

BIPO TIMES

April 2024 Vol. 80

www.biposervice.com

Indonesia's Omnibus Law on Job Creation

Overview

The Omnibus Law

Officially known as the "Job Creation Law," it is a comprehensive and significant legislative initiative implemented by the Indonesian government.

Enacted to streamline and simplify various regulations across different sectors, its primary aim is to stimulate economic growth, attract investments, and enhance job creation.

Basic Country Facts



Capital
Jakarta



Population
275 million
The World Bank



Currency
Indonesian Rupiah (IDR, also Rp)



GDP per Capita
USD \$4,788.00 (as of 2022)
The World Bank

Omnibus Law

Concept of Employment

Omnibus law is a regulation reformation strategy to simplify and align many regulations in Indonesia. It has been implemented successfully in many other countries.

It is also known as *Undang-Undang Nombor 11 Tahun 2020*, or **UU 11/2020**, which was effective from 2 November 2020.

The Omnibus Law was created with the intend to:

- Remove redundancy of regulations
- Efficiency of regulations addendum
- Remove sectoral ego

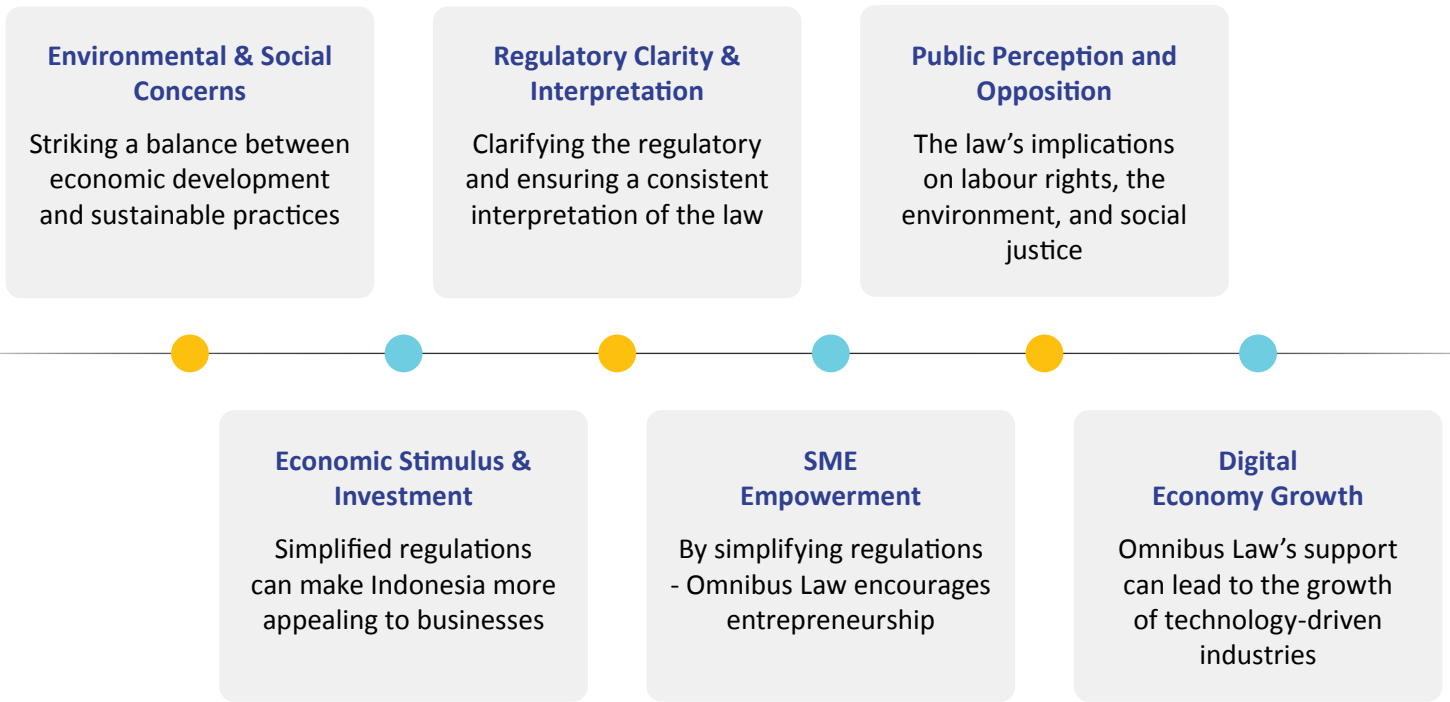
Key Points of the Omnibus Law

Simplifying Bureaucracy	Creating a more business-friendly environment
Labour Market Reforms	Balance between workers' rights and the need for the companies
Investment Promotion	Boost economic development & create job opportunities
Sector-Specific Changes	Encourage growth & contribute to overall economic advancement
Environmental & Social Aspects	Strike a balance between economic growth and environmental protection
Responsive Government	The government's commitment to addressing environmental challenges

Job Creation Strategy in Indonesia with Omnibus Law

Simplifying Bureaucracy	Introduces a Single Submission System (Sistem Perizinan Terintegrasi) to streamline the application process
Labour Market Reforms	Simplified licensing procedures and access to financial support
Investment Promotion	Promoting green technologies, sustainable agriculture, eco-friendly tourism and creating jobs in these sectors
Sector-Specific Changes	Contributes to job creation in high-tech industries, establishment & growth of digital startups
Environmental & Social Aspects	Stimulate hiring and create a more dynamic job market

