

How to Invest in Indonesia: A Guide for Foreign Investment in Indonesia

In some recent years, Indonesia is one of the emerging economies in the world. In October 2016, according to the UN Conference on Trade and Development (UNCTAD), Indonesia was ranked 9th in the list of top prospective host countries for Foreign Direct Investment (FDI) in 2016-2018.

Indonesian government encourages the foreigners to **invest in Indonesia**, evidenced by how the country provides solid economic fundamentals. The country has low inflation and moderate budget deficit and government debt. Its economic growth is stable, and the private consumption is robust.

Moreover, the government has reformed its policy—eliminated the unnecessary regulations and simplified the inefficient bureaucracy. They also improve their fiscal policy credibility and the arrangement of the government spending. These actions boost the **business opportunity in Indonesia** and attract foreign investors.

Foreign Direct Investment

There are only two legal entities which are allowed for foreigners in Indonesia, which are the Foreign Investment Company (PMA) and the Representative Office (KPPA). The former is an Indonesia-based company with the combination of foreign and domestic shares, while the latter is a foreign company which opens their Representative Office in the country.

For those who are interested in **FDI Indonesia** and getting involved in the commercial activities, the PMA is a better choice. It can operate fully as a business, not simply a body of local research and representation like the Representative Office. Essentially, the form of PMA is an Indonesian Limited Liability Company.

The PMA which receive foreign investment can be a newly-established company or the old one which is transformed to become a PMA. The company can also be a result of merger and acquisition. The **investment banking Indonesia** can provide assistance to prepare a company for foreign investment purpose.

Negative Investment List

The government of Indonesia issues a list of business fields status in respect to their availability to receive FDI. The list is included in the Presidential Regulation—usually every three years. Generally, the **business in Indonesia** is classified into three categories, those are:

1. *Open for FDI*—refers to the business fields which are allowed to be 100% owned by foreigners.

2. *Conditionally open for FDI*—usually, relates to the ownership or percentage between domestic and foreign capital.
3. *Closed for FDI*—the business fields which are strategic to the country security, prohibited by law, or hazardous.

The negative list refers to those which closes or opens with conditions—hence "negative." In the latest regulation to date, the Presidential Regulation 44/2016, the sectors which are closed for FDI, among others, are the broker of **property Indonesia**, surveys, alcohol beverage retail, and supervision.

In contrast, some business fields are fully open for FDI. In fact, it is one of the most notable changes included in the 2016's Negative Investment List. There are 35 new business fields which are allowed to have 100% foreign capital, including the industry of film and hospitality.

Since 2016, there are 17 industries which are conditionally open for FDI according to the same list, including the capital investment, banking, agriculture, education, forestry, trading, transportation, energy, and mineral. Foreigners can **invest in Indonesia** through these 17 industries as long as their company does not exceed the upper limit of foreign capital.

Establishment of PMA

Since PMA is the only legal body which operates a business without as many restrictions as the Representative Office, foreign investors and their partners tend to choose to establish their own PMA in Indonesia.

The mandatory organ of the PMA is minimum two shareholders, one director, and one commissioner. The shareholders can be an individual or corporate entity, with the nationality (Indonesia or foreign) depends on the respective business field status. For a company operates in the conditionally open for FDI industry, at least one shareholder must be Indonesian.

The PMA is also required to have a minimum capital of 10 billion IDR. By the time of the establishment, the founders or shareholders must have paid 25% of the investment plan, while the remaining 75% may be injected as the shareholders' loans.

Aside from meeting the requirements above, to legally **invest in Indonesia** and operate the company, the founders are required to do the following procedure of establishing a PMA:

1. Submission of principle license to the **Indonesia Investment Coordinating Board (BKPM)**,
2. Request for the company name to Ministry of Law and Human Rights,
3. Write article of association and deed of establishment,
4. Prove the certificate of domicile of the company,
5. Provide for the Tax Identification Number (NPWP),

6. Legalization of the Article of Association by the Ministry of Law and Human Rights.

Parallel Construction and License

For a business which runs in the industrial areas, the construction is allowed to run when the process of licensing is still ongoing. It makes the business starts faster since the actual licenses may take time to come, especially when the investment needs a license from both localities and the central government.

