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Newsletter

October 31, 2025

Revamped TKDN Rule: Simplifying Compliance and Rewarding Investments in Indonesia


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Introduction

Since 2010, the Indonesian government has established a framework for calculating and verifying (i) the Local Component Level (**TKDN**), which measures the proportion of local components used in production, and (ii) the Company Benefit Weight (**BMP**), which evaluates contributions to the economy beyond production activities. These mechanisms are designed to assess and incentivize businesses that support domestic industry and contribute to Indonesia's economic growth.

On 11 September 2025, the Ministry of Industry (**MOI**) issued Regulation No. 35 of 2025, which sets out the general rules for the TKDN and BMP, and repeals and replaces earlier regulations, including the foundational MOI Regulation No. 16/2011 (except for sector-specific TKDN regulations, which remain in effect).

Effective 11 December 2025, the new regulation introduces significant reforms by shifting the TKDN and BMP calculation method from a cost-production model to a weighting system. This change is aimed at benefitting companies investing in Indonesia, among others by (1) granting an automatic TKDN of 25% to companies that produce goods in their own factories in Indonesia and employ Indonesian citizens for at least half of their workforce; (2) recognizing research and development activities as an additional contribution of up to 20% TKDN; and

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(3) expanding the BMP criteria, offering greater flexibility. The regulation also streamlines the TKDN certification process, reducing the issuance timeline to 9 business days, provided all documents are accurate and complete with no revisions required.

These incentives are particularly advantageous for companies seeking to participate in public procurement process, such as tenders or e-purchasing, where a higher TKDN enhances the likelihood of a product being selected. Specifically, products with a minimum TKDN of 25%, when combined with the BMP to reach a total score of 40%, will trigger the mandatory use requirement for products with a minimum TKDN of 25%.

I. TKDN for Goods: Departure from Cost-based to Weighted-Factor Method

Under previous rules, the TKDN for goods was calculated based on the price difference between total manufacturing costs and the price of foreign components used, MOI Reg. 35/2025 replaces this cost-based approach with a weighted-factor system, which attributes TKDN values according to the following production factors:

i. ***raw materials/components:*** account for up to 75% of the total TKDN weighting, depending on whether the main components are TKDN-certified;

	The TKDN Value of each Main Components	TKDN Weight Attribution
If TKDN-certified	>80%	100%
	60% - 80%	80%
	40% - 60%	60%
	25% - 40%	40%
	<25%	25%
If not TKDN-certified	**Manufacturing Company[1] and Source of each Main Components**	**TKDN Weight Attribution**
	- Produced by an Indonesian manufacturing company and all raw materials are sourced from Indonesia; or - Obtained from Indonesian natural resources.	100%
	- Produced by an Indonesian manufacturing company.	25%
	- Not produced by an Indonesian manufacturing company.	0%

[1]An Indonesian company engaged in industrial activities and holding a business license in the industrial sector, other than industrial services.

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ii. ***employees:*** account for up to 10% of the total TKDN weighting, depending on the proportion of Indonesian citizens employed in the total workforce and the level of independence of production facilities; and

Employment of Indonesian Citizens[2] (at least half of total workforce)	Independence of Production Activities	TKDN Weight Attribution
✓	Carried out independently in the company's own factory in Indonesia.	100%
✓	Carried out independently in another manufacturing company's factory in Indonesia.	60%
✓	Carried out by another manufacturing company in that company's factory in Indonesia.	30%
x	-	0%

iii. ***factory overhead:*** accounts for up to 15% of the total TKDN weighting, based on the level of investments in Indonesia and the degree of independence of production facilities.