Challenges and Opportunities



Clusters Impacted

These clusters are designed to comprehensively address challenges and opportunities within different sectors.

Investment Cluster	Focuses on attracting and facilitating investments in Indonesia
Labour Cluster	Aimed at balancing workers' rights with the need for business flexibility
Land Cluster	Aims to simplify land acquisition processes for development projects
Environmental and Forestry Cluster	Implementing measures that promote responsible and sustainable business practices
Business Licensing Cluster	Focuses on simplifying and consolidating business licensing processes
Research and Innovation Cluster	Focuses on fostering a culture of innovation and research and development
Social Welfare Cluster	Aims to ensure that economic development translates into improved living standards and social benefits for the people

Significant Changes in Labour Regulations

Termination Procedures (PHK) & Severance Pay

Providing more clarity on the conditions under which terminations can occur and adjusting the severance pay calculations

PROVIDE

Jaminan Kehilangan Pekerjaan (JKP)

- Cash Benefit
- Vocational Training
- Job Placement Access

01

Outsourcing and Contract Workers (PKWT)

Introduces changes in the management of outsourced personnel, emphasising the need for fair treatment and compliance with new guidelines

02

Employment Contracts

Provides greater flexibility in employment contracts, allowing employers and employees to negotiate terms more freely

03

Working Hours

Introduces changes to working hours, enabling a more adaptable approach that aligns with the dynamic needs of businesses

Potential Impact on the HR Industry

Severance and Service Pays Benefit Scales
Skala Imbalan Uang Pesangon dan Uang Penghargaan Masa Kerja
 (x Wages/Upah)

Years of Service (YoS) <i>Masa Kerja</i>	Severance Pay (SVR) <i>Uang Pesangon</i>
YoS < 1	1
1 ≤ YoS < 2	2
2 ≤ YoS < 3	3
3 ≤ YoS < 4	4
4 ≤ YoS < 5	5
5 ≤ YoS < 6	6
6 ≤ YoS < 7	7
7 ≤ YoS < 8	8
YoS ≥ 8	9

Years of Service (YoS) <i>Masa Kerja</i>	Service Pay (SVC) <i>Uang Penghargaan Masa Kerja</i>
YoS < 3	0
3 ≤ YoS < 6	2
6 ≤ YoS < 9	3
9 ≤ YoS < 12	4
12 ≤ YoS < 15	5
15 ≤ YoS < 18	6
18 ≤ YoS < 21	7
21 ≤ YoS < 24	8
YoS ≥ 24	10

New Provision of Omnibus Law

Termination (Non-fixed Term Contract)

