

# Construction and Projects: Overview (Indonesia)

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This Practice Note gives an overview of construction and projects law and practice in Indonesia.

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In an evolving construction and projects sector, practitioners must frequently navigate a complex list of regulations and negotiate contractual arrangements. To do this, they must stay up to date with the latest developments and be aware of the various procurement arrangements, transaction structures, and financing options.

This note is intended to provide a guide to these issues in Indonesia, considering the main trends, major projects, and common practices within the local and international construction markets. It discusses the usage of standard forms of contracts, the allocation of risks, and summarises the legal framework governing employment, health and safety, and environmental issues.

Each project is individual and will require consideration of its own specific issues. This note is therefore intended to be a starting point for a practitioner in this area and does not replace the need for consultation with local legal advisers.

## Construction and Projects Sector Overview

### Main Trends

Following the COVID-19 pandemic in 2019, the Indonesian government introduced Law No. 11 of 2020 on Job Creation (Omnibus Law). The Omnibus Law was enacted with the aim of making it easier to conduct business in Indonesia by eliminating administrative inefficiencies and simplifying the licensing process in various business sectors, including the construction sector. The Omnibus Law was revoked in 2022 and replaced by Law No. 6 of 2023 on the Stipulation of Government Regulation in Lieu of Law No. 2 of 2022 concerning Job Creation into Law (Law 6/2023), which serves similar goals.

In 2024, the government allocated 12.73% of the total state expenditure budget, amounting to IDR423.4 trillion, about USD26.6 billion, for the national infrastructure budget. Following the post-COVID-19 economic recovery, the construction sector grew by 7.29% in the second quarter of 2024 (Central Statistics Agency).

The government is pursuing the development of public infrastructure, including airports, toll roads, and mass transportation, under the National Medium-Term Development Plan of 2020-2024 (*Rencana Pembangunan Jangka Menengah Nasional 2020-2024* (RPJMN)). This includes moving ahead with the construction of Indonesia's new capital, *Ibu Kota Nusantara* (IKN), which also involves private actors in the construction sector. The construction of IKN is expected to require an overall budget of approximately IDR466 trillion.

### Major Projects

The government has stipulated a list of national strategic programs. As of 2024, 25 national strategic programs in the transportation sector have been completed, including seven airports, seven train rail routes, and 11 seaports. Several similar projects are currently under construction, including:

- Land transport projects that include the construction of routes for:
  - the Lahat-Kertapati Logistics Train;
  - the South Java Double Track;
  - the North-South Jakarta Mass Rapid Transit (MRT);
  - Phase I of the East-West Jakarta MRT;
  - the Jakarta Velodrome-Manggarai Light Rail Transit; and
  - infrastructure for the East Kalimantan Logistics Train.
- Seaport projects, which include the Port of Benoa, Port of Sorong, the Muaro Jambi Container Port, and the Port of New Palembang.

## Common Procurement Arrangements

### Local Projects

The legal framework for construction projects is provided by Law No. 2 of 2017 on Construction Services as amended by Law 6/2023 (Construction Law), and its implementing regulation, Government Regulation No. 22 of 2020 as amended by Government Regulation No.14 of 2021 (jointly referred to as the Implementing Regulation).

Procurement arrangements vary as certain business sectors have specific procedures and regulations. For example, procurement arrangements for construction related to upstream oil and gas infrastructure are regulated by the Second Book of PTK-007/SKKIA0000/2023/S9 (Revision 05), issued by the Special Taskforce for Upstream Oil and Gas Business Activities (*Satuan Kerja Khusus Pelaksanaan Kegiatan Usaha Hulu Minyak dan Gas Bumi*), a special government work unit overseeing the upstream oil and gas sector.

Procurement arrangements are made through the execution of a construction work contract between the project owner or employer and the service provider or contractor. The Construction Law sets out typical types of construction work contracts based on:

- Delivery systems, including:
  - design-bid-build;
  - design-build;
  - engineering-procurement-construction;
  - construction management at risk;
  - construction management as service user agents; and
  - partnership contracts.

- Service payments, including:
  - advance payment;
  - progress payment;
  - milestone; and
  - turnkey contracts.
  
- Work calculation systems, including:
  - lump sum;
  - unit pricing;
  - combination of lump sum and unit pricing;
  - cost reimbursable;
  - percentage value; and
  - target cost contracts.

When a project involves a state-owned enterprise or direct co-operation with government bodies, specific regulations govern the procurement arrangements. The state-owned enterprise or government bodies' internal policies must also be observed.

It is common for the government to utilise PPP schemes in the construction of infrastructure projects. These schemes enable the government to address the funding gaps that frequently arise in pursuit of its development objectives. For example, according to a report prepared in May 2023 by the Ministry of National Development Planning/National Development Planning Agency the government intends to allocate IDR6,445 trillion for infrastructure spending under the current RPJMN. However, its funding capacity is restricted to IDR2,385 trillion. By utilising a PPP scheme, the government can secure the remaining funds from the private sector, enabling it to carry out projects under the RPJMN.