There is no minimum amount of **Indonesia investment** or the number of employees as the requirement of this facility. However, the business must run in one of the 32 industrial areas in Indonesia, such as Kendal, Semarang, Wijayakusuma, Integrated Port of Java, Bantaeng, Modern Cikande, integrated Wilmar, Krakatau Cilegon, and Bekasi Fajar. The total area is more than 10,022 ha since the government has changed the number of areas from 14 to 32 in 2016.

How to invest in the construction of this industrial areas? Here are the 3 simple steps:

1. Get a permit of investment from One-Door Integrated Service Program (PTSP),
2. Survey the area and buy the land,
3. Construct right away and send the necessary licenses, including the building permit (IMB) and environment permit.

Any other business that is not a construction in the 32 designated areas must get the investment licenses before starting their operation in Indonesia.

Investment Licenses

Whether to establish a company, invest in the existing company, or **run business** with the already running company, foreigners need to obtain licenses to conduct those activities, such as the following ones.

Principle Investment License

Principle license is the initial government approval before a foreign investment is made. A new principle license is needed when some people start a business with foreign capital in Indonesia or when the structure of a fully domestic owned company is changed to partially or fully owned by foreigners.

The ones who can apply for this license are the individual foreign investors, foreign government or enterprise, a foreign investment firm with an Indonesian citizen, and the Indonesian legal entities who want to **invest in Indonesia**. The normal process of getting the principal license is three working days. The application proceeds only if it is submitted with the following documents.

1. Copy of applicant's identification

2. Detail of the company activity plan
3. Recommendation from the relevant ministries, if needed
4. Evidence of change of the corporate structure, in case of changing from locally owned company to PMA
5. Signature or stamp of the applicant's or their proxies
6. Presentation in front of the BKPM officials, for some business fields

If in the future when the business has run, there is a change in the investment, the company must obtain the Principle License for the Changes in Investment before executing it. Obtaining a new license is also needed when the company decides to merge or expand in the future.

Tax Identification Number (NPWP)

A PMA operated in Indonesia must have NPWP used for their corporate taxpaying. A representative of the PMA should fill and send an application form to the Tax Office along with their copy of identification and certificate of domicile, power of attorney, a copy of principle license, and the NPWP of the representative.

Business License

After the PMA is established, its director must apply for the Business License before starting the operation or production. Fill the form of application and attach the following documents:

1. Principle license
2. Deed of establishment and its approval
3. Project location and its legality evidence
4. Permit from the locality
5. Evidence of the environmental safety
6. Market research finding, for trading business
7. Receipt of the Investment Progress Report to LKPM submission
8. Recommendation from relevant ministries
9. Authorization letter or the director's signature and stamp

After obtaining this license, the PMA can operate legally in Indonesia.

General Identification Number (API-U)

API-U is a permit to import materials, goods, and machinery to be traded in Indonesia. The one who can submit the application is the director of PMA or their proxies, while the process of getting the API-U takes around five working days.

Send the API-U application and attach these documents:

1. Copy of the company deed of establishment or amendment and its approval
2. Certificate of company domicile
3. Company NPWP
4. Copy of registration certificate (TDP)

5. Copy of the previous licenses obtained by the company, e.g., principal and business
6. Recommendation letter from a bank
7. Copy of identification of the director or their proxies
8. Photograph of the director or their proxies
9. Signature and stamp of the director or their proxies

There is a different permit to import for materials, goods, and machinery used for producing purposes. The permit is called API-P and the process and requirement to get it is the same with those of API-U, except that API-P application does not need to come with a recommendation letter from a bank.

Plan to Hire Foreign Workers (RPTKA)

Foreigners who **invest in Indonesia** are eligible for a work permit. Their company can also recruit foreign workers. However, before doing so, they must obtain a RPTKA—it is a plan acknowledged by the government. This plan is important in the process of working permit application.

Those who can get a working permit are the directors, commissioners, shareholders, and other people who are recruited from overseas because of their expertise. The positions which can be performed by Indonesian residents should be limited to Indonesia, therefore: aside from the highest-level position in the PMA; only the experts should be hired from overseas. The process to hire them starts from obtaining the RPTKA.

Permit to Hire Foreign Workers (IMTA)

The IMTA, which is a permit to hire foreign workers, is issued when the PMA has known who to recruit. To obtain this permit, the company representative must provide some documents related to the foreign worker, such as their copy of identification, curriculum vitae, certificates which show their skills, and their photographs. The process of an application takes 5 working days.

