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## BUSINESS ENVIRONMENT

### THE CONSUMER

#### Consumer Profile

The median age in Indonesia is 30.3 years (Data Reportal, 2022): 25% of the population is between 0 and 14 years old, 68% is between 15 and 64, and 7% is 65 and over (UN, 2022). Indonesia has a population of more than 277 million people, 50.3% of which are men and 49.7% women. 57.9% of the population is urban and the main cities in terms of population are Jakarta, Surabaya, Medan and Bandung (Data Reportal, 2022). Households in Indonesia tend to be large (3.9 average household size), as 7% of households consist of only one person, 37% of two or three people, 41% of four or five people, 15% of six people or more (UN, latest data available). The literacy rate in the country is 96%, with 93.5% of children enrolled in primary education, and 78.7% enrolled in secondary education (UNESCO, latest data available). In Indonesia, women are less likely to attain upper secondary education than men are, but they are more likely to attain tertiary education. According to the World Bank (2020), only 38.1% of the population over the age of 25 have at least completed the upper secondary education. While 34.6% of women are at the upper secondary education level, the rate for men is 41.6%.

#### Purchasing Power

The GDP per capita PPP in the country is 12,072.7 USD in 2020, as reported by the World Bank. The average salary in the country is around 12,100,000 IDR per month (USD 862) (Salary Explorer, 2022). Household spending in Indonesia is a major contributor to country's GDP. It declined during the Covid-19 pandemic but picked up again in 2021, growing by 4.1%. It is expected to accelerate and climb by 7.6% over 2022 (Fitch Ratings). Despite Indonesia managing to more than halve its poverty rate since 1999, inequality has been rising fast in the country. The richest 20% have enjoyed much higher growth in income and consumption than the rest of the population. Indonesia's Gini coefficient is relatively high compared to other countries in the region, at 37.3% in 2021 (World Bank). Indonesia has the sixth-worst inequality in the world, where the four richest men in the country have more wealth than 100 million of the poorest people combined (Oxfam). Figures vary throughout the country, but the gender pay gap in Indonesia is high: women earn 23% less than men do on average (UN Women).

#### Consumer Behaviour

Indonesia has been experiencing a consistent growth rate for a few years, which has been reflected by a rise in incomes (including disposable income) thus increasing overall household spending. As many of Indonesia's low-income consumers continue to move into the middle-income segment, they are becoming increasingly sophisticated in their spending habits and product choices. While this means an expected increase in expenditures in many sectors, companies also require more differentiated and segmented product offerings to attract these new consumers. While traditional retail channels still dominate the market, modern retail continues to gain ground, led by the growth of convenience stores. Indonesia's retail market is characterised by its immense size. While it brings countless opportunities to consumer business companies in the form of a huge and ever expanding middle class, digital consumers, as well as rapidly urbanising cities outside of Jakarta, a multitude of challenges - such as the high cost of serving across the expansive archipelago - still exist. The main drivers for online shopping are lower prices and ease of searching for products. Online shopping is not very popular in the country yet, as most consumers prefer to make purchases in person. Additionally, infrastructure is still underdeveloped, which makes deliveries challenging outside the main cities. However, e-commerce has been growing steadily, and was boosted by the social distancing and lockdown measures put in place during the Covid-19 pandemic. E-commerce is expected to register a 23.8% growth in 2022 and reach around USD 30 billion (GlobalData). During the pandemic, consumers shifted their priorities towards necessities, and away from discretionary spending (Deloitte). However, before this disruption consumers had been focusing less on price and more on other factors like overall product quality and trustworthiness of brands. Consumers tend to be loyal to brands, even if that particular brand is not the cheapest option - especially when it comes to home and personal care products, as well as food and beverages. Therefore, even though price is still a relevant factor, the Indonesian consumer is willing to pay extra for a higher quality product. However, for low-income consumers, price is a decisive factor when making a purchase. While there is room for foreign brands in Indonesia, consumers prefer local ones, as they have more trust in their quality and believe that local companies understand Indonesian consumers better than foreign ones. Additionally, while not decisive when making a purchase, Indonesians tend to prefer brands and shops that provide quality after-sales services. Despite continued growth in digital and online media adoption, traditional media continue to dominate, with TV, In-Store Promotions and Friends & Colleagues remaining the preferred channels of communication. One reason for this may be the strong dependence of Indonesian consumers on sponsorship of their indoor environments, which in turn still tend to be strongly influenced by traditional media campaigns (Deloitte).

