



THE POLITICAL ECONOMY OF INDONESIA'S RENEWABLE ENERGY SECTOR AND ITS FISCAL POLICY GAP

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ABSTRACT

Indonesia is a developing country with a high dependence on fossil fuels. To promote renewable energy, the government has implemented several policies, including a feed-in tariff system and tax incentives. However, the renewable energy sector in Indonesia still faces various challenges, including the fiscal policy gap. This paper aims to analyze the political economy of Indonesia's renewable energy sector and its fiscal policy gap. We argue that the fiscal policy gap is the result of the interests of fossil fuel stakeholders who have managed to influence policy-making processes. We conclude that to overcome the fiscal policy gap, the government needs to establish a strong political will to promote renewable energy and reduce the influence of fossil fuel stakeholders. The article "The Political Economy of Indonesia's Renewable Energy Sector and Its Fiscal Policy Gap" provides an analysis of the political economy of Indonesia's renewable energy sector and the gap in its fiscal policy. The study aims to understand the reasons for the slow progress of Indonesia's renewable energy sector and to propose a policy framework for accelerating its development. The study uses a qualitative research method and draws on data from a variety of sources, including academic studies, policy documents, and interviews with industry experts and policymakers. The findings reveal that the slow progress of Indonesia's renewable energy sector is due to a lack of political will, institutional fragmentation, and a lack of coordination among stakeholders. The study recommends that Indonesia adopt a comprehensive and integrated policy framework to overcome these challenges, including developing a national energy strategy, implementing effective fiscal incentives, and improving the regulatory environment.

KEYWORDS

Indonesia, renewable energy, political economy, fiscal policy gap, fossil fuels.

