

PRESS RELEASE

LPEM FEB UI, AFD, and Ministry of Finance Released a Report on the Distributional Impact of Indonesian Environmental Policy

Jakarta, July 23, 2025 – The transition to sustainable energy is a multidimensional challenge that involves not only technological and environmental aspects but also has profound implications for social justice. With Indonesia's commitment to achieving net-zero emissions by 2060, the fair distribution of the burdens and benefits of environmental policies is a critical factor determining the success of this transition.

To support a more equitable energy transition in Indonesia, the Institute for Economic and Social Research, Faculty of Economics and Business, University of Indonesia (LPEM FEB UI), has prepared a report on the distributional impact of environmental policies in Indonesia in collaboration with the Ministry of Finance (MoF) and with the support of the Agence Française de Développement (AFD). This report measures the distributional impact of environmental policies in Indonesia using a microsimulation approach based on the Commitment to Equity (CEQ) framework.

To facilitate open discussion on the results of the environmental policy microsimulation in Indonesia, LPEM FEB UI held a dissemination event of the Distributional Impact of Environmental Policy Report at Hotel Borobudur Jakarta on July 23, 2025. This event marked the conclusion of the research activity titled *Data Analytics for a Just Transition: Distributional Impact of Environmental Policies in Indonesia*. The day before (Tuesday, July 22, 2025), LPEM FEB UI also held a workshop on microsimulation methods for policy analysis. The workshop was attended by staff from the Directorate General of Taxes at the Ministry of Finance, doctoral students in economics from the University of Indonesia, and researchers from LPEM FEB UI. The workshop aimed to share knowledge and skills related to microsimulation methods for analyzing the distributional impacts of energy policies in Indonesia.

The dissemination event aimed to introduce key findings from the report to stakeholders, experts, ministries, donors, civil society, and research institutions. During this event, the LPEM FEB UI team presented findings from the microsimulation result, followed by comments and recommendations from experts. The goal was to encourage open discussion about the potential impact of implementing environmental policies in Indonesia on various segments of society.

The presentation session focused on explaining the context of environmental policy in Indonesia and the microsimulation results of the distributional impact of these policies. The context was presented by Rus'an Nasrudin, Ph.D (LPEM FEB UI), while the microsimulation results were delivered by Prof. Cathal O'Donoghue (University of Galway). This session discussed how environmental policies can have varying impacts

on different income groups in Indonesia. The report recommends that Indonesia begin with a fuel-based carbon tax policy, rather than directly implementing a CO₂ emissions-based tax, to ensure a fair energy transition and avoid excessive burdens on energy-vulnerable households, especially in eastern regions. The revenue from this tax should be reallocated to improve energy access in disadvantaged areas to reduce regional disparities.

The presentation of research findings was followed by a panel discussion moderated by Alin Halimatussadiah (LPEM FEB UI), featuring three discussants: Hendro Gunawan from the Ministry of Energy and Mineral Resources, Irwan Dharmawan from the Ministry of Finance, and Adhitya Nugraha from the Pertamina Energy Institute. Hendro Gunawan delivered comments emphasizing the complexity of the carbon value issue, where there is no one-size-fits-all policy. Additionally, energy policies should not only focus on energy prices but also on household energy expenditure. Thus, changes in household consumption behavior can also contribute to emission reduction efforts.

The discussion continued with Irwan Dharmawan, who provided insights from the perspective of a financial policy maker, emphasizing the importance of a gradual carbon tax implementation strategy that considers varying levels of energy readiness across regions. He also highlighted the potential impact of a carbon tax on cost burdens and the competitiveness of MSMEs, which are labor-intensive sectors vulnerable to energy price changes.

The final panelist, Adhitya Nugraha, stressed the importance of energy resilience and affordability as top priorities in Indonesia's energy policy. To ensure that the energy transition is not only successful but also fair and just, the government needs to reinforce energy security so that emission reductions do not come at the expense of economic growth and human development.

The full report can be downloaded at bit.ly/jetindo25.

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EVENT DOCUMENTATION