### **Consumer Recourse to Credit**

Overall consumption has been rising in Indonesia, and consumers rely heavily on credit. The government has been encouraging consumers to resort to credit and banks indicate strong optimism for loan growth. The burgeoning purchasing power of the middle class and the increasing role of alternative lenders are generating growth in the consumer finance market. Additionally, with the millennial population increasing, a higher consumer confidence level is being seen in Indonesia, which is also a factor that has resulted in consumer credit growth. The strengthening of consumer lending growth is supported by a more flexible credit-channelling policy, especially lower lending rates and cheaper credit approval costs. However, a maturing credit market may also lead to more demanding customers, especially for items such as cars and motorcycles. Car loans and credit card lending are the most common forms of credit in the country, as well as those with the highest growth potential.

### **Growing Sectors**

Mining, energy, infrastructure, manufacturing, maritime industry, telecommunication, automotive industry, agriculture, fishery, and tourism.

### **Consumers Associations**

Platform for Indonesian consumers

## IMPORTING & DISTRIBUTING

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### Import Procedures

In order to legally import into Indonesia, importers must register with the Indonesia Trade Department and obtain a customs identification number (Nomor Identitas Kepabeanan, NIK), a personal identification number given by the Directorate General of Customs and Excise. In addition to NIK, importers must obtain an importer identification number (Angka Pengenal Import, API), which serves as a record in the database of importers and their import activities.

Public authorities require extensive documentation prior to allowing the importation of goods. Local customs brokers are acquainted with the procedures and required format of the documentation. At a minimum, the exporter or their agent must provide a pro-forma invoice, commercial invoice, certificate of origin, bill of lading, packing list, and insurance certificate. In addition to those documents additional certificates are often required by technical agencies with an interest in the content and conformance of the imported product such as food, pharmaceutical, seeds, or chemicals.

The process of providing the documentation includes a requirement that the importer notifies the customs office prior to the arrival of goods and submits import documents electronically through the electronic data interchange (EDI) in a standardised format placed on flash drives. In addition to providing the import documentation, the Custom Office will conduct physical inspection of imported goods.

There is an import fee applicable for incoming goods which is based on the goods classification from Indonesian Customs Tariff Book or Harmonised System Code.

Since 2013, food products are required to include labelling in Indonesian.

For more information, please visit the website of the Indonesian Customs.

### Specific Import Procedures

Import of certain products (foodstuff, medicine, etc.) requires a certificate or an authorisation issued by competent authorities (health authority, preventive health services, etc.)

### Distribution channels

The retail sector in Indonesia remains one of the most attractive markets among Asian countries, thanks to its large population and growing middle class, with higher household purchasing power and increasingly modern spending habits.

Following a 11.7% contraction in 2020 in the context of the Covid-19 pandemic, retail sales grew by 0.8% in 2021 (Fitch Ratings). The Indonesian retail sector is projected to witness a CAGR of 4.6% by 2026 (Technavio). The market is segmented by product category, distribution channel, and market dynamics. While traditional markets still account for the majority of retail food sales in Indonesia, modern retail holds a significant share and is growing. The organized retail market in Indonesia is growing significantly across the country with companies expanding stores and considering the business potential in new areas. Most of the unorganized retail outlets are increasingly being replaced with big retail hypermarkets, supermarkets, and other retail chains.

