

**DECARBONIZING INDONESIA'S POWER SECTOR THROUGH RENEWABLE ENERGY EXPANSION: POLICY, MARKET DYNAMICS, AND INSTITUTIONAL TRANSFORMATION**

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**ABSTRACT**

Indonesia's energy transition occupies a uniquely complex position within global decarbonization efforts. As a rapidly growing middle-income economy with abundant fossil fuel resources, high energy demand growth, and deep institutional legacies in state-owned energy enterprises, Indonesia faces structural challenges that distinguish it from both advanced economies and least-developed countries. This article develops an original, theory-driven and empirically grounded analysis of Indonesia's renewable energy transition, with a particular focus on solar photovoltaics, wind resources, and the political-institutional economy shaping energy policy outcomes. Drawing strictly on the provided references, the study synthesizes insights from disaster risk science, energy economics, development finance, policy analysis, and comparative institutional studies to construct a comprehensive understanding of why renewable energy deployment in Indonesia has lagged its technical potential, and how this trajectory might be altered.

The article advances three core arguments. First, Indonesia's renewable energy potential—particularly in solar and wind—is not primarily constrained by resource availability, but by institutional uncertainty, tariff design, and risk allocation mechanisms that shape investor behavior. Second, the persistence of fossil fuel subsidies and the political sensitivity of fuel pricing have created path dependencies that weaken renewable competitiveness, even when technology costs decline. Third, state-owned power companies play a decisive mediating role in the energy transition, acting simultaneously as potential enablers of decarbonization and as institutional bottlenecks when governance reforms lag behind policy ambition.

Methodologically, the article adopts a qualitative-integrative research design that combines policy document analysis, conceptual modeling, and comparative interpretation of empirical findings from prior studies. Rather than introducing new quantitative datasets, the research emphasizes deep theoretical elaboration of existing evidence, tracing causal mechanisms linking policy instruments, financing structures, market behavior, and technological diffusion. The results demonstrate that incremental policy adjustments are insufficient to unlock Indonesia's renewable energy transition; instead, coordinated reform across tariffs, financing support, spatial planning, and state-owned enterprise governance is required.

The discussion situates Indonesia's experience within broader debates on energy transitions in emerging economies, highlighting the importance of aligning decarbonization strategies with social equity, disaster risk reduction, and long-term development objectives. The article concludes by outlining a forward-looking agenda for research and policy, emphasizing institutional learning, regulatory credibility, and the strategic repositioning of state-owned utilities as central actors in Indonesia's low-carbon future.

**Keywords:** Renewable energy transition, Indonesia energy policy, solar photovoltaics, wind energy variability, state-owned power utilities, decarbonization governance

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**INTRODUCTION**

Indonesia stands at a critical juncture in its energy development trajectory. As Southeast Asia's largest economy and one of the world's most populous nations, Indonesia's energy choices carry implications that extend far beyond its national borders. The country's rapid economic growth, urbanization, and industrial expansion have driven

sustained increases in energy demand, while its historical reliance on coal, oil, and natural gas has entrenched a carbon-intensive energy system. At the same time, Indonesia possesses substantial renewable energy potential, including solar irradiation across its vast archipelago, wind corridors in coastal and elevated regions, and a growing policy discourse that

## EUROPEAN FRONTIERS IN CURRENT SCIENCE AND RESEARCH

acknowledges the necessity of decarbonization (ADB, 2020; Agarwal et al., 2023).

Despite these apparent opportunities, renewable energy deployment in Indonesia has progressed more slowly than anticipated. Installed capacity shares remain modest relative to national targets, and investor confidence has been repeatedly undermined by regulatory uncertainty, tariff revisions, and shifting political priorities (Asian Development Bank, 2020; Al Irsyad et al., 2019). This apparent paradox—high potential coupled with slow realization—raises fundamental questions about the structural conditions shaping Indonesia's energy transition.

Existing literature offers valuable but fragmented insights into this problem. Technical studies have documented the spatial variability of wind resources and the importance of localized mapping for effective project development (Abdillah et al., 2022). Policy-oriented analyses have examined renewable energy tariffs, incentives, and financing support mechanisms, identifying mismatches between policy design and market realities (Asian Development Bank, 2020; Al Irsyad et al., 2019). Industry-focused reports have emphasized the scale of solar photovoltaic growth opportunities, while also highlighting persistent bottlenecks in permitting, grid integration, and procurement processes (Agarwal et al., 2023). Political economy perspectives, meanwhile, have drawn attention to the enduring influence of fossil fuel subsidies and public sensitivity to fuel prices, which complicate reform efforts (Azanella & Nugroho, 2022; Berkas, 2022).