Investment in Indonesia	Independence of Production Activities	TKDN Weight Attribution
✓	Production carried out independently in the company's own factory in Indonesia.	100%
✓	Production carried out independently in another manufacturing company's factory in Indonesia.	60%
✓	Production carried out by another manufacturing company in that company's factory in Indonesia.	30%
x	-	0%

Based on the above, the materials and components factor constitutes the largest portion of the TKDN weighting. By sourcing all raw materials and components domestically, companies can achieve a TKDN of up to 75%. Nevertheless, if the employees and factory overheads factors reach their respective maximum weightings, a TKDN of 25% can still be achieved from these two factors alone.

[2] Employment of workers directly involved in the production (manufacturing) of goods, such as production machine operators, welders, helpers, quality control personnel, foremen. This does not include workers involved in company

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The TKDN calculation does not apply to goods that undergo only minimal processing and lack significant transformation or value addition within Indonesia. Examples include goods that are merely repackaged, repainted, or reformed without a change in the HS code classification, as well as goods derived directly from natural resources without any production process.

Additional TKDN of up to 20% for R&D

To further encourage innovation and strengthen the development of domestic industry, businesses that demonstrate intellectual contributions and capabilities (brainware) through research and development (**R&D**) activities are also eligible for an additional TKDN of up to 20%. This is assessed based on the following factors:

Intellectual Contributions and Capabilities	Basis for TKDN Weight Attribution	TKDN Weight Attribution
Investment in R&D over the past 5 years	0, 25, 50, 75, or 100%, depending on the proportion of the company's average annual R&D investment to its total revenue over the past 5 years.	30%
Existence of an R&D division or unit	50 or 100%, depending on whether an in-house R&D unit is established.	20%
Availability of an R&D program	0 or 100%, depending on possession of documentation related to product development and process improvement.	20%
Implementation of R&D in product manufacturing	0 or 100%, depending on whether R&D results are applied to goods undergoing the TKDN certification.	30%

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II. TKDN Rule for Industrial Services:[3] Still Rooted on Cost, but More Relaxation

The MOI now specifies the KBLIs[4] for Industrial Services, encompassing 12 categories of industry-related services eligible for the TKDN calculation.

As under MOI Regulation No. 16/2011, the TKDN for Industrial Services continues to be determined on a cost basis, calculated from the total expenses incurred in delivering the Industrial Services at the work site. The assessment compares the total cost (after deducting foreign costs) of each factor against overall costs. This calculation takes into account the following factors:

i. the nationality of the workforce directly involved in the service.

Nationality	TKDN Weight Attribution
Indonesian	100%
Foreign	0%

ii. the origin and ownership of the tools/facilities used to deliver the service. The TKDN attribution under this category has been relaxed, allowing for higher TKDN values than under the previous regulation, especially if the tools/facilities are made in Indonesia.

Made in	Owned by	TKDN Weight Attribution
Indonesia	Indonesian party	100%
	Indonesian party + foreign party	100%
	Foreign party	100%
Offshore	Indonesian party	50%
	Indonesian party + foreign party	50% x percentage of Indonesian shareholding
	Foreign party	0%

iii. the origin of general service providers engaged in delivering the industrial service (e.g., insurance, utilities, licenses and patents).

The Origin of Service Provider	TKDN Weight Attribution
Indonesia	100%
Foreign	0%

[3]Industrial services refer to services performed at every stage of production, from set-up and pre-manufacturing to manufacturing, post-production, after-sales, and other supporting activities that complement or substitute the products produced depending on their nature **(Industrial Services)**

[4]Klasifikasi Baku Lapangan Usaha Indonesia is Indonesia's official Standard Industrial Classification system that categorizes all types of business activities in Indonesia using standardized codes **(KBLI)**

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III. TKDN for Combined Goods and Services: Weighted Calculation Method

The TKDN calculation for projects that involve both goods and services is designed to reflect the domestic contribution of each activity within the project. Following the shift from a cost-based to a weighted-factor system, the combined TKDN value is now determined by summing (i) the TKDN value of goods multiplied by the proportion of the production value of goods, and (ii) the TKDN value of the Industrial Services multiplied by the proportion of the acquisition value of services.