After getting these licenses, the PMA can recruit foreign workers and start to run the business. Check the Indonesia Financial Coordinating Board for further information about the licenses above.

“3-Hour Investment License” Service

In Indonesia, the investors can get investment licenses in only 3 hours. This fast process opens for those who will invest minimum 100 billion IDR and employ minimum 1,000 employees. The investors or one investor as the representative must come to the BKPM in person and brings an authorization letter (if representing others who **invest in Indonesia**).

Upon arrival in the BKPM, the investors will meet with the director of BKPM service and do consultation about the investment. They must submit the copy of their

identity, the company Article of Association, and company business flowchart. After the consultation, the investors must wait for these 8+1 licensing documents are issued at once:

1. New investment license
2. Notary deed and its legalization
3. Tax Identification Number (NPWP)
4. Certificate of Incorporation (TDP)
5. Plan to Hire Foreign Workers (RPTKA)
6. Permit to Hire Foreign Workers (IMTA)
7. General Identification Number (API-U)
8. Custom Registration Number
9. Land availability (if necessary)

Companies which operate in the supply chain industry are eligible for the “3-Hour Investment License” even when their investment is lower than 100 billion IDR.

SPIPISE: “National Single Window for Investment”

If the **foreign investment in Indonesia** is lower than 100 billion IDR, except for the supply chain industries, the process of getting these licenses should follow the normal procedure—to get the investment license one by one. Fortunately, the process can be undertaken fast and easily through the SPIPISE, an online system to apply for licenses and manage the company account.

Through SPIPISE, the investor can apply for any license needed for investment and any non-license facilities such as the tax holiday or tax allowance. The system operates 24/7, therefore: the investors can apply for anything they need anytime. The only setback is that the process takes longer than the “3-Hour Investment License”. For instance, the principle license takes 3 working days, a business license is 6 working days, and API-U/API-P is 5 working days.

To use SPIPISE, the investors or their employees must register their account to Online-spipise.bkpm.go.id and provide necessary information about the company. After the company is verified, the investor will get a username and password to login into the system.

Investment Progress Report

Those who **invest in Indonesia** must provide their investment progress report periodically. If the company is still in the establishment process, the report must be written four times a year. After the company starts their operation or production, the report must be submitted twice per annum.

The **investment Indonesia** progress report must be sent to BKPM through online or offline. The online report should be submitted to Lkpmonline.bkpm.go.id, which is an integrated site of the SPIPISE. The username and password to log in to SPIPISE

work to access this site. The investor can also send the report to e-mail lkpm@bkpm.go.id. Otherwise, send the hard copy of the report to BKPM and other relevant authority in which the company operates.

Investment Facilities

As a part of Indonesian government strategy to attract foreigners to **invest in Indonesia**, the country offers the fiscal and non-fiscal investment facilities. The fiscal ones include the following facilities.

1. *Machinery import duty facility*—exemption from import duty for machinery used for production. The exemption is valid for 2 years with a possible extension.
2. *Material import duty facility*—exemption from import duty for materials to be used with the machines granted with machinery import duty facility above and the company obeys 30% local materials rule. The exemption also applies to 2 years with a possible extension.
3. *Recommendation for income tax facility*—it is a recommendation from the Investment Coordinating Board that the PMAs are eligible to receive tax allowance and tax holiday from the Ministry of Finance.

The investors in Indonesia can also receive non-fiscal facilities, such as the API-U, API-P, RMTKA, and IMTA.

Investment Incentives

The PMA in Indonesia is eligible to receive incentives in the form of the tax holiday and tax allowance. The tax holiday is the temporary reduction of the corporate income tax, with the reduction ranges from 10 to 100%. New PMAs can receive tax holiday for 5 to 15 years, with the possible extension to 20 years.

Another incentive available for PMAs in Indonesia is tax allowance, which deducts 5% of the net income based on the investment amount. The incentive applies for 6 years—makes it total 30% of deduction. Moreover, tax allowance also gives a loss compensation for the company for 5 to 10 years.

These incentives show that **doing business in Indonesia** is a rational choice in the current economy. They also reinforce why foreign investors decide to **invest in Indonesia**.