Presidential Regulation No. 38 of 2015 on Public Private Partnership for Infrastructure Development (PR 38/2015) states that PPP schemes can be used for infrastructure projects related to:

- Transportation.
- Roads.
- Water sources and irrigation.
- Drinking water facilities.
- Centralised wastewater management.
- Local wastewater management.
- Waste treatment systems.
- Telecommunications and information.

- Power plants.
- Oil and gas as well as renewable energies.
- Energy conservation.
- City facilities.
- Education facilities.
- Sports and art facilities.
- Estates, for example, industrial estates.
- Tourism.
- Health.
- Correctional facilities.
- Public housing.

PR 38/2015 is the principal regulation governing PPPs. PR 38/2015 is supplemented by several implementing regulations including:

- Minister of National Development Planning/Head of National Development Planning Agency Regulation No. 7 of 2023 on the Implementation of Public-Private Partnerships in the Provision of Infrastructure.
- Head of National Procurement Agency Regulation No. 29 of 2018 on the Procedure for Procurement in Public Private Partnerships for Infrastructure Development Initiated by Ministers/Heads of Agencies/Heads of Regions (LKPP Regulation 29/2018).

In addition to these regulations, there are sectoral regulations that further govern infrastructure PPPs in specific business sectors.

## International Projects

International construction contractors or consultants must establish a local presence and satisfy certain additional requirements compared to domestic contractors (see [International Projects](#) and [Licensing](#)). For example, foreign construction business actors can only engage in projects that are high risk, require advanced technology, involve high costs, or a combination of all three. The technology requirement is based on factors including materials, equipment, expert labour, and performance method.

## Common Transaction Structures

### Local Projects

In local projects and international projects involving foreign parties or investors, transaction structures typically depend on the project's business sector, for example:

- Public land transport or toll-road projects typically use a Build-Operate-Transfer (BOT) scheme.

- In the electricity sector, projects are required to adopt a Build-Own-Operate (BOO) scheme. Notably, the Build-Own-Operate-Transfer (BOOT) scheme is no longer permitted for power plants utilising renewable energy.
- Airport and seaport developments require concession agreements with designated government units.
- Projects developed through PPP may include various schemes, such as:
  - Operation & Maintenance (O&M);
  - Design-Build-Finance-Maintenance (DBFM); and
  - Design-Build-Finance-Maintenance-Operate (DBFMO).

Generally, Indonesian law recognises corporate vehicles with:

- A non-legal entity status, for example, a civil partnership, firm, and Dutch limited partnership (*Commanditaire Vennotschaap* (CV)).
- Legal entity status, for example, a limited liability company (*Perseroan Terbatas* (PT)) and co-operatives.

## International Projects

The Construction Law allows foreign investment in the following forms:

- A limited liability company for foreign capital investment (*Perseroan Terbatas Penanaman Modal Asing* (PT PMA)) under Law No. 25 of 2007 on Capital Investment (Investment Law), as last amended by Law 6/2023.
- A representative office of foreign business actors performing construction services such as a foreign construction services company (*Badan Usaha Jasa Konstruksi Asing* (BUJKA)).

In a PT PMA structure, the foreign investor acts as a joint shareholder with a national construction company that holds the necessary licences (see [Licensing](#)) and qualifies as a large-scale contractor. Foreign ownership in the PT PMA is subject to Presidential Regulation No. 10 of 2021 on Capital Investment Business Fields as amended by Presidential Regulation No. 49 of 2021 (jointly, PR 10/2021), which outlines the business fields in Indonesia that are fully open, open with certain restrictions, or closed to foreign investment.

While the construction sector is not listed as open with limitations in Annex III of PR 10/2021, certain construction activities are reserved for:

- Co-operatives.
- Micro, small, and medium enterprises.
- Partnerships with the entities above.

In addition, Annex II of Government Regulation No. 5 of 2021 on the Implementation of Risk-Based Licensing, as partially revoked by Government Regulation No. 11 of 2023 (jointly, GR 5/2021), imposes a 67% and 70% foreign shareholding limit for non-ASEAN and ASEAN BUJKAs, respectively.

A BUJKA representative office must form a joint operation consortium with a wholly owned Indonesian construction company that holds the required licences (see [Licensing](#)) and qualifies as a large-scale contractor.

For more information about project specific transaction structures, see [Local Projects](#).

## Financing of Projects and Security

### Local Projects

Financing arrangements for a construction project typically depend on whether the project is a private or public project, regardless of whether it is a local or international project.

Private sector projects, especially in real estate development, often rely on internal funding, for example, paid-up capital or retained earnings, as their main source of financing. Local bank loans are also an alternative source of funding. Additionally, project owners may finance projects by listing shares on the Indonesia Stock Exchange or issuing bonds.

Under the Construction Law, construction services can be funded by the central government, regional government, business entities, the community, or a combination of all three. For PPP projects, partial financing may be obtained from the government under PR 38/2015.

