



FRANCHISE BUSINESS IN INDONESIA

The operation of a franchise business in Indonesia is subject to the laws and regulations in Indonesia. The latest legal provisions regarding franchising are stipulated in the Government Regulation No. 42 of 2007 on Franchise, and in the Regulation of the Minister of Trade No. 71 of 2019 concerning Franchising. However, other related laws and regulations, among others concerning trade and business licensing, should also be obeyed in the operation of a franchise business.

The Minister of Trade Regulation No. 71 (“Minister Regulation 71”) defines franchise as a special right that is owned by an individual or entity of a business system with certain business characteristic, in marketing goods and/or services that has been proven as successful and can be utilized by other parties based on a Franchise Agreement. The operation of a franchise must be based on a written Franchise Agreement made by the parties with an equal legal position, and the Indonesian law applies to them.

The potential franchised business must have a special business characteristic. A business characteristic is an advantage or distinction of a business that is not easily imitated by similar businesses, which consumers look for. For example, a management system, a sales and services or display arrangement, or a distribution method specific to a franchisor.

The Minister Regulation 71 also requires that potential franchise business must have been proven profitable, for a minimum of 5 years, and have had business methods for solving business problems.

A franchise business uses intellectual property rights. The Minister Regulation 71 requires that all used intellectual property rights have been registered with a certificate or are in the process of registration with the authorities.

Franchisors, master franchisees, franchisees, and sub-franchisees are required to have a Franchise Registration Certificate (*Surat Tanda Pendaftaran Waralaba*) (“Franchise Certificate”). Franchise Certificate applications are made through the Online Single Submission (OSS). In submitting an application for Franchise Certificate, the franchisor and master franchisee are required to register a franchise offering prospectus (“Prospectus”). A Prospectus made in a foreign language must be

officially translated into Indonesian. While franchisees and sub-franchisees are required to register their franchise agreements. The agreement must be written in Indonesian.

A franchise business is required to prioritize the use of goods and/or services produced in Indonesia, as long as it meets the quality standards of goods and/or services that are stipulated in writing by the franchisor. Franchisors are required to work with small and medium-sized entrepreneurs in the area as franchisees, or as suppliers of goods and/or services, as long as they meet the requirements set by the franchisors.

The Minister Regulation 71 also emphasizes the franchisor to prioritize processing of raw materials in Indonesia by the franchise operations.

In general, the criteria that must be met by a business to be eligible for a franchise are:

- a. Has distinct business characteristics;
- b. Proven profitability;
- c. Has a standard for the services of goods and/or services offered, made in writing;
- d. Easily taught and applied;
- e. There is continuous support by the franchisor to the franchisee for the operation of franchising;
- f. The Intellectual Property Rights used by the business to be franchised have been registered.

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