Reasons of Employment Termination		Labour Law Reference	Old Benefits Amount	Govt Regs Reference	New Benefits Amount
1	Merger, dissolving, or separation, and workers are not willing to continue employment	163 (1)	SVR + SVC + CP(O)	41	SVR + SVC + CP(N)
2	Merger, dissolving, or separation, and employers are not willing to accept	163 (2)	2 × SVR + SVC + CP(O)		
3	Company take over	-	-	42 (1)	SVR + SVC + CP(N)
4	Company take over resulting in change of employment conditions, and workers are not willing to continue employment	-	-	42 (2)	0.5 × SVR + SVC + CP(N)
5	Efficiency resulting from losses	164 (3)	2 × SVR + SVC + CP(O)	43 (1)	0.5 × SVR + SVC + CP(N)
6	Efficiency to avoid losses	-	-	43 (2)	SVR + SVC + CP(N)
7	Company closure due to 2 consecutive years of losses or 2 non-consecutive years of losses	164 (1)	SVR + SVC + CP(O)	44 (1)	0.5 × SVR + SVC + CP(N)
8	Company closure not as a result of losses	-	-	44 (2)	SVR + SVC + CP(N)
9	Company closure due to force majeure	164 (1)	SVR + SVC + CP(O)	45 (1)	0.5 × SVR + SVC + CP(N)
10	Due to force majeure but not closure	-	-	45 (2)	0.75 × SVR + SVC + CP(N)
11	Company under suspension of payment obligation due to losses	-	-	46 (1)	0.5 × SVR + SVC + CP(N)
12	Company under suspension of payment obligation not due to losses	-	-	46 (2)	SVR + SVC + CP(N)
13	Company declared bankrupt	165	SVR + SVC + CP(O)	47	0.5 × SVR + SVC + CP(N)

Footnote:

SVR - Severance Pay

SVC - Service Pay

CP(O) - Compensation (Old)

CP(N) - Compensation (New)

Compensation (Fixed Term Contract)

Certain Period Work Agreement

Certain Period Work Agreement (CPWA) is defined as an agreement between workers and employers to engage in a working relationship for a limited period of time or for a certain job.

Article 15 Government Regulations No. 35/2021:

Employers must pay a certain amount of Compensation to CPWA workers (Indonesian nationals) having at least 1 month of service, at the end of the working period.

Amount of Compensation for CPWA

Article 16 Government Regulations No. 35/2021:

$$\frac{\text{Service (in month)}}{12} \times 1 \text{ month wages}$$

For existing CPWA, service in the above formula is based on service since the enactment of the Omnibus Law No. 11/2020 — Article 64 letter b, Government Regulations No. 35/2021.

Footnote:

Wages = wage without allowances, or basic wage and fixed allowances.

Always Stay Ahead for HR Compliance

Employment Type	Fixed-Term (Penalty Labour Law Art.62 + PP 35/2021 Compensation) Non-Fixed Term (Severance Pay Labour Law Art.156)
Annual Leave	Minimum of 12 days All paid leaves are paid by employers
Outsourcing (EOR)	Allowed for some functions Mass market
Payroll & Statutory	Income Tax (Tax Art.21) BPJS Employment + BPJS Health
Union (Law No 21/2000)	Protection of employee to create union (Art.28 Law No.21/2000) Minimum 10 employees

Indonesia Industrial Court Mediation Process



Dispute Submission

- Bipartite discussion within 30 days
- Mediation between EE & ER



Resolution

- Expert Witness
- Mutual Agreement Registration to Industrial Court



Industrial Court

- Recommendation
- Settlement

Article contributed by

Mario Widjaja

Country Manager, Indonesia

E: mario.widjaja@biposervice.com

Around the World with BIPO

At BIPO, we are committed to facilitating international business growth. Here's a quick look at how we foster discussions with the business community, sharing our expertise at local events across the region!

Thailand

14 Mar

Updates on Thailand's Labour Law with Ken Tip



Hong Kong

14 Mar

HRMS Functionality Refreshment Q1 2024 (Rental Reimbursement & Annual Tax Return Process Flow) with William Suen & Carman Cheng



Netherlands

14 Mar

Unternehmensgründung in China Chancen und Herausforderungen with Roland Brouwer



About BIPO

Established in 2010 and headquartered in Singapore, BIPO is a global payroll and people solutions provider. Our comprehensive **total HR solutions** include our Human Capital Management (HCM) suite, Global Payroll Outsourcing (GPO) and Employer of Record (EOR) service across **160+ global markets**.

Connect with our experts today: hello@biposervice.com

Copyright © 2024 BIPO Service. All rights reserved.

Find out more



www.biposervice.com



www.facebook.com/biposvc



www.linkedin.com/company/bipo-svc