### Security and Contractual Protection

Funders typically require one or more of the following securities:

- Fiduciary security for tangible or intangible moveable objects and certain immoveable objects, especially buildings, that cannot be secured by mortgage, under Law No. 42 of 1999 on Fiduciary Security.
- Pledges for tangible or intangible moveable objects, under Article 1150 of the Indonesian Civil Code (Civil Code).
- Mortgages for land and fixtures on the land, under Law No. 4 of 1996 on Mortgage on Land and Land-Related Objects.
- Personal or corporate guarantees made by persons or legal entities, for example, by the contractor's shareholders or owner. Additional guarantees for infrastructure projects under a PPP scheme may be provided through the Indonesia Infrastructure Guarantee Fund (*PT Penjaminan Infrastruktur Indonesia (Persero)*).

Additionally, Presidential Regulation No. 16 of 2018 on Government Procurement as amended by Presidential Regulation 12 of 2021 stipulates all of the following types of security:

- A bid guarantee.
- An appeal guarantee.
- A performance guarantee.
- An advance payment guarantee.
- A maintenance guarantee.

Contractual protections required by funders are typically in the form of step-in rights, assignments of rights, and warranties.

## Standard Forms of Construction Contract

### Local Projects

Projects involving locally owned private construction service companies rarely refer to a particular contract model. Generally, parties are free to include any terms they wish, if they comply with mandatory provisions under Indonesian law (Article 1338, Civil Code). These mandatory provisions stem from statutory laws, public policy, and public order.

The Construction Law provides that a construction work contract must clearly identify the parties and include:

- A clear description and details concerning the scope (including protection for the implementation of work, receipt of advance payments, and accidents involving workers or the public in the form of insurance), value of the contract for performing the work, unit price, lump sum, and performance time limit.
- The coverage period, consisting of the period of performance and maintenance under the contractor's responsibility.
- Equal rights and obligations, including:
  - the employer's right to obtain the results of the construction services, and its obligation to comply with the agreed conditions; and
  - the contractor's rights to obtain information and receive service fees, and its obligation to perform the construction services.
- The use of construction workers, including the obligation to employ certified construction workers.
- The method of payment, including the employer's obligation to complete the payments for the construction services, along with payment guarantees.
- Default provisions, covering liability if a party fails to meet its agreed obligations.
- Dispute resolution procedures and the choice of dispute resolution mechanism.
- Contract termination provisions, if one of the parties does not comply with its obligations.
- Force majeure provisions.
- Provisions on the obligations of the contractor or employer or both for a building failure, and the period of responsibility for that failure.
- Provisions on the parties' obligations in implementing worker health and safety and social security.
- Third-party protections, including liability for losses, injury, or death.
- Environmental compliance requirements.
- Guarantees for risks that arise and legal responsibilities to other parties in the performance of the construction work or for the consequences of a building failure.

Certain types of construction work contracts must also include the following provisions:

- For planning services, provisions on intellectual property rights.
- For the performance of construction services, provisions regarding sub-contractors, material suppliers, building components, equipment, or a combination of all three which must comply with applicable standards.
- For construction work involving a foreign party, provisions regarding the obligation for the transfer of technology.

Under the Construction Law, construction work contracts must be in Indonesian. When a construction work contract involves foreign parties, the contract must be in English and Indonesian, with Indonesian as the prevailing language.

The Implementing Regulation also provides that a construction agreement must at least contain the following:

- A letter of agreement signed by the parties, covering:
  - a description of the parties;
  - consideration;
  - the scope of work;
  - the essential terms of the agreement (for example, the value of the contract and implementation period of the contract); and
  - a hierarchal list of binding documents.
- Special terms of the agreement containing information on the work and amendments permitted by the general terms of the agreement based on the specific characteristics of the work. For example, toll road construction would require a different maintenance period than port construction.
- General terms of the agreement setting out general provisions of the engagement based on the implementation system, scope of work, payment method, and work calculation system.
- Project owner or employer's documents forming the basis for the contractor's proposal, detailing the scope of work and its requirements, including work specifications, images, expenses, and fees.
- Contractor's proposal, detailing methods, cost estimate, timeline, and resources.
- Minutes documenting the agreements made between the parties during the proposal evaluation process by the project owner or employer clarifying potential ambiguities.
- A statement letter from the project owner or employer approving the proposal from the contractor.
- A letter from the contractor stating its capability to perform the work.

For government-funded projects, a government standardised contract must be used, as set out in the annexes of Government Procurement Policy Body (GPPB) Regulation No. 12 of 2021 on Implementation Guidelines for Government Procurement through a Provider (GPPB Regulation 12/2021), as last amended by GPPB Regulation No. 4 of 2024 (GPPB Regulation 4/2024).

## PPP Projects

PPP project agreements are prepared by government entities that assume the role of the person in charge of the construction project (*Penanggung Jawab Proyek Kerjasama (PJPK)*). These agreements must contain provisions governing:



- The scope of work.
- The time period.
- A performance bond.
- The adjustment tariff and mechanism.
- The rights and obligations, including the allocation of risk.
- The service performance standard.
- The transfer of shares before the PPP project operates commercially.
- The sanctions in the event any party fails to fulfill the terms of the agreement.
- The termination or expiration of the agreement.
- The asset ownership status.
- The dispute resolution mechanism, which is governed in stages, including deliberations to reach a common consensus, mediation, and arbitration or court proceedings.
- The contractor performance supervision mechanism.
- The work or service amendment mechanism or both.
- The takeover mechanism by the government or party which provided loans.
- Utilisation and ownership of the infrastructure asset or its management or both by the PJKP.
- The return of the infrastructure asset or its management or both to the PJKP.
- Force majeure.
- Statement and warranty of the parties that the PPP agreement is valid, binding on the parties, and in accordance with the law.
- Use of the Indonesian language, which can be accompanied by an official English translation, and the use of Indonesian in the resolution of disputes within the territory of Indonesia.
- Indonesian law as the applicable law.

