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May 2026

MOM Regulation 7/2026:

What Businesses Need to Know About Indonesia's
New Outsourcing Rules

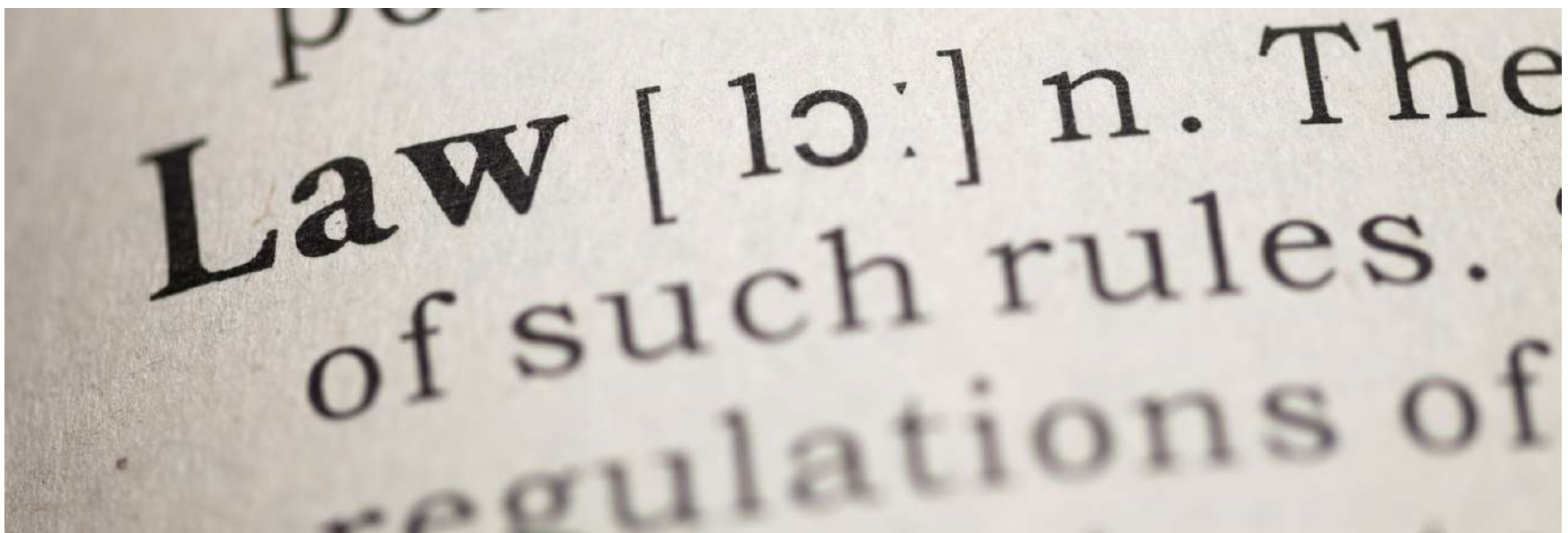


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INTRODUCTION

On 30 April 2026, just ahead of May Day, the Minister of Manpower enacted Minister of Manpower Regulation No. 7 of 2026 on Outsourcing (“**MOM Regulation 7/2026**”). The regulation was introduced as a direct response to Constitutional Court Decision No. 168/PUU-XXI/2023, which required the government to clearly define the scope of permissible outsourcing activities following the removal of Article 65 of Law No. 13 of 2003 on Manpower under the Job Creation framework.



Balancing Worker Protection and Business Continuity

MOM Regulation 7/2026 marks a significant shift in Indonesia’s outsourcing landscape. While the government positions the regulation as an effort to strengthen worker protection and enhance legal certainty, it also introduces substantial compliance implications for businesses that rely heavily on outsourced operations.

The new framework not only narrows the categories of permissible outsourced work, but also increases oversight obligations, contractual requirements, and regulatory exposure for both User Companies and Outsourcing Companies. Businesses should therefore begin reassessing their outsourcing structures early, particularly where outsourced personnel are embedded in operational or production-related functions.

KEY REGULATORY FOCUSES

1. Specified Supporting Activities

Article 3 paragraph (2) of the MOM Regulation 7/2026 limits the type of activities that can be lawfully outsourced. The permitted categories are as follows:

- Cleaning services;
- Food and beverage catering services;
- Security services;
- The provision of drivers and transportation services for workers;
- Operational support services; and
- Supporting services in the mining, oil, gas, and electricity sectors.

