

Indonesia Tightens Outsourcing Rules Under New Manpower Regulation



Indonesia has introduced a revised outsourcing framework through Minister of Manpower Regulation No. 7 of 2026 (“Regulation 7/2026”), which became effective on 30 April 2026. The new regime follows Constitutional Court Decision No. 168/PUU-XXI/2023 and is positioned by the authorities as part of a broader effort to strengthen legal certainty while reinforcing worker protections.

Although outsourcing remains permitted, the regulatory approach has become more prescriptive. In practice, the reform narrows flexibility for employers and increases compliance exposure, particularly in relation to the classification of outsourced activities and ongoing supervision of service providers.

Narrowed scope of permissible outsourcing

A key change under Regulation 7/2026 is the explicit limitation of outsourcing to defined categories of supporting activities. These include functions such as cleaning services, catering, security, transport services, selected operational support roles, and certain supporting functions in extractive and energy sectors.

While the regulation retains a degree of flexibility through the concept of “operational support services”, this term is not defined in detail. As a result, companies will need to apply a careful functional assessment when determining whether a particular activity can legitimately be outsourced, rather than relying on internal job classifications or historical practice.

Formalisation of outsourcing agreements

The regulation also elevates outsourcing contracts into a more structured compliance instrument. Outsourcing arrangements must now be documented in writing and include a minimum set of mandatory terms covering, among other things, the scope of work, duration, workplace, workforce numbers, and key employment protections.

These protections extend to wages, working time, leave entitlements, occupational safety, social security participation, and termination-related rights. In effect, outsourcing agreements are no longer purely commercial arrangements but are now also treated as regulatory compliance documents that may be reviewed by labour inspectors.

Increased responsibility for user companies

One of the most significant shifts introduced by Regulation 7/2026 is the clearer allocation of responsibility to user companies. While the outsourcing provider remains the formal employer of the workers, user companies are now expressly required to ensure that labour protection standards are observed.

This creates a more active oversight obligation. Companies relying on outsourced labour will therefore need to consider enhanced vendor due diligence, ongoing compliance monitoring, and more robust contractual protections, including audit rights and indemnity provisions. Outsourcing is consequently moving closer to a co-managed compliance structure rather than a fully delegated employment model.

Registration and administrative oversight

Outsourcing agreements must be registered with the relevant local manpower office within three working days after execution. The authorities are empowered to suspend registration if the outsourced activities fall outside the permitted scope or if contractual documentation does not meet regulatory requirements.

This introduces a procedural checkpoint that may affect timing and execution certainty, particularly in larger or multi-jurisdictional outsourcing structures.

Sanctions and enforcement risk

The regulation introduces administrative sanctions for non-compliance, including written warnings and restrictions on business activities. In more serious cases, companies may face operational limitations affecting production capacity or licensing processes.

This signals a shift towards more active enforcement, with outsourcing compliance increasingly linked to operational continuity rather than purely contractual risk.

Transition period and implementation outlook

Existing outsourcing arrangements remain valid for the time being, but must be aligned with the new framework within a two-year transition period ending 30 April 2028. Companies are therefore expected to progressively reassess existing structures and determine whether outsourced functions remain permissible, require restructuring, or should be internalised.

Given the scope of change, early mapping of outsourcing dependencies will be essential to avoid disruption during the transition phase.

How we can help

Our Jakarta team is closely monitoring the implementation of Regulation 7/2026 and its practical impact on outsourcing structures across sectors. We advise clients on the classification of outsourced activities, compliance with mandatory contractual requirements, and the design of legally robust outsourcing frameworks under Indonesian law.

We also assist with the review and restructuring of existing outsourcing arrangements, including regulatory gap assessments, contract remediation, and the implementation of compliance governance measures for ongoing vendor management.

If you would like to assess the impact of the new regulation on your current outsourcing setup or discuss transition planning towards 2028, our team is happy to support.

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