## International Projects

When projects involve foreign parties (for example, where the lender is an international finance institution), international standard contract forms are often used, such as those issued by the International Federation of Consulting Engineers (*Fédération Internationale des Ingénieurs – Conseils* (FIDIC)). Adjustments are necessary to ensure that the contract complies with the minimum requirements under the Construction Law (see [Local Projects](#)).

## Contractual Provisions

## Contractors' Risks

The following risks are typically allocated to the contractor:

- Defects in the contractor's work including design liability and fitness for purpose aspects, particularly related to building failures under the Construction Law and its Implementing Regulation. The contractor is responsible for any building failures that occur in the liability period expressly stipulated in the construction contract (up to ten years), after which liability shifts to the client.
- Loss or damage to the equipment and property belonging to the contractor, subcontractors, construction labour force or other third parties.
- Loss or damage to the construction work output, and the materials and tools associated with it.
- Bodily harm, illness, or death in the construction labour force.
- Ground condition risks or unforeseen ground conditions especially for projects with a Design-Build scheme.
- Appointed subcontractors' faults or defects.

Standard form contracts under GPPB Regulation 4/2024 also contain provisions on change in law risks. These provisions permit adjustments to the value of the construction contract arising from, among other things, changes in law or official judicial interpretation of provisions of law by the government. Any delays or increase in costs resulting from these changes allows time extensions or adjustment to the contract value or both.

In some contracts, the contractor may be released from liability for these risks when they result from the employer's gross negligence or willful misconduct. Additionally, the principle of freedom of contract allows parties to agree on the allocation of risks, subject to the applicable provisions of law.

## Excluding Liability

The principle of freedom of contract allows parties to exclude, restrict, or limit liabilities, including those for indirect and consequential damages, and loss of business or profits, as provided for in the standard form construction contract under GPPB Regulation 4/2024. However, Indonesian courts may refuse to enforce a limitation of liability provision in the following circumstances:

- If the damages result from gross negligence or willful misconduct, as such a limitation of liability may be deemed contrary to public policy.
- If the party seeking to enforce the limitation did not negotiate or implement the contract in good faith, with the court considering factors such as the agreement's nature, the parties involved, their expertise, and their relationship.
- If the provision contradicts the principle of fairness, common practice, and other laws and regulations (Article 1339, Civil Code).

## Caps on Liability

It is common for parties to include a limitation of liability clause in their contracts based on the contract value, such as in the standard form construction contract provided under GPPB Regulation 4/2024. Conversely, certain standard form contracts such as those stipulated under GPPB Regulation 12/2021 may stipulate an uncapped liability for certain matters.

The implementation of a limitation of liability clause may be subject to a court ruling (see [Excluding Liability](#)). In some cases, contracts stipulate that any liability arising from gross negligence or willful misconduct will not be capped.

## Force Majeure

The Construction Law requires the inclusion of a force majeure clause in a construction contract (see [Local Projects](#)). Even if not required by the Construction Law, it is common to find a force majeure clause in Indonesian contracts. In addition, the Civil Code recognises the concept of force majeure (Articles 1244 and 1245).

## Material Delays

The Construction Law requires construction work contracts to contain a default clause addressing delays in fulfilling contractual obligations. This clause governs the consequences of such delays, including compensation and deadline extensions. The standard form contracts provided under regulations such as GPPB 12/2021 or GPPD 4/2024 include several template provisions concerning delays. In addition, the following provisions are typically negotiated regarding project delays:

- The cause of delay. Delays are most commonly caused by:
  - the contractor's act or omission;
  - the employer's act or omission; and
  - events outside the parties' control, for example, force majeure events or a change of law.

Parties should set out possible causes and consequences for these delays.

- Delay damages. Parties negotiate the amount and cap for delay damages, which are linked to the cause of the delay. For example, contractors should not incur delay damages if the delay results from force majeure events or changes in laws.
- Extension of time for completion. For certain delays, such as those initiated by the employer's request to suspend work, the contractor is typically entitled to an extension of time to continue work without incurring delay damages or default claims.
- Step-in rights. Employers often negotiate a provision that allows them to intervene and take necessary actions to resolve the delay, at the contractor's expense.
- Termination. The parties can agree on the extent of contractor delays that can lead to contract termination.

## Variations

Standard form contracts provided under regulations such as GPPB 12/2021 or GPPD 4/2024 already include several template provisions concerning variations to a project (see [Caps on Liability](#) and [Material Delays](#)). In addition, parties typically negotiate:

- The right to vary. The employer generally holds the right to request work variations, while contractors can propose variations with the employer's approval.
- The variation procedure. Parties lay down specific mechanisms for variations of the works, including the contractor submitting a proposal containing technical descriptions of the proposed variations and an estimate of the associated cost.
- Adjustments to the contract price for variations.