This regulation effectively restricts companies from outsourcing workers within their core business functions or primary production lines. As a result, businesses that previously relied on broader outsourcing models may now need to reassess and restructure their workforce arrangements.



While the regulation provides long-awaited clarity over previously ambiguous outsourcing practices, the inclusion of the broad category of “operational support services” under Article 3 paragraph (2)(e) remains open to interpretation and may become a significant compliance risk area.

In practice, regulators are likely to focus not merely on job titles or internal classifications, but on the actual function performed by outsourced workers. Accordingly, companies should adopt a functional assessment approach to determine whether outsourced activities are genuinely ancillary to core business operations. For many businesses, this may require a comprehensive review of operational workflows, workforce allocation, and contractual structures to mitigate potential regulatory exposure.

2. Expanded Mandatory Requirements for Outsourcing Agreement

The MOM Regulation 7/2026 puts further limitations on the scope of outsourcing agreement. Pursuant to Article 4 paragraph (1), outsourcing regulation shall incorporate these mandatory provisions, such as:

- Scope of outsourced activities;
- Duration of the outsourcing agreement;
- Location of work performance;
- Headcount of outsourced workers;
- Detailed worker protections, including wages, overtime pay, working hours, leave entitlements, occupational safety and health, social security, Religious Holiday Allowance (THR), and termination-related rights.



The regulation reflects the government's increasing focus on substantive worker protection and contractual transparency. Consequently, companies using outdated or generic outsourcing templates may face registration issues or heightened scrutiny from manpower authorities.

Businesses should therefore ensure that their outsourcing agreements are not only commercially workable, but also fully aligned with the mandatory statutory requirements introduced under the new regulation.

3. Obligations of Outsourcing and User Companies

Whilst Article 4 paragraph (2) imposes the obligation to protect and fulfil the rights of workers, as regulated in Article 4 paragraph (1)(e), on the Outsourcing Company, it does not mean that the User Company is freed from any such obligations in relation to them. Article 4 paragraph (3) imposes a further obligation on the User Company to supervise the Outsourcing Company in fulfilling and protecting the workers' rights as mandated by law. This fundamentally shifts the paradigm of accountability over outsourced workers in Indonesia's outsourcing scene as it equally imposes obligations to both companies.

The Outsourcing Agreement must be registered with the local manpower office where the work is performed within a maximum of 3 (three) working days after such agreement is signed. MOM Regulation 7/2026 further imposes authority on the local manpower office to suspend issuance of the registration if:

- The outsourced works fall outside of the permitted categories as mentioned in Article 3 paragraph (2); and
- The agreement does not contain required contents as mentioned in Article 4.



4. Administrative Sanctions

MOM Regulation 7/2026 introduces gradual administrative sanctions for User Companies that do not comply with the provisions under Article 3, starting with a written notice and gradually increasing into the restriction of business activities, such as:

- The restriction of production capacity within a certain period of time; and/or
- The suspension of the issuance of business licenses in one or several locations.

Meanwhile, Outsourcing Companies that fail to comply with occupational safety standards or registration obligations may also be subject to sanctions under Indonesia's risk-based business licensing regime.

Given the potentially disruptive nature of these sanctions, businesses should proactively identify areas of non-compliance before enforcement actions intensify.



TRANSITIONAL PROVISIONS AND TIMELINES

MOM Regulation 7/2026 guarantees that every existing Outsourcing Agreement remains valid until expiry. However, the types and fields of outsourcing work existing within Outsourcing Companies and User Companies must adjust to the MOM Regulation 7/2026 no later than 2 (two) years from the date of its promulgation (i.e. by 30 April 2028).

Although the two-year transition period appears relatively generous, businesses with extensive outsourced operations should not delay conducting internal compliance assessments.

Companies are encouraged to begin identifying:

- Which outsourced functions remain legally permissible;
- Which arrangements require restructuring;
- Which roles may need to be internalized; and
- What operational and commercial adjustments may be necessary to maintain business continuity.

Early preparation will likely provide businesses with greater flexibility in managing workforce transitions while minimizing disruption and regulatory exposure.

CONCLUSION

MOM Regulation 7/2026 represents a major regulatory shift in Indonesia's outsourcing regime. By narrowing the scope of permissible outsourced activities and introducing broader accountability obligations, the government has signaled a more stringent approach toward outsourcing compliance and worker protection.