Convenience stores are expanding rapidly in Indonesia and differ from Indonesian minimarkets in that they offer fewer SKUs than minimarkets while offering ready-to-eat foods and a dining area. Minimarkets are in direct competition with traditional independent small grocers (warungs) on the basis of price, cleanliness, food safety, and comfort.

Hypermarkets and supermarkets offer a wide range of food and beverage products and are generally located as anchor stores in shopping centres. Indonesian middle and upper income level consumers are increasingly shopping at these stores. Hypermarket and supermarket retailers usually contain in-store bakeries, cafés and restaurants, and prepared meals, with grocery products typically contributing about 65% of total sales (USDA).

Minimarkets, convenience stores, and other shops carry a wide range of convenience food items such as

readymade meals, bakery products, processed foods, ice cream, and beverages. They sometimes carry a limited offering of fresh fruits and are open 24 hours. These stores are found throughout Indonesia's major urban centres and are also co-located with gasoline stations. The number of minimarkets and other small stores will continue to grow.

### Distribution market players

The Food and Beverage (F&B) sector plays a vital role in the Indonesian economy. In the primary sector, production of raw material for the F&B industry by plantation, agriculture, and fisheries accounted for around 13.7% of Indonesian GDP, as of 2020 (World Bank, latest data available). In the secondary sector, manufacturing of F&B accounted for 6.7% of GDP and 38.4% of all manufacturing output in Q2 2021 (Ministry of Industry).

According to USDA Foreign Agricultural Service, Indonesian grocery retail sales reached \$97 billion in 2020 (traditional grocery retailers held 79% share). In 2020, the major players of the Indonesian retail market are:

- Convenience stores with 36,146 outlets. Major Convenience stores include Indomaret and Alfamart.
- Hypermarkets with 337 outlets. There are four players in the hypermarket group: Carrefour/ PT Trans Retail Indonesia, Giant/ Hero Supermarket Group, Hypermart/ PT Matahari Putra Prima Tbk, and Lotte Mart/ Lotte Mart Indonesia PT.
- Supermarkets with 1,457 outlets. There are six in the supermarket segment Alfa Midi/ Midi Utama Indonesia Tbk PT, Hero, Superindo, Ranch Market & Farmers Market/ Supra Boga Lestari Tbk PT, Food Mart, The Food Hall
- Traditional grocery stores with 4,474,316 outlets (a decrease if compared to 2019).

### Retail Sector Organisations

Indonesian Direct Selling Association (IDSA)

## OPERATING A BUSINESS

### Type of companies

#### Perseroan Terbatas or PT (private limited company)

**Number of partners:** Minimum 2 shareholders. Must have a minimum of 1 director and 2 local Indonesian shareholders.

**Capital (max/min):** Minimum IDR 50 million

**Shareholders and liability:** Liability is limited to the amount contributed.

#### Penanam Modal Asing (limited company open to foreign investment - PT PMA)

**Number of partners:** Minimum 2 shareholders.

**Capital (max/min):** Investment plan of 10 billions IDR, of which 25% must be released when the company is founded.

**Shareholders and liability:** Liability is limited to the amount contributed.

#### Preum-Perusahaan Umum (public limited liability company)

**Number of partners:** Minimum 300 shareholders.

**Capital (max/min):** Minimum IDR 3 billions

**Shareholders and liability:** Liability is limited to the amount contributed.

Setting Up a Company	Indonesia	East Asia & Pacific
Procedures (number)	11.0	7.3
Time (days)	12.6	29.7

Source: *Doing Business* - Latest available data.

## Cost of Labour

### Minimum Wage

The minimum wage fluctuates a lot depending on provinces. In January 2022, the highest minimum wage was for Jakarta, at 4,641,854 rupiah per month (USD 322.10), an increase of 5.1% from 2021. The lowest minimum wage was for Central Java, at 1,812,935 rupiah per month, an increase of 0.78% from 2021.