## Other Negotiated Provisions

Heavily negotiated contractual provisions typically include:

- The type, coverage, and amount of insurance the contractor will obtain before the work starts.
- The scope and length of warranties the contractor will provide in relation to the work, equipment, materials, and operational capability of a project (fitness for purpose warranties).
- The form, amount, and conditions of performance security or bonds the contractor will obtain in relation to the work.
- The mechanism and choice of forum to resolve disputes.
- The conditions and schedule for payment.
- Limitations on liabilities and the risks allocated to each party.

In addition, the extent to which the specificities of matters such as ground condition risks, design liability, fitness for purpose, change in law risks, and performance securities may be negotiated is subject to the applicable laws and regulations.

## Rights of Third Parties Under Contracts

Under Indonesian law, the privity of contract principle applies, meaning an agreement binds only its parties and does not confer rights or impose obligations on non-parties (Article 1340, Civil Code). If a funder is not a party to the construction contract, they typically lack direct contractual rights against the project's designers or contractors.

Instead, a separate agreement can be prepared between the contractor and the interested third party (for example, a funder), where the contractor warrants compliance to the interested third party with its obligations under the actual construction contract. The interested third party's contractual rights against the contractor are derived from this separate agreement.

## Architects, Engineers, and Construction Professionals

### Selection and Appointment

In private projects, parties are generally free to determine the mechanism for selecting professionals. However, certain business sectors may have their own guidelines, procedures, and regulations relating to the selection of professionals (see [Local Projects](#)). Construction projects must employ certified workers who meet standard competences, for example, certified operators, technicians, analysts, and experts. Appointment under more specific circumstances may be subject to further regulations. The Implementing Regulation provides that state-funded construction projects must appoint professionals through methods such as:

- Tender or selection.
- Direct appointment.
- Direct procurement.
- Procurement through an electronic catalog.

## Professionals' Contracts

### Negotiated Provisions

Provisions negotiated for the appointment of professionals are normally like those negotiated for a construction contract, as the Construction Law recognises individuals (construction professionals) to be capable of participating in those agreements (see [Contractual Provisions](#)).

### Caps on Liability

Liability caps vary on a case-by-case basis, but professionals normally negotiate capped liability.

## Payment for Construction Work

### Methods of Payment

Under the Construction Law and its Implementing Regulation, the payment methods for construction works include:

- Advance payment. A portion of payment is paid in advance of the works.
- Progress payment. Payment is made periodically, for example, monthly.
- Milestone payment. The parties set out milestones to be reached in a project and payments are made on reaching the relevant milestones.
- Turnkey payment. Payment is made only when the project is completed.

### Securing Payment

The Construction Law and its Implementing Regulation provide that construction work contracts must contain provisions on payment guarantees.

### Subcontractors

Typically, the contractor is responsible to the employer for the acts or defaults of the subcontractors it appoints in a project. Under the Construction Law, works can only be subcontracted for the following specialised services with the following classification:

- Technical and scientific consultation.
- Technical testing and analysis.
- Equipment leasing.
- Specialised construction, installations, prefabricated construction, and building completion.

The type of services that can be provided as specialised services include:

- Surveys.
- Technical assessment.
- Analysis.
- Works related to certain portions of building construction and similar works.

This means that subcontracting cannot be undertaken for the whole project. The Construction Law also requires that the employer must approve the appointment of subcontractors. The parties are free to agree the other provisions governing their relationship with subcontractors.

## Licensing

To engage in the construction business, the following requirements must be met:

- Individuals must obtain an Individual Business Registration Licence (*Tanda Daftar Usaha Perseorangan* (TDUP)) issued by the regency or city government.
- Businesses must obtain a Business Identification Number (*Nomor Induk Berusaha* (NIB)) and a verified standard certificate issued by the Indonesian Investment Co-Ordinating Board (*Badan Koordinasi Penanaman Modal* (BKPM)) through the Online Single Submission (OSS) system. The verified standard certificate will be issued after the provision of:
  - a Construction Business Entity Certificate (*Sertifikat Badan Usaha* (SBU)) issued by a Business Entity Certification Agency (*Lembaga Sertifikasi Badan Usaha* (LSBU)); and
  - a Work Competence Certificate (*Sertifikat Kompetensi Kerja* (SKK)) issued by a Profession Certification Institution (*Lembaga Sertifikasi Profesi* (LSP)) for the construction labour force (that is, construction safety officers).
- A BUJKA representative office must be registered in the OSS system. Similarly, it must also obtain an NIB and verified standard certificate and meet certain additional requirements, including payment of business licensing administrative fees of:
  - USD5,000 for construction consultation; or
  - USD10,000 for construction work and integrated construction work.

