

INDONESIAN INVESTMENT UPDATES – INCREASE IN PAID-UP CAPITAL REQUIREMENTS FOR PT PMA

Posted on August 5, 2021

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Indonesian investment updates - Increase in paid-up capital requirements for PT PMA



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Background

Indonesia's Ministry of Investment, otherwise referred to as the Investment Coordinating Board, (Badan Koordinasi Penanaman Modal or "BKPM") has issued the BKPM Regulation 4 of 2021 ("Reg 4/2021"), which came into effect on 2 June 2021. This article provides a quick update on the changes brought forth by Reg 4/2021 on the paid-up capital requirements for foreign investment company in Indonesia.

Increase in Paid-up Capital Requirements

A foreign investment limited liability company (Perseroan Terbatas Penanaman Modal Asing or "PT PMA") was previously required to have a paid-up capital of at least IDR 2.5 billion (approximately USD 172,000). Following the implementation of Reg 4/2021, the minimum required paid-up capital has been increased to IDR 10 billion (approximately USD 690,000), for new PT PMA companies.

Further to the minimum paid-up capital, the required investment sum of at least IDR 10 billion (excluding investment in land and buildings) remains unchanged, and is applicable for each business field as classified under the Standard Classification of Indonesian Business Fields.

BKPM has not specified if the increase in paid-up capital requirements will apply retrospectively to all existing PT PMA companies. However, we note that Reg 4/2021 has also provided for all subsidiaries of a PT PMA company to undergo conversion from a domestic limited liability company to PT PMA within one year. Upon conversion, the new PT PMA will likely have to abide by the increased paid-up capital

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requirements under Reg 4/2021.

Remarks

In view of the recent changes to the permitted business fields for foreign investment , this increase in paid-up capital requirement serves to encourage foreign investment in high-value or capital-intensive businesses, and at the same time discourage foreign investment in businesses below the threshold to reduce foreign competition to small local businesses.

The change has caught many foreign investors by surprise, especially for those businesses that intend to venture into new or untested markets. Higher paid-up capital may act as a deterrent for these foreign investors who have to lock up IDR 10 billion upfront when the capital expenditure required may only be a fraction of the paid-up capital.

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