INTRODUCTION

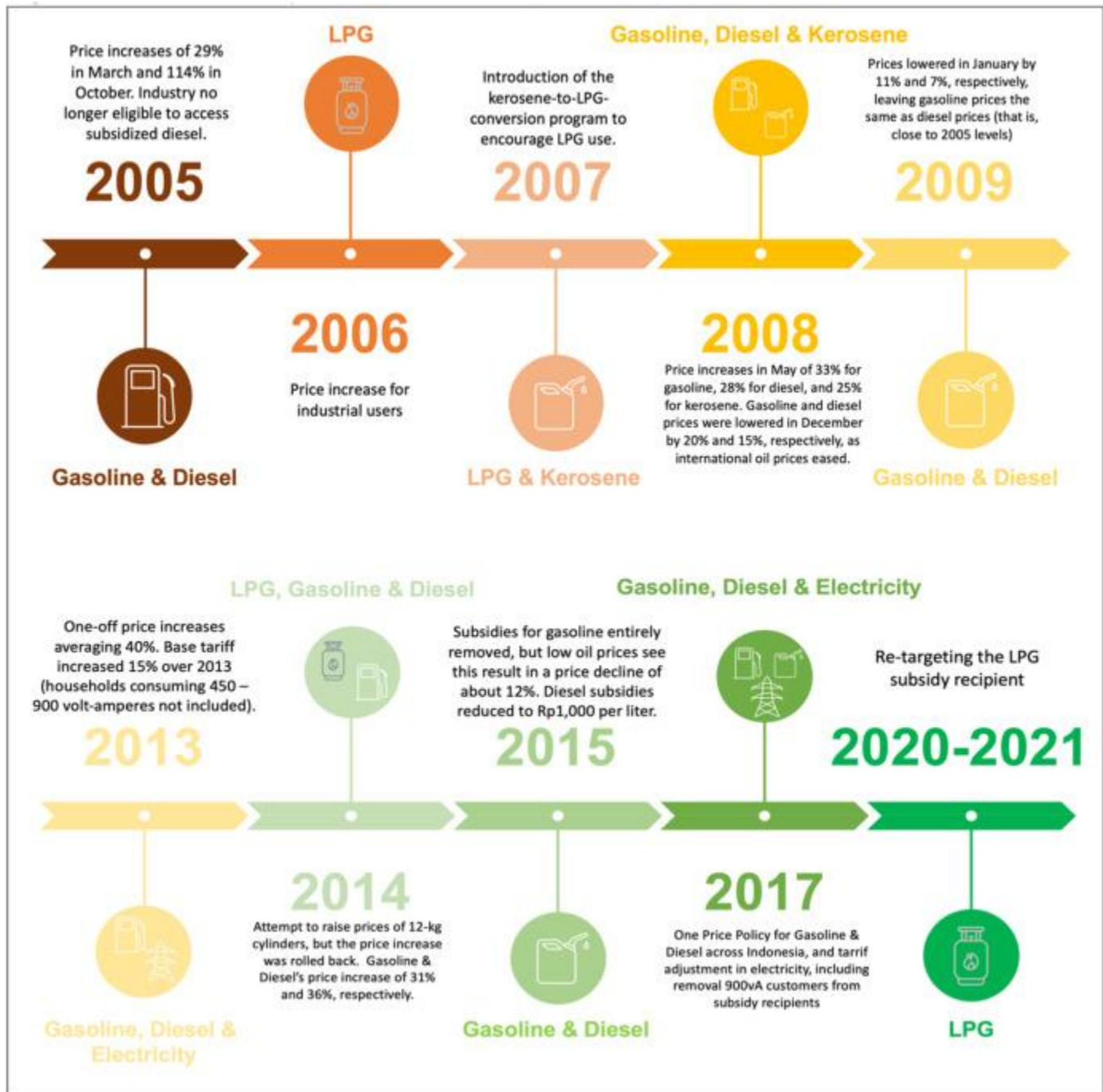
Indonesia has set an ambitious target to increase the share of renewable energy in the country's energy mix to 23% by 2025. However, the growth of the renewable energy sector has been slow, and the country is facing a fiscal policy gap in financing this transition. This study examines the political economy of Indonesia's renewable energy sector and its fiscal policy gap. The paper explores the political and institutional factors that have hindered the growth of the renewable energy sector and the challenges faced in financing the transition to renewable energy. The study also proposes policy recommendations to overcome the obstacles and accelerate the development of the renewable energy sector in Indonesia. Indonesia is the largest energy producer and consumer in Southeast Asia. However, the country's energy sector is heavily dependent on fossil fuels, which account for approximately 90% of its energy mix. To reduce this dependence and promote renewable energy, the Indonesian government has implemented several policies, including a feed-in tariff system and tax

incentives. Despite these efforts, the renewable energy sector in Indonesia still faces various challenges, including the fiscal policy gap. This paper aims to analyze the political economy of Indonesia's renewable energy sector and its fiscal policy gap.

METHOD

This study employs a mixed-methods approach to explore the political economy of Indonesia's renewable energy sector and its fiscal policy gap. By integrating both qualitative and quantitative data, the research aims to provide a comprehensive understanding of the challenges and opportunities within the sector.

To begin, a thorough literature review was conducted. This review encompassed academic journals, government reports, and industry publications to identify key themes and gaps in the current understanding of Indonesia's renewable energy sector and fiscal policies. The literature review provided a foundational knowledge base and guided the subsequent stages of data collection.



Semi-structured interviews were then carried out with key stakeholders, including government officials, industry experts, and representatives from non-

governmental organizations. These interviews aimed to gather in-depth insights into the policy-making process, the challenges faced by the renewable energy