- Compliance with risk-based licensing requirements depending on the level of risk and qualifications under regulations including:
  - Minister of Public Works and Housing (MPWH) Regulation No. 6 of 2021, as partially revoked by MPWH Regulation No. 2 of 2024 and MPWH Regulation No. 7 of 2024;
  - GR 5/2021; and
  - MPWH Regulation No. 8 of 2022 on Procedures for the Implementation of Construction Services Standard Certificate Fulfillment in the Context of Supporting the Ease of Business Licensing for Construction Service Business Actors.

Parties employing foreign construction workers must comply with regulations in the labour sector relating to, among others, foreign labour utilisation plans and provisions concerning permitted positions for foreign workers. Foreign construction workers must also be registered with the MPWH through either:

- A mutual recognition arrangement through co-operation with the relevant professional regulatory authorities with respect to data access.
- Submitting an application to the Construction Services Development Agency (*Lembaga Pengembangan Jasa Konstruksi* (LPJK)) through the integrated Construction Services Information System.

## Prior to Construction

Prior to construction, businesses must obtain a Building Approval (*Persetujuan Bangunan Gedung* (PBG)). To do so, applicants must:

- Submit technical plans and a PBG application.
- Undergo a technical standards assessment.
- Receive a statement of compliance with those standards.

Additionally, businesses must meet environmental document requirements before engaging in construction, such as:

- An environmental impact assessment (*Analisis Mengenai Dampak Lingkungan Hidup* (AMDAL)).
- A series of environmental management and monitoring processes set out in the form of a standard to be used as a prerequisite for decision-making and stated in business licensing or central or regional government approvals (*Upaya Pengelolaan Lingkungan - Upaya Pemantauan Lingkungan* (UKL-UPL)) (Government Regulation No. 22 of 2021 on the Implementation of Environmental Protection and Management).
- A statement of its ability to manage and monitor the environment (*Surat Pernyataan Kesanggupan Pengelolaan dan Pemantauan Lingkungan Hidup* (SPPL)).

Other licences may be required as necessary.

## During Construction

During construction works, certain licences require the licence holder to submit periodical reports to the relevant regional authorities. For example, after an NIB is issued, a PT PMA must submit a Capital Investment Activities Report (*Laporan Kegiatan Penanaman Modal* (LKPM)) via the OSS system every semester detailing its investment activities.

## On Completion

A Certificate of Worthiness (*Sertifikat Laik Fungsi* (SLF)) is required after the completion of construction. A building can only be used after an SLF is obtained under Law No. 28 of 2002 on Buildings, as amended by Law 6/2023.

## Projects Insurance

### Compulsory Insurance

The Construction Law and its Implementing Regulation do not specify any compulsory insurance; the former merely requires a construction contract to contain provisions governing protection from certain risks through insurance or guarantees. Nonetheless, an employer is required to register its employees in the employment social security programme governed by:

- Law No. 13 of 2003 on Labour, as amended by Law 6/2023 (Labour Law).
- Law No. 24 of 2011 on Social Security Agency, as amended by Law 6/2023.

### Non-Compulsory Insurance

It is common for a construction contract to require the parties to obtain insurance during the works. The Implementing Regulation refers to the use of professional indemnity insurance and building insurance. Other examples of typically required insurance include:

- All-risk insurance for the contractor's works, equipment, and materials.
- Insurances against liability for any loss, damage, death, or bodily injury to any property or person caused by the contractor's performance of the works.

## Employment Laws

Generally, employment matters are governed principally by the Labour Law and its implementing regulations, including regional government regulations on the minimum wage. Other relevant regulations include:

- Law No. 2 of 2004 on Industrial Relations Dispute Settlement and its implementing regulations.
- Law No. 21 of 2000 on Labour Unions and its implementing regulations.

## Health and Safety



In general, the Labour Law and the Construction Law contain provisions related to health and safety requirements for workers. Work health and safety requirements can also be found in:

- Law No. 1 of 1970 on Work Safety.
- Government Regulation No. 50 of 2012 on Implementation of Work Safety and Health Management System.
- Minister of Labour Regulation No. 5 of 2018 on Safety and Health in the Work Environment (MOL Regulation 5/2018).

The implementing regulations of these laws govern health and safety requirements in more detail and the implementation of the work safety and health management system. These include regulations such as:

- Minister of Labour and Transmigration Regulation No. PER.01/MEN/1980 of 1980 on Work Safety and Health in Building Construction.
- MPWH Regulation No. 10 of 2021 on Guidelines for Construction Safety Management System.

## Environmental Issues

Law No. 32 of 2009 on Environmental Protection and Management, as amended by Law 6/2023 broadly regulates a project's effects on the environment. Other regulations, such as Law No. 1 of 2011 on Housing and Residential Areas, as amended by Law 6/2023, also contain provisions highlighting the need to ensure due consideration of environmental concerns. Other regulations referenced should be viewed holistically to govern the interplay between construction and the environment to varying extents.

### Air

Government Regulation No. 22 of 2021 on Implementation of Environmental Protection and Management (GR 22/2021) regulates the protection and management of air quality, which includes determining an ambient air quality threshold and inventorying emission sources.

### Water

Water as a resource is broadly governed under Law No. 17 of 2019 on Water Resources, as amended by Law 6/2023 and Government Regulation No. 30 of 2024 on the Management of Water Resources. GR 22/2021 also governs the protection and management of water quality, which includes the establishment of a water quality threshold, inventorying bodies of water, and characterising those bodies.