### Average Wage

The average salary in the country is around 12,100,000 IDR per month (USD 862) (Salary Explorer, 2022).

### Social Contributions

Social Security Contributions Paid By Employers: 0.24%-1.74% for work accident protection; 0.3% for death insurance; 3.7% for old age savings; 2% for pension; 4% for healthcare. The monthly income cap for pension contribution is updated annually. Since 1 January 2020, maximum salary cap for health insurance is IDR12,000,000.

Social Security Contributions Paid By Employees: 2% of gross monthly earnings for old age insurance; 1% of gross monthly earnings for health insurance; 1% for pension. As of 1 January 2020, maximum salary cap for health insurance is IDR 12,000,000. The monthly income cap for pension contribution is updated annually.

## Intellectual Property

### National Organisations

The organization responsible for the protection of trademarks and patents in Indonesia is the [Directorate General of Intellectual Property Rights, Ministry of Law and Human Rights](#).

### Regional Organisations

There are harmonization procedures within [ASEAN](#) and APEC.

### International Membership

[Member of the WIPO](#) (World Intellectual Property Organization)

[Signatory to the Paris Convention](#) For the Protection of Intellectual Property

[Membership to the TRIPS agreement](#) - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

## TAX RATES

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## Consumption Taxes

### Nature of the Tax

Value-added Tax, Pajak pertambahan nilai (PPN).

### Tax Rate

11%

### Reduced Tax Rate

Zero-rated items include exports of certain taxable goods (tangible or intangible) and services (including toll manufacturing services; repair and maintenance services; freight forwarding service on an export transaction; technology and information services; research and development services; business and management consulting services; legal consulting services; architecture and interior design consulting services; human resources consulting services; engineering consulting services; etc.).

### Other Consumption Taxes

Excise duties are levied primarily on alcohol and tobacco.

In addition to VAT, some goods (e.g. certain household appliances, sports equipment, motor vehicles and luxury residences) are subject to a luxury goods tax upon import or delivery by the manufacturer to another party at rates ranging from 10% to 95%.

A stamp duty of IDR 10,000 is levied on certain documents.

Various regional taxes may apply, including

- Motor vehicle ownership transfer fee
- Motor vehicle tax
- Motor vehicle fuel tax
- Surface water tax
- Entertainment tax
- Advertisement tax
- Cigarette tax
- Hotel tax
- Restaurant tax
- Non-metal and rock minerals tax
- Parking tax
- Groundwater tax.

## Corporate Taxes

### Company Tax

### **Tax Rate For Foreign Companies**

A company is treated as a resident of Indonesia for tax purposes if it has a permanent establishment or if its place of management is in Indonesia.

For taxation purposes, a permanent establishment can be assessed if the company operates through a branch, a representative office, a factory, workshop or warehouse, a person or corporation acting as a dependent agent, etc.

### **Capital Gains Taxation**

Capital gains are taxable as ordinary income, and capital losses are deductible. However, the sale of shares listed on the Indonesian stock exchange is subject to a tax of 0.1% of the transaction value. Founder shares also are subject to an additional final tax of 0.5% on the share value at the time of an initial public offering, regardless of whether the shares are held or sold following the offering.

The sale or transfer of land and/or buildings is subject to a 2.5% income tax on the higher of the transaction value or the government-determined value.

Capital gains arising from the sale of Indonesian assets held by foreigners are taxable at a rate of 5% of the gross proceeds unless the rate is reduced under a tax treaty.

### **Main Allowable Deductions and Tax Credits**

In general, all legitimate and documented business expenses directly or indirectly related to earning, collecting, or maintaining income are deductible from the assessable income.

The costs of incorporation and expansion of the capital of an enterprise can be claimed in full in the year in which the expenditure is incurred or can be amortised using either the declining balance or straight-line method. Interest incurred in the ordinary course of business is deductible as long as the related loan is used for business purposes. Bad debts are deductible for tax purposes, under certain conditions.

