

## **BKPM Regulation No.5/2025: A New Chapter in Indonesia's Investment Landscape**

In a bold step to boost foreign direct investment (FDI) and streamline business licensing, Indonesia's Investment Coordinating Board (*Kementerian Investasi dan Hilirisasi/Badan Koordinasi Penanaman Modal* or "**BKPM**") issued BKPM Regulations No. 5 of 2025 on Guidelines and Procedures for the Implementation of Risk-Based Business Licensing and Investment Facilities through the Electronically Integrated Business Licensing System (Online Single Submission) (or "**BKPM Reg. 5/2025**") on October 2025. This Reform significantly lowers capital entry barriers for foreign-owned companies eyeing the Indonesian market.

### **A. Highlights of the New Regulatory Framework**

The standout shift is the minimum paid-up capital requirement for a foreign direct investment company (*Perusahaan Penanaman Modal Asing* or "**PT PMA**") now lowered from IDR 10 billion (approx. USD 640,000) to IDR 2.5 billion (approx. USD 160,000).

However, the overall minimum investment value per five digit Indonesia Standard Industrial Classification (*Klasifikasi Baku Lapangan Usaha Indonesia* or "**KBLI**") per location remains above IDR 10 billion for most sectors, meaning the total project investment requirement persists even as cash capital requirement shrink.

Another important adjustment is that the cash deposit must remain in the company's bank account for at least 12 months (unless used for tangible assets, construction, or operational costs). Also noteworthy is the broader recognition of land and building value in specific sectors (such as property development, agriculture, aquaculture) for investment calculation.

Furthermore, the regulation consolidates previous licensing rules into a unified risk based business licensing framework via the Online Single Submission system ("**OSS System**"), simplifying the permit process.

### **B. Key Implications of the New Regulation**

The first key improvement is the reduction in upfront capital addresses a long standing barrier for mid-size and capital-light foreign investors. The prior IDR 10 billion requirement made Indonesia comparatively challenging among regional peers.

Another notable change is the recognition of tangible assets (including land/buildings) as part of the investment quota in certain sectors, the regulation allows more flexible investment models and reduces idle cash.

This reform also enhances Indonesia's competitive positioning of Indonesia an investment destination. According to the United Nations Conference on Trade and Development (UNCTAD), the measure is a form of liberalisation that aligns with global trends.

Nevertheless, the regulation also demands greater compliance discipline stuck funds, accurate investment activity reporting (*Laporan Kegiatan Penanaman Modal* or “LKPM”), and licensing risk if mismanaged.

### C. Practical Tips for Investors & Businesses

#### 1. Review Corporate Structures and Investment Plans

For the establishment or expansion of a PT PMA, reassess the paid up capital obligation and ensure that KBLI classifications are correctly aligned with the intended business activities.

#### 2. Ensure Compliance With the Lock-up Rule

The deposited IDR 2.5 billion must remain in the company’s bank account for at least 12 months unless used for permitted purposes such as construction, operational expenses, or asset acquisition.

#### 3. Verify Land and Building Eligibility

In sectors such as property development or agriculture, confirm whether the value of land and buildings can be included in the minimum investment calculation.

#### 4. Maintain Update OSS System and Licensing Information

Under the risk based licensing system, faster decision times come with greater automation errors or incomplete data entries may lead to automatic rejection or sanctions.

#### 5. Submission of periodic LKPM remains mandatory. Non-compliance can lead to administrative supervision or other enforcement measures.

#### 6. For multi-KBLI business activities, subsidiary structures, or complex asset contributions, Professional legal guidance is strongly recommended to ensure compliance under the new regulatory framework.

### D. Conclusion

BKPM Reg 5/2025 marks a pivotal development in Indonesia’s Investment landscape. By lowering the entry barriers, expanding the definition of capital contributions, and simplifying licensing through the OSS System, the regulation makes Indonesia a far more attractive and accessible destination for foreign investors.

However, this newfound flexibility is balanced by a stronger emphasis on accountability and compliance. BKPM Reg 5/2025 introduces a more structured and transparent compliance framework that demands careful attention, proper documentation, and continuous monitoring from investors.

In this evolving environment, companies are encouraged to reassess their investment structures, ensuring that they not only capture the opportunities presented by the new regime but also maintain robust compliance mechanisms that stand up to regulatory scrutiny. To conclude, several important points should be noted regarding the application of BKPM Reg 5/2025 as the key takeaways and practical implications for PRS clients and investors:

(i) Foreign Investment Structure:

While the paid-up capital requirement has been lowered (a welcome development for foreign investors), the minimum total investment threshold of IDR 10 billion remains in place. Accordingly, companies must carefully plan their capital structure to ensure compliance while maintaining commercial efficiency.

(ii) LKPM Reporting Obligations:

Businesses that were previously exempt from LKPM (Investment Activity Report) requirements should verify whether they are now included under the updated regime. Non-compliance may result in administrative sanctions, so a prompt compliance review is strongly advised.

(iii) Investment Incentives and OSS System Integration:

The process for applying for investment facilities and incentives has become more formalised, including submission, verification, and approval through the OSS System. Companies should ensure that their internal workflow and documentation align with the OSS System's Framework and service-level agreement (SLA) requirements to avoid procedural delays.

(iv) Transition and System Alignment:

Existing licences and approvals remain valid. However, companies may need to update access rights within the OSS System and ensure consistency with the new regulatory platform. A transition audit can help identify potential gaps in system integration or reporting.

(v) OSS System Upgrade:

With the upgraded OSS System now in effect, businesses must ensure their data, access credentials, and reporting mechanisms are properly aligned. Proactive system compliance will help avoid disruptions in future filings and approvals.

In summary, while BKPM Reg 5/2025 brings greater flexibility and opportunities for investors, it also introduces a more structured and transparent compliance environment. Companies are encouraged to review their current investment frameworks, update their internal systems, and ensure readiness under Indonesia's evolving regulatory regime.

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