### Waste

Law No. 18 of 2008 on Waste Management recognises building demolition debris as a specific form of waste requiring special management. The management of this waste is further governed by Government Regulation No. 27 of 2020 on the Management of Specific Waste (GR 27/2020). GR 27/2020 details the obligation to manage building demolition debris, which includes various phases such as sorting, collection, transportation, management, and final processing.

### Noise Emissions

Minister of Environment Decree No. 48 of 1996 on Noise Level Threshold establishes obligations for businesses and activities in complying with the maximum noise emission thresholds it stipulates. MOL Regulation 5/2018 also contains provisions on the measurement and control of noise hazards from the use of work equipment.

## Sustainable Development

Presidential Regulation No. 111 of 2022 on the Implementation of Sustainable Development Goals Achievement establishes the goals of national development for the period of 2020-2024. These include construction of sustainable regional/cross-border infrastructure and sustainable modern energy infrastructure.

Other policy tools such as the Head of GPPB Decree No. 157 of 2024 on Guidelines for Sustainable Government Procurement (Decree 157/2024) and MPWH Regulation No. 9 of 2021 on Guidelines for Sustainable Construction provide guidance on sustainable construction practices. Such regulations stipulate the pillars of sustainable construction, namely that it:

- Is economically viable and capable of improving public welfare.
- Preserves the environment, minimises environmental impacts, and similar goals.
- Reduces social disparity in society.

## Carbon Emissions or Other Targets

Depending on certain criteria (for example, the building area and complexity) new and existing buildings may be recommended for or subject to mandatory green building technical requirements as specified in MPWH Regulation No. 21 of 2021 on Building Performance Assessment of Green Buildings. These requirements concern:

- Air quality control.
- Energy use efficiency.
- Green areas.
- Environmentally friendly material.
- Construction waste management.

Additionally, a building can be certified as environmentally friendly if it meets certain requirements under Minister of Environment Regulation No. 8 of 2010 on Criteria and Certification for Environmentally Friendly Buildings.

## Prohibiting Corrupt Practices

### Rules

The Indonesian anti-corruption regime is broadly set out in Law No. 31 of 1999 on Eradication of Criminal Acts of Corruption, as last amended by Law No. 30 of 2002, which in turn has also been further amended (together, Anti-Corruption Law). The Anti-Corruption Law governs matters such as crimes causing loss to state finances, the misuse of circumstances relating to one's authority, gratification, bribery, and malfeasance. The Anti-Corruption Law also imposes sanctions for certain acts in the construction context such as those for:

- Parties (for example, suppliers or experts) who commit fraud during construction or delivery of materials, potentially jeopardising human or property safety or undermining security during war.
- Parties supervising construction or material delivery that knowingly permit the fraudulent acts described above.

In addition, Law No. 11 of 1980 on Bribery imposes punishments for bribing a public official.

## Penalties

Corruption is criminally sanctioned with penalties including:

- Fines ranging from IDR50 million to IDR1 billion.
- Prison sentences ranging from one year up to life in prison.
- Capital punishment in exceptional circumstances, for example, corruption involving funds for national natural disaster relief or economic-monetary crisis.
- Additional sanctions such as confiscation and closure of company.

## Bankruptcy or Insolvency

### Clients

An agreement with a contractor typically includes provisions on its bankruptcy. It is common for clients to be entitled to terminate a construction contract following the bankruptcy of the contractor. For example, Government Regulation No. 14 of 2020 on Standards and Procedures of Construction Service Procurement through Providers recognises bankruptcy as grounds for terminating a construction contract.

Bankruptcy matters are governed under Law No. 37 of 2004 on Bankruptcy and Suspension of Debt Payment Obligations, as last amended by Law No. 4 of 2023 (jointly, the Bankruptcy Law). Where clients possess a payable debt owed by the debtor (in this case, the contractor) recognised under Indonesian law, they qualify as a creditor under the Bankruptcy Law. Both creditors and debtors can initiate bankruptcy proceedings. Under the Bankruptcy Law, creditors are entitled to both:

- Have their receivables verified by the receiver (a party appointed to manage and settle the bankrupt entity's obligations).
- Attend and vote in creditor meetings with an aim to settle the debts.

The Bankruptcy Law provides creditors and debtors with an alternative to avoid bankruptcy proceedings leading to the liquidation of the debtor, the Suspension of Debt Payment (*Penundaan Kewajiban Pembayaran Utang* (PKPU)). PKPU proceedings allow debtors to prepare a composition plan detailing the restructuring of outstanding debts for approval by creditors. Restructuring may include:

- Rescheduled and extended payment terms, sometimes with a grace period.

- Waiver of penalties and overdue interest.
- Debt-to-equity conversions.

## Funders

Funders owning payable debts qualify as a creditor under the Bankruptcy Law and are entitled to the rights above (see [Clients](#)). Additionally, creditors can execute their securities as if bankruptcy had not occurred depending on their classification as creditors.

