

EXECUTIVE SUMMARY

For more than 50 years, Indonesia has relied on energy subsidies, largely for fossil fuels, as a central plank of its social and economic policy. Originally designed to reduce poverty, expand access to modern energy, and support industