Institute for Energy Economics and Financial Analysis

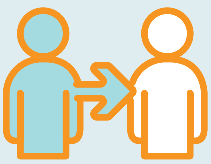
Fact Sheet

Unlocking Indonesia's Renewable Energy Potential Through Policy Reforms

Near-term renewable energy investments from the private sector worth US$146 billion are needed to achieve Indonesia's 2030 climate target, which requires urgent policy reformation to boost investor confidence.

Despite abundant untapped renewable energy sources and strong economic growth, investment in renewable energy in Indonesia has remained stagnant. An immediate review of the country's planning, procurement, and investment processes can help increase the attractiveness of renewable energy development and meet its climate targets.

IEEFA has identified several challenges in Indonesia that raise concerns among potential investors: unfavorable policies, weak regulatory implementation, and demanding contractual requirements.

Investment Determination Factors	Status and IEEFA Recommendations
Mandatory partner and 51% majority shareholders' scheme 	The government's renewable energy asset ownership strategy mandates that PT Perusahaan Listrik Negara (PLN), Indonesia's national electricity utility, and its subsidiaries be 51% majority shareholders.
	As the sole off-taker of any renewable energy generated, PLN's dual role of equity shareholder and off-taker creates a conflict of interest.
	A new strategy should be devised where the government can participate in ownership without limiting the advantages for the private sector.
Restrictions on the transfer of ownership rights 	Since 2017, the Indonesian government has restricted the transfer of project ownership rights before the commercial operation date.
	This restriction limits the private sector's ability to obtain additional capital and technical expertise during project delivery.
	These rules should be adjusted to aid private investors in raising additional capital for projects.

Investment Determination Factors	Status and IEEFA Recommendations
Deliver-or-pay scheme	Indonesia replaced the 'take-or-pay' system with a new 'deliver-or-pay' scheme that penalizes the private sector in case of failure to meet availability or capacity requirements.
	The terms and conditions of this policy and the calculation of penalties should be reviewed.
	Investors should be involved in determining formulas and indicators.
Renewable energy tariffs	The government has introduced a new ceiling tariff for renewable energy projects, staggered over two periods, with a higher ceiling tariff for the first period (years 1 – 10) and lower for the second period (years 11 – 30).
	During the auction process, Independent Power Producers (IPPs) are selected based on the lowest proposed tariffs, making it difficult for investors to achieve profit targets.
	Tariff adjustment is necessary to compete with the competitive tariffs offered by other Southeast Asian countries.
Local content requirements (LCRs)	Stringent LCRs have prevented the acceleration of renewable energy development as the local sector lacks capacity and relies heavily on imported materials to manufacture equipment, making domestically made solar modules 30%-45% more expensive than imported products.
	The LCRs have increased investment costs and caused initial system expenses to be higher than global averages.
	The government should assess the local market and revise the minimum requirement for local content.
Carbon credits incentives	Carbon credits have a value that can be sold in the carbon market and become a source of additional revenue for investors.
	However, Indonesia's recent Power Purchase Agreement states that any renewable energy market-based instruments, including carbon credits and renewable energy certificates, will be fully allocated to PLN.
	Shared carbon credits between PLN and private investors would provide additional income that could be used to lower tariffs during the concession period.
Renewable energy procurement procedures	There is a lack of transparency in PLN's procurement of renewable energy projects.
	Project procurement is by direct appointment or direct selection, with IPPs pre-registering on a List of Selected Providers (DPT) that has an application process with no defined timeline.
	Under Presidential Regulation 112 of 2022, the procurement lead time should be around 90 days for direct appointment and 180 days for direct selection. However, there is no guarantee that the procurement process will adhere to the timeframes provided.
	Tenders can also be canceled without explanation, leaving investors to record proposal expenses, such as initial studies, bid bonds, and legal counsel, as sunk costs.
	Transparent and well-defined procurement procedures would boost investor confidence and willingness to enter the Indonesian renewable energy market.