While the regulation provides greater clarity in certain areas, significant interpretative and operational risks remain, particularly regarding the broad classification of "operational support services."

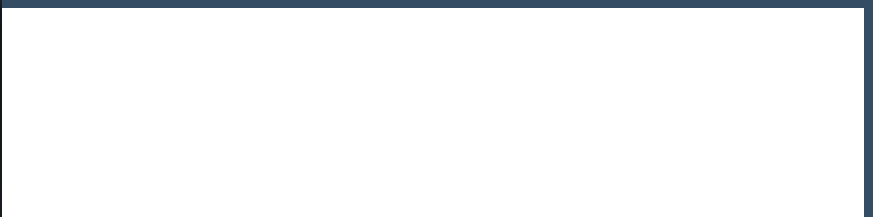
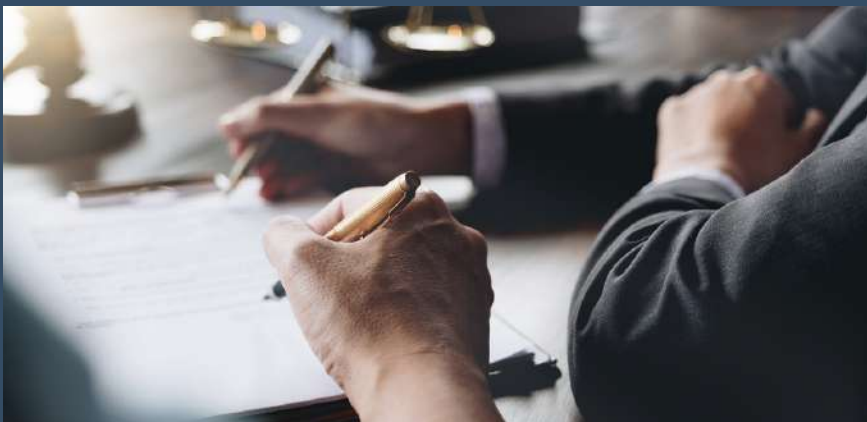
Businesses should therefore move beyond formal job classifications and undertake a substantive review of their outsourcing practices, operational structures, and contractual arrangements. Companies that proactively utilize the transition period to realign their outsourcing models will likely be better positioned to maintain operational continuity while minimizing regulatory and commercial risks.



HOW PRS CAN ASSIST

In light of the MOM Regulation 7/2026, navigating the stringent requirements and tight timelines requires a proactive approach. PRS is fully equipped to assist companies in aligning their business models and agreements with the new regulatory framework through the following services:

- **Review and Restructuring of Outsourcing Arrangements:** Conducting legal assessments of existing outsourcing structures, workforce allocation, and operational models to identify compliance gaps and restructuring needs.
- **Drafting and Amending Outsourcing Agreements:** Our team can draft or restructure your Outsourcing Agreements to ensure strict compliance with the mandatory clauses stipulated under Article 4, safeguarding both User and Outsourcing Companies against registration suspension.
- **Registration and Regulatory Compliance Assistance:** We provide swift support in managing the registration process with local manpower offices, ensuring compliance with the tight 3-working-day submission window.
- **Restructuring & Workforce Transition Strategy:** For outsourced positions that no longer fit the permitted categories, we can design legal strategies for restructuring, converting agreements, or seamlessly internalizing roles into your core operations during the 2-year transition period.
- **Risk Mitigation Advice on Shared Accountability:** We provide strategic counsel on how User Companies can establish robust internal mechanisms to supervise Outsourcing Companies, minimizing exposure to joint liability and severe administrative sanctions.



About Us

Pasaka Rievan Smith - Counsellors at Law (“**PRS**”) is comprised of a team of dedicated and trusted lawyers with over 20 years of experience in the legal industry, spanning law firms, multinational corporations, and government institutions. We provide prompt, precise legal counsel and opinions, offering both legal and commercial perspectives to support corporate clients. Confident in our ability to meet the diverse needs of our clients, PRS enables them to focus on achieving their business objectives. With experience in assisting start-ups, growing enterprises, established organizations, and family-owned businesses, we are committed to delivering both personal and professional attention, ensuring the utmost satisfaction for our clients.

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Should you wish to learn more about this topic or require tailored legal advice, please contact us at inquiry@pasakariEVANsmith.com — our qualified lawyers will be pleased to assist you.

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