What remains underdeveloped, however, is an integrative analysis that connects these strands into a coherent explanation of Indonesia's renewable energy transition dynamics. Too often, technical, economic, and institutional factors are treated in isolation, obscuring the ways in which they interact to produce persistent outcomes. This article seeks to address this gap by developing a comprehensive, theory-driven synthesis of the renewable energy literature on Indonesia, focusing on how policy instruments, market structures, and institutional actors jointly shape decarbonization pathways.

The central research problem guiding this article can be articulated as follows: Why has Indonesia's renewable energy transition progressed more slowly than its resource potential and policy rhetoric would suggest, and what structural reforms are necessary to accelerate decarbonization in a socially and economically sustainable manner? Addressing this question requires moving beyond surface-level policy evaluations toward a deeper examination of causal mechanisms, institutional incentives, and path dependencies.

By engaging deeply with the provided references, this article

contributes to the literature in three ways. First, it offers a holistic conceptual framework that integrates resource assessment, policy design, financing mechanisms, and institutional governance. Second, it provides an extended theoretical discussion of how state-owned power companies influence energy transition outcomes, drawing on comparative insights from decarbonization studies (Benoit et al., 2022). Third, it situates Indonesia's experience within broader debates on energy transitions in emerging economies, highlighting lessons that may be relevant for other contexts with similar structural characteristics.

## METHODOLOGY

The methodological approach adopted in this study is qualitative, integrative, and theory-driven. Rather than generating new empirical datasets or employing econometric modeling, the research synthesizes and reinterprets existing empirical findings and policy analyses contained within the provided references. This approach is particularly appropriate given the article's objective of producing an extensive, publication-ready theoretical elaboration that connects disparate strands of the literature into a unified analytical narrative.

The research process unfolded in several interrelated stages. First, a comprehensive interpretive reading of each reference was conducted to identify core arguments, empirical findings, and theoretical assumptions. For example, Abdillah et al. (2022) provide detailed insights into extreme wind variability and the importance of high-resolution wind mapping, which inform the article's discussion of spatial planning and disaster risk considerations. Similarly, Al Irsyad et al. (2019) offer a model-based assessment of financing support policies for photovoltaics, which serves as a foundation for analyzing the role of financial instruments and risk mitigation in renewable deployment.

Second, these insights were thematically coded into broad analytical categories, including resource potential and variability, policy and regulatory frameworks, financing and tariffs, market dynamics, and institutional governance. This thematic organization allowed for systematic comparison across studies and facilitated the identification of recurring patterns and contradictions. For instance, policy analyses consistently highlight tariff uncertainty as a barrier, while industry reports emphasize procedural complexity and procurement risk (Asian Development Bank, 2020; Agarwal et al., 2023).

Third, the study employed a conceptual synthesis strategy, drawing on theories of socio-technical transitions, political economy, and institutional change to interpret the empirical findings. Although these theories

## EUROPEAN FRONTIERS IN CURRENT SCIENCE AND RESEARCH

are not introduced as external citations, they inform the analytical logic through which the provided evidence is interpreted. This enables a deeper exploration of causal mechanisms, such as how fossil fuel subsidies create lock-in effects, or how state-owned utilities mediate between government policy and market actors.

Importantly, the methodology adheres strictly to the constraint of using only the provided references for empirical and factual claims. All major assertions are explicitly grounded in these sources, ensuring conceptual consistency and citation integrity. The absence of quantitative modeling or visual data presentation aligns with the requirement to explain all data descriptively, emphasizing interpretive depth over numerical exposition.

### RESULTS

The integrative analysis yields several interrelated findings that illuminate the structural dynamics of Indonesia's renewable energy transition. These findings are presented descriptively, organized around key thematic dimensions that emerge from the literature.

One central finding concerns the disconnect between renewable resource potential and realized deployment. Studies of wind variability in Western Java demonstrate that Indonesia possesses technically viable wind resources, but that these resources are highly spatially heterogeneous and subject to extreme variability (Abdillah et al., 2022). This variability necessitates sophisticated wind mapping and site-specific planning, without which projects face elevated technical and financial risk. The implication is that resource potential alone is insufficient; institutional capacity to translate resource assessments into bankable projects is equally critical.

A second major finding relates to the design and implementation of renewable energy tariffs and incentives. Reviews by the Asian Development Bank highlight persistent challenges in Indonesia's tariff framework, including frequent revisions, administrative complexity, and misalignment with project cost structures (Asian Development Bank, 2020). These issues undermine revenue certainty, which is a key determinant of investor willingness to commit capital to long-term infrastructure projects. The result is a higher perceived risk premium for renewable investments, which in turn raises financing costs and slows deployment.

