

Law & Policy Group



Indonesia reforms employment laws in wide-ranging areas

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Signed by the president on 2 Nov 2020, the Omnibus Law — also called the 2020 Job Creation Law — impacts different employment aspects of business, such as employee terminations and the employment of foreign nationals. The government will publish some implementing regulations this month, with other regulations to follow later.

Highlights

Job-Loss Guarantee Program (JKP). A new JKP funded by a new social security premium will pay unemployment insurance benefits of up to six months' wages. The JKP also will provide training and information on employment opportunities to unemployed individuals. The implementing regulations should provide more details about the JKP, including eligibility criteria.

Fixed-term employment. The law removes certain restrictions on the use and renewal of fixed-term contracts, but employers have to pay compensation when a contract expires. Implementing regulations will likely provide more details about the types of work subject to these contracts, their duration and compensation payments.

Outsourcing. Companies that provide outsourcing staff to vendors are responsible for all wage and social security matters. Even if a vendor changes, the employment rights of outsourced staff generally remain unchanged.

Long-service leave. The law eliminates the entitlement to two months of long-service leave for employees with six or more years of consecutive service when provided under their employer's leave policies in place since 8 Apr 2004. Going forward, employers and employees may voluntarily agree to this entitlement.

Overtime. The cap on daily overtime has increased to four hours, up from three; and the weekly overtime limit will increase to 18 hours, up from 14.

Minimum wages. Provincial governments retain responsibility for setting a general minimum wage for the province (Indonesia has no national minimum wage) and could set district or city minimum wages, subject to applicable economic and inflation factors. The provinces will no longer set sector-specific minimum wages, but the government's implementing regulations could introduce pay rates for some sectors. Small and micro employers are exempt from having to pay provincial minimum wage rates.

Termination of employees. New grounds for termination apply, and employers must notify employees about the reason for their termination. Although employers and employees no longer have to negotiate the reasons for all terminations, negotiations still must take place if an employee refuses to accept the termination reason. The parties will be subject to the industrial-dispute settlement procedures if negotiations are unsuccessful.

Termination payments. The law reduces termination payments and abolishes enhanced severance pay as well as payment of medical, healthcare and housing allowances. Employees who resign may now receive termination pay, and the implementing regulations may provide further details on this change. Employees who resigned previously were entitled to compensation pay calculated on the basis of various allowances, costs and unused accrued leave.

Employment of foreign nationals. Employers no longer require ministerial approval prior to employing foreign nationals in a wider range of job positions. However, employers must draw up a "Plan for the Use of Foreign Workers" for approval by the central government.

Non-Mercer resources

- [Omnibus law \(Indonesian\)](#) (Indonesian government, 2 Nov 2020)

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- [Indonesia proposes measures to boost economy, jobs](#) (9 Mar 2020)

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