IV. More Options and Flexibility to Achieve Company Benefit Weight

The maximum BMP that can be achieved is 15%, comprising the following areas:

No.	Scope of BMP	Maximum Weight
1	Employment absorption	4%
2	Addition of new investments	4%
3	Partnerships and supply chain strengthening	4%
4	Pioneer industry or import substitution	4%
5	Use of domestically made machinery and production equipment	4%
6	Production location	4%
7	Implementation of Industry 4.0	2%
8	Development of industrial human resources	2%
9	Ownership of domestic brands	2%
10	Implementation of green industry practices	2%
11	Export value	2%
12	Ownership of certificates/accreditations,	1%
13	Implementation of ESG	1%
14	Ownership of awards	1%
15	Compliance with industrial data reporting under the National Industry Information System/*Sistem Informasi Industri Nasional* (**SIINas**)[5]	1%

Previously, the BMP assessment was limited to only 4 factors: empowering MSMEs, obtaining work safety and environmental management certifications, community development, and after-sales service facilities, with value calculated based on costs incurred. MOI Reg. 35/2025 expands the BMP framework to cover a broader range of activities and criteria, allowing businesses to achieve the BMP through diverse initiatives rather than relying solely on expenditure-based factors.

[5]The MOI's online system for submitting, processing, and monitoring industry-related applications.

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However, the BMP calculation does not apply to: (i) Industrial Services companies; (ii) business actors producing a combination of goods and services; or (iii) business actors collaborating with Indonesian manufacturing companies to produce goods.

V. TKDN Certification Made Clearer, Faster, and Longer Lasting

MOI Reg. 35/2025 clarifies the scope of eligible products and applicants for the TKDN certification. Businesses cooperating with Indonesian manufacturing companies, even those without their own production facilities, may now qualify for the TKDN. For example, goods produced under contract manufacturing (*maklon*), OEM arrangements, or brand manufacturing collaborations (beyond simple repackaging) may be recognized for the TKDN, provided that the activity constitutes substantive manufacturing.

From a regulatory standpoint, the calculation and verification of the TKDN and/or BMP for products in the manufacturing sector remain under the supervision of the MOI with assessments carried out by independent verification agencies appointed by the MOI. The process, from application to certificate issuance, is now fully electronic through SIINas. Specific timeframes have also been introduced for each stage (e.g., a 1-day completeness check, up to a 3-day correction window, and a 1-day re-check), allowing the overall process to be completed within 9 business days, provided that all documents are accurate and complete.

A TKDN Certificate will be issued for goods, Industrial Services, and/or BMP values following verification, while projects involving both goods and services will be granted a Statement Letter. Both documents are now valid for 5 years, extended from the previous 3-year period. Companies holding such documents can now affix the TKDN label to their products.

During the 5-year validity period, the independent verification agency will conduct at least 1 surveillance review for goods, involving recalculation and reverification of TKDN and BMP values, or more frequently if necessary. The surveillance results are reported to the MOI, which retains the authority to revoke certificates in cases of discrepancy.

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Key Takeaways

- **Shift from cost-based to weighted method for TKDN calculation –** The new framework incentivizing businesses that invest in Indonesia, allowing an automatic TKDN of 25% to be achieved simply by having and operating production facilities in Indonesia and employing Indonesian citizens for at least half of the total workforce.

- **Clearer scope of eligible products and applicants for TKDN and BMP calculation and verification –** For instance, businesses without their own production facilities, including those engaged in OEM, brand collaborations, or contract manufacturing, can now be qualify for the TKDN. However, processing activities that do not result in a significant transformation of goods (such as repackaging) remain ineligible.

- **Extension from "short validity with frequent renewals" to "longer validity with active surveillance" –** The validity period of TKDN Certificates and/or Statement Letters has been extended from 3 to 5 years, with at least 1 surveillance (recalculation and reverification) conducted during the validity period.

For further information or assistance, please contact the authors.

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