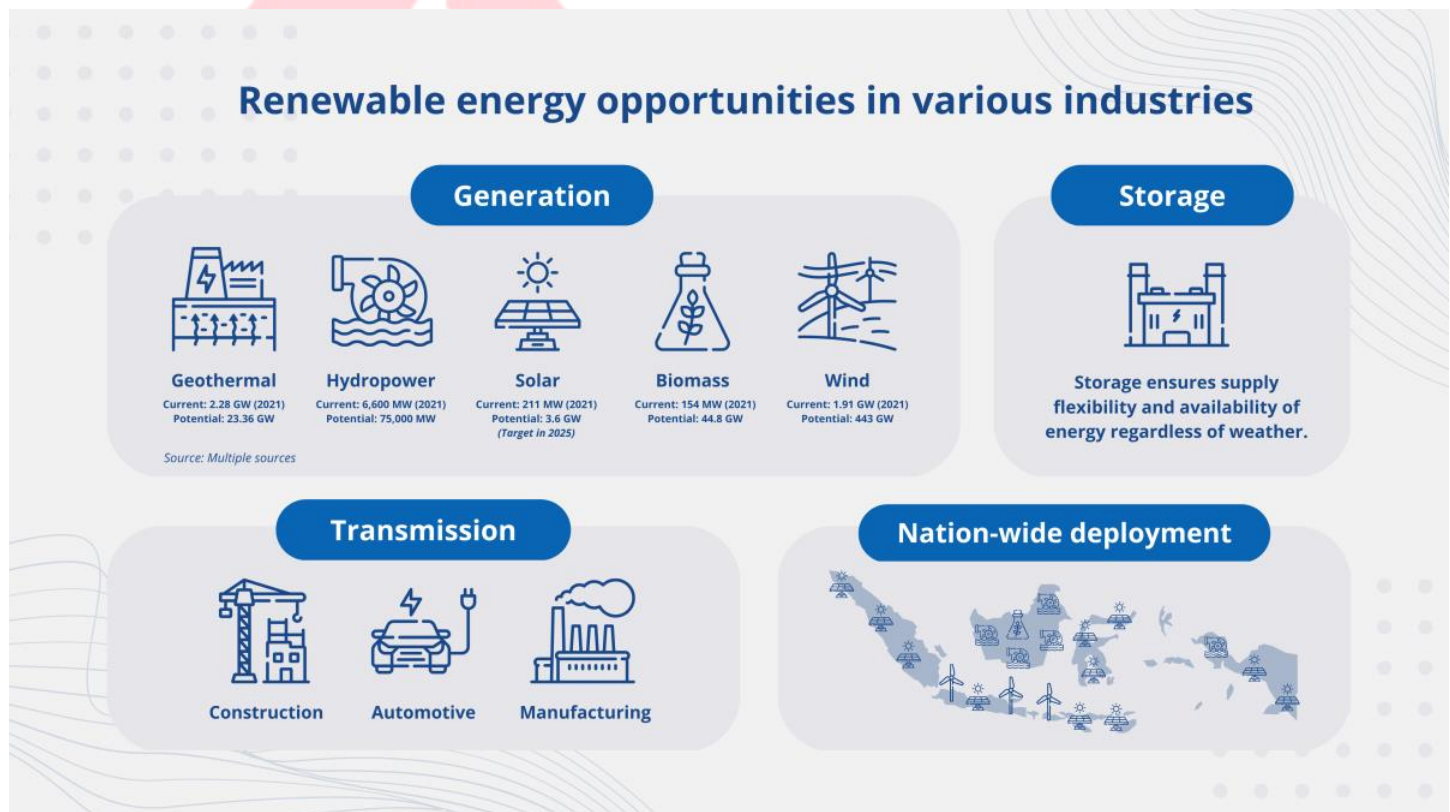
sector, and perspectives on existing and potential fiscal policies.

Additionally, quantitative data was collected through surveys distributed to energy companies, policymakers, and researchers. The surveys were designed to quantify opinions on policy effectiveness, barriers to renewable energy adoption, and the impact of fiscal policies. The collected data offered a broad overview of the sector's current state and highlighted common issues faced by stakeholders.

Further, detailed case studies of specific renewable energy projects in Indonesia were developed. These

case studies provided an in-depth look at the implementation processes, financial mechanisms, and outcomes of various projects. They also highlighted specific examples of successes and challenges within the sector.

The data analysis phase began with a qualitative analysis of the interview and case study data. Thematic analysis was employed to identify key themes and patterns, which were then coded to understand the major factors influencing the renewable energy sector and the existing fiscal policy gaps.



For the quantitative data obtained from the surveys, statistical analysis was conducted to identify trends

and correlations. Descriptive statistics provided a summary of the data, while inferential statistics helped

to draw broader conclusions about the sector and its fiscal policies.