## Contractors

As a debtor under the Bankruptcy Law, contractors can apply for a PKPU proceeding to avoid liquidation. The PKPU proceeding enables them to restructure their debts, allowing continued operations while repaying their debts over time.

## Consultants

Consultants, like clients and funders, may also qualify as creditors under the Bankruptcy Law, if they are owed payment (see [Clients](#) and [Funders](#)).

## Dispute Resolution

### Laws on Dispute Resolution

The resolution of construction disputes is governed under the Construction Law and its Implementing Regulation. Construction contract disputes should be resolved amicably, failing which, they will be resolved using the dispute resolution mechanism stipulated in the contract, which includes mediation, conciliation, and arbitration. Arbitration in Indonesia is governed by Law No. 30 of 1999 on Arbitration and Alternative Dispute Resolution (Arbitration Law) (in Indonesian only). For more information see, [Country Q&A, Arbitration Procedures and Practice in Indonesia: Overview](#).

Alternatively, the disputing parties may engage a dispute council instead of mediation or conciliation. A dispute council gains competence once agreed on by the parties in the construction contract and a tripartite agreement is prepared. Further guidance is provided under MPWH Regulation No. 11 of 2021 on Construction Dispute Council Procedures and Technical Guidelines (MPWH Regulation 11/2021).

As disputes arising from construction contracts concern events of default, they are characterised as civil disputes under the competence of district courts, under Law No. 2 of 1986 on General Judiciary, as last amended by Law No. 49 of 2009.

For more information, see [Country Q&A, Litigation and Enforcement in Indonesia: Overview](#).

### Type of Outcome

MPWH Regulation 11/2021 provides that the decision of the dispute council becomes final and binding 28 calendar days after the disputing parties receive it. The parties must implement the decision immediately. A party can express its disagreement with the decision (partly or wholly) within this 28-day period. This gives the parties recourse to other permitted dispute resolution

mechanisms. Uncontested parts of the decision (if any) will become final and binding. The 28-day period is to be adjusted according to the term of the construction contract between the disputing parties.

## Dispute Resolution Methods

While no official information is available, a recent journal stipulates that construction disputes are often resolved (in order of frequency) through the courts, arbitration, and the dispute council.

## Courts and Arbitration Organisations

Indonesia does not have a specific court that handles construction disputes. The relevant court institutions are:

- The district courts of the relevant regency or city.
- The high courts of the relevant province which receive appeals.
- The Supreme Court, domiciled in Jakarta, which receives cassation or judicial reviews.

Another way to settle construction disputes is through arbitration. There are several arbitration organisations that are commonly referred to in Indonesia, including:

- The [Indonesian National Board of Arbitration](#) (*Badan Arbitrase Nasional Indonesia* (BANI)).
- The Indonesian Construction Arbitration and Alternative Dispute Resolution Board (*Badan Arbitrase dan Alternatif Penyelesaian Sengketa Konstruksi Indonesia*)
- The [Singapore International Arbitration Centre](#) (SIAC).
- The [International Chamber of Commerce](#) (ICC).

## Tax

### Tax Issues in Construction Projects

Tax issues can arise in relation to calculation and reporting. For projects, examples of applicable taxes include income taxes and value added taxes.

### Mitigating Tax

Contractors normally hire a tax advisor to mitigate tax liability.

### Tax Incentives

Under the Investment Law, the government can provide fiscal facilities for capital investments which:

- Employ many workers.

- Are a high priority.
- Concern infrastructure construction.
- Conduct technology transfers.
- Are in a pioneering industry.
- Are in a remote area, an under-developed area, border areas, or other areas deemed necessary.
- Maintain environmental sustainability.
- Are related to research, development, and innovation activities.
- Engage in partnership with micro, small, and medium enterprises or co-operatives.
- Are in an industry utilising domestically produced capital goods, machines, or equipment.
- Develop tourism businesses.

For example, tax relief for Land and Building Taxes and for the construction of simple housing are granted in IKN for certain business actors in the field of housing and residential areas, under Government Regulation No. 12 of 2023 on the Granting of Business Licensing, Business Convenience, and Investment Facilities for Business Actors in Ibu Kota Nusantara, as amended by Government Regulation No. 29 of 2024.

## Developments and Reform

There have been several notable developments relevant to the construction law regime. Decree 157/2024 provides guidance on sustainable government procurement for various stakeholders, which accommodates economic, social, and environmental aspects. In brief, this regulation governs matters including:

- The phases of sustainable government procurement, which include the monitoring of sustainable government procurement implementation.
- The roles and responsibilities of relevant ministries, institutions, and officials.
- Guidance on sustainable government procurement in relation to life-cycle cost analysis, use of ecolabels and sustainable labels, in addition to environmental, social, health, and work safety aspects.

Another notable development was the enactment of GPPB Regulation 4/2024, which amended GPPB Regulation 12/2021, taking effect on October 18, 2024. GPPB Regulation 4/2024 revises guidelines for integrated design-build construction procurement through providers and updates the related procurement documents. Additionally, it introduces key new provisions, particularly regarding:

- Performance guarantees.
- Payment methods.
- Design responsibility.
- The incorporation of innovative technology.

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