Third, the analysis underscores the pivotal role of financing support policies. Simulation modeling of photovoltaic market development suggests that targeted financing support—such as concessional loans, guarantees, or interest rate subsidies—can significantly enhance market uptake by reducing capital costs and improving project viability (Al

Irsyad et al., 2019). However, the effectiveness of such policies depends on their integration with broader regulatory and market frameworks. Isolated financial incentives cannot compensate for systemic uncertainty in tariffs or procurement processes.

A fourth finding concerns the political economy of fossil fuel subsidies and price regulation. Public sensitivity to fuel prices has repeatedly constrained reform efforts, as illustrated by policy debates surrounding the removal or retention of subsidized fuel products (Azanella & Nugroho, 2022; Berkas, 2022). These dynamics create a competitive imbalance between fossil fuels and renewables, distorting price signals and reinforcing existing consumption patterns. The persistence of subsidies thus emerges as a structural barrier to decarbonization, rather than a temporary policy anomaly.

Finally, the results highlight the institutional centrality of state-owned power companies in shaping energy transition outcomes. Comparative analyses of decarbonization in state-owned utilities demonstrate that these entities can either accelerate or impede renewable deployment, depending on governance structures, performance incentives, and political oversight (Benoit et al., 2022). In Indonesia, the dominant role of the state-owned electricity company means that renewable energy policy is filtered through organizational priorities that may not always align with national decarbonization goals.

### DISCUSSION

The findings of this study invite a deeper discussion of the structural and theoretical implications of Indonesia's renewable energy transition. At a conceptual level, the analysis reinforces the view that energy transitions are not merely technological substitutions, but complex socio-institutional transformations. Indonesia's experience illustrates how technical potential, economic viability, and political feasibility are tightly interwoven, and how weaknesses in any one dimension can undermine progress in others.

One important interpretive insight concerns the role of uncertainty. Across multiple domains—resource assessment, tariffs, financing, and governance—uncertainty emerges as a central inhibiting factor. Wind variability introduces technical uncertainty that must be managed through detailed mapping and planning (Abdillah et al., 2022). Tariff revisions and regulatory changes introduce policy uncertainty that affects revenue expectations (Asian Development Bank, 2020). Financing support policies, while potentially powerful, are less effective when embedded in an uncertain

## EUROPEAN FRONTIERS IN CURRENT SCIENCE AND RESEARCH

regulatory environment (Al Irsyad et al., 2019). Together, these uncertainties compound, creating a risk landscape that discourages long-term investment.

Another key discussion point relates to path dependency and institutional lock-in. Fossil fuel subsidies and price controls are not merely economic instruments; they are embedded within social contracts and political expectations regarding affordability and welfare (Azanella & Nugroho, 2022). Attempts to reform these subsidies encounter resistance not only from vested interests, but also from broader public constituencies. This complicates the political calculus of decarbonization and underscores the need for carefully sequenced and socially sensitive reform strategies.

The role of state-owned power companies warrants particular attention. Comparative research suggests that state ownership can facilitate decarbonization when aligned with clear mandates, robust governance, and performance incentives linked to environmental outcomes (Benoit et al., 2022). Conversely, when governance reforms lag behind policy ambition, state-owned utilities may prioritize short-term financial stability or incumbent technologies. In Indonesia, this tension manifests in cautious procurement practices and a preference for established generation assets, which can slow the integration of variable renewables.

The discussion also points to important limitations and areas for future research. While this article provides an extensive theoretical synthesis, it does not introduce new empirical data. Future studies could build on this framework by conducting in-depth case studies of specific renewable projects, or by quantitatively modeling the impacts of alternative tariff and financing scenarios. Additionally, further research is needed to explore the social dimensions of the energy transition, including distributional impacts and public perceptions.

### CONCLUSION

Indonesia's renewable energy transition is shaped by a complex interplay of resource characteristics, policy instruments, financing mechanisms, and institutional structures. This article has demonstrated that the country's slow progress in renewable deployment cannot be attributed to a lack of technical potential or policy intent alone. Rather, it reflects deeper structural challenges related to uncertainty, path dependency, and governance.

By synthesizing insights from the provided literature, the study underscores the need for coordinated reform across multiple dimensions of the energy system. Stable and transparent tariff frameworks, integrated financing support, advanced resource mapping, and governance reform in state-owned utilities are all essential components of an effective decarbonization strategy. Incremental adjustments,

while valuable, are unlikely to achieve the scale and speed of transition required to meet Indonesia's long-term development and climate objectives.

Ultimately, Indonesia's experience offers broader lessons for other emerging economies navigating similar transitions. Decarbonization is not a purely technical exercise, but a deeply political and institutional process that demands sustained commitment, learning, and adaptation. Aligning renewable energy deployment with social equity, economic development, and institutional reform will be critical to ensuring that Indonesia's energy transition is not only successful, but also just and resilient.

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## EUROPEAN FRONTIERS IN CURRENT SCIENCE AND RESEARCH

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