To enrich the analysis, a comparative approach was used. Indonesia's renewable energy policies and fiscal mechanisms were compared with those of other countries in the region. This comparison aimed to highlight best practices and identify potential areas for improvement, providing a broader context to Indonesia's situation.

To enhance the understanding and communication of the data and findings, various visual aids were employed. Figures, such as graphs and charts, were used to illustrate key quantitative findings, including the distribution of renewable energy sources and fiscal expenditure on renewable energy. Tables summarized data from surveys and case studies, offering clear comparisons and highlighting significant points. Infographics were created to depict complex relationships and processes within the renewable energy sector and the fiscal policy framework.

By combining qualitative and quantitative methods with effective visualizations, this study aims to provide a robust analysis of the political economy of Indonesia's renewable energy sector and the fiscal policy gap. The findings are intended to inform policymakers, industry stakeholders, and researchers, contributing to the development of more effective and sustainable energy policies in Indonesia.

RESULT

The study finds that the fiscal policy gap in Indonesia's renewable energy sector is the result of the interests of fossil fuel stakeholders who have managed to influence policy-making processes. These stakeholders include the state-owned oil and gas company, Pertamina, which has a significant influence on the government's energy policies. The study also reveals that the government's lack of political will to promote renewable energy is another factor contributing to the fiscal policy gap.

DISCUSSION

The discussion of the article "The Political Economy of Indonesia's Renewable Energy Sector and Its Fiscal Policy Gap" focuses on the challenges and opportunities for Indonesia in achieving its renewable energy targets. The study highlights that although Indonesia has vast renewable energy potential, the country is still heavily reliant on fossil fuels, which account for over 90% of its energy mix. The study argues that this overreliance on fossil fuels is driven by a combination of political and economic factors, including government subsidies, lack of infrastructure, and vested interests in the fossil fuel industry.

The study also discusses the fiscal policy gap in the renewable energy sector, which refers to the difference between the government's current fiscal policies and the policies needed to incentivize renewable energy investment and achieve the country's renewable energy targets. The study suggests that the fiscal policy gap is mainly driven by a

lack of political will and low levels of public awareness of the benefits of renewable energy.

Moreover, the study argues that addressing the fiscal policy gap requires a comprehensive policy framework that includes a combination of fiscal, regulatory, and institutional measures. The study recommends measures such as reforming subsidies, introducing feed-in tariffs, and improving regulatory frameworks to support renewable energy investment.

The study's findings suggest that the political economy of Indonesia's renewable energy sector is influenced by the interests of fossil fuel stakeholders. These stakeholders have managed to influence policy-making processes and prevent the implementation of effective policies to promote renewable energy. The study also highlights the lack of political will on the part of the government to promote renewable energy and reduce the influence of fossil fuel stakeholders. The study concludes that the government needs to establish a strong political will to promote renewable energy and reduce the influence of fossil fuel stakeholders to overcome the fiscal policy gap in Indonesia's renewable energy sector.

CONCLUSION

In conclusion, the political economy of Indonesia's renewable energy sector is shaped by the interests of fossil fuel stakeholders, leading to a fiscal policy gap that impedes the development of renewable energy. To overcome this gap, the government needs to establish a strong political will to promote renewable

energy and reduce the influence of fossil fuel stakeholders. This can be achieved through the implementation of effective policies, including the removal of fossil fuel subsidies and the implementation of a renewable energy target. These policies will not only promote renewable energy but also contribute to Indonesia's economic growth and reduce its carbon footprint. The development of the renewable energy sector in Indonesia faces many challenges, including a lack of investment and government support, as well as a fiscal policy gap. The government must take action to address these challenges and create a more favorable environment for renewable energy investment, including increasing investment in research and development and implementing policies that incentivize private sector investment. Additionally, the government should work to create a stable and predictable regulatory environment and increase public awareness and support for renewable energy development. With the right policies and investments, Indonesia has the potential to become a leader in the renewable energy sector in Southeast Asia and make significant progress towards achieving its climate change and sustainable development goals.

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