Donations for national disasters, education facilities, sport development, and social infrastructures, may be deductible in the fiscal year when the donations are provided. Most benefits received in kind by employees, such as free housing, are not tax-deductible to the entity providing the benefit. Expenses for meals and transportation are tax-deductible when they are made available to all staff. Salary expenses and insurance premiums can be deducted. Land and buildings tax and regional taxes may be deducted from taxable income.

Losses may be carried forward for up to five years. Loss carryback and offsetting losses within a corporate group are not permitted.

Tax incentives are granted to companies operating in certain strategic industries (especially in the oil industry and manufacturing) or in geographical zones in the form of tax reduction of up to 30% of the investment (5% of reduction each year for six years). Other incentives include an extension of loss carryforward to 10 years (instead of five) and a reduction of withholding taxes on dividends paid to non-residents to 10% (as opposed to the ordinary rate of 20%). For companies in pioneer industries which have a wide range of connections, provide additional value and high externalities, introduce new technologies, and have strategic value for the national economy, a tax holiday of 100% of the corporate income tax due is granted for 5 to 20 years (according to the investment amount) from the start of commercial production, plus two years of 50% reduction after the full-reduction period. A reduced corporate income tax rate of 19% applies to publicly listed corporate taxpayers with a minimum of 40% of their shares held by public investors that meet certain criteria.

### **Other Corporate Taxes**

Land and building tax is payable annually on land, buildings and permanent structures, at a rate of maximum 0.5% of the estimated sales value of the property determined by the relevant authority.

A transfer of land and buildings will cause income tax on the deemed gain on the transfer/sale to be charged to the transferor/seller. The tax is set at 2.5% of the higher of the gross transfer value or the government-determined value. Similarly, the acquirer is subject to a 5% duty of the greater of the transaction value or the government-determined value.

A 0.1% withholding tax applies to the transaction value of shares sold on the Indonesian stock exchange; a 0.5% tax applies to the share value of founders' shares at IPO; a 5% withholding tax applies to the transfer value of shares of an unlisted resident company by a foreign shareholder when they are transferred.

Employers are responsible for the coverage of their employees by the workers' social security program managed by Badan Penyelenggara Jaminan Sosial (BPJS). The employees' contributions are collected through payroll deductions. The employer contributions are 0.24%-1.74% for work accident protection; 0.3% for death insurance; 3.7% for old age savings; and 2% (subject to a salary cap) for the pension plan. The employer contribution to the healthcare scheme is 4% (subject to a salary cap). The contribution to the pension plan is not mandatory for expatriates.

Stamp duty of IDR 10,000 is levied on certain documents.

A carbon tax applies to coal-fired power plants as of 1 April 2022.

Certain documents are subject to stamp duty at a nominal amount of IDR 10,000

A corporate taxpayer may be subject to various regional taxes and retributions. The rates range from 0.2% to 75% of a wide number of reference values determined by the relevant regional governments. The following are regional taxes that may apply:

- Motor vehicle tax
- Motor vehicle ownership transfer fee
- Motor vehicle fuel tax
- Surface water tax
- Entertainment tax
- Advertisement tax
- Cigarette tax
- Hotel tax
- Restaurant tax
- Road illumination tax
- Non-metal and rock minerals tax
- Parking tax
- Groundwater tax
- Swallow-nest tax.

## **Other Domestic Resources**

Directorate General of Taxes

## **Double Taxation Treaties**

### **Countries With Whom a Double Taxation Treaty Have Been Signed**



### Withholding Taxes

- Dividends: 0% (resident company)/ 10% (resident individual)/20% (non-resident company or individual);
- Interest: 15% (resident company or individual)/20% (non-resident or if paid to a resident by a bank)/10% (interest payable to non-residents on bonds issued by government and nongovernment agencies);
- Royalties: 15% (resident)/ 20% (non-resident).

Special withholding tax rates apply under international tax agreements signed by Indonesia.
