

5. Existing arrangements have a transition period, but not a risk-free period

Existing outsourcing agreements remain valid until they expire. However, any outsourcing arrangements that do not meet the new requirements on permitted work categories must be adjusted to comply with MOM Reg. 7/2026 within two years, i.e., by 30 April 2028.

The transition period should not be assumed to permit new, renewed, or extended arrangements that clearly fall outside the permitted categories.

What Remains Unclear?

- MOM Reg. 7/2026 does not define operational support services or elaborate on the scope of supporting work in the mining, oil and gas, and electricity sectors. This is similar to the position under the 2012 Regulation, which treated support services for the mining and oil sectors as work that could be outsourced but did not define them specifically.
- MOM Reg. 7/2026 also does not explain how a user company must ensure that the outsourcing provider provides workers with the required protections, nor does it expressly impose a specific sanction for failure to comply with this obligation to ensure compliance,

separate from those imposed for outsourcing outside the permitted categories. As discussed in Section 2, user companies should consider building compliance features into the outsourcing agreement—such as monitoring mechanisms, audit rights, indemnities, and termination rights—to manage this obligation.

- MOM Reg. 7/2026 does not expressly state whether the two-year transition period operates as a grace period against sanctions for existing arrangements that no longer fit within the permitted categories. Until enforcement practice develops or official guidance is issued, user companies should not assume immunity from sanctions during the transition period, particularly for arrangements that are clearly non-compliant.
- Because MOM Reg. 7/2026 refers to outsourced work in the form of the provision of worker/labor services, questions may arise as to its application to output-based business-to-business service arrangements. It remains to be seen whether such arrangements fall within the scope of MOM Reg. 7/2026 as enforcement practice and interpretation develop.

Key Takeaways

1. Map outsourced roles against the six permitted categories

Companies should map outsourced roles against the six permitted categories and document borderline classifications. As a practical test, outsourced work should remain genuinely ancillary to the user company's main business, separable from its principal production or service-delivery process, and not function as disguised labor supply for core operational roles.

2. Update outsourcing agreements and ensure recordation

Outsourcing agreements should be updated to reflect the permitted category, include all mandatory content, and set out practical compliance mechanisms that allow the user company to monitor the outsourcing provider's compliance with worker-protection requirements. User companies should also ensure that the outsourcing provider submits the outsourcing agreement for recordation with the relevant Manpower Office within the prescribed period and maintains evidence of recordation.

Conclusion

MOM Reg. 7/2026 provides clearer boundaries for outsourcing in Indonesia after a period of regulatory uncertainty under the Labor Law (following the Job Creation Law amendments). Compliance now requires companies to assess whether outsourced activities fall within the permitted categories, ensure that outsourcing agreements include all mandatory content and

practical oversight mechanisms, and complete the recordation process with the relevant Manpower Office.

Companies should review existing arrangements, plan any necessary adjustments during the transition period, and avoid assuming existing structures are free from regulatory risk during the transition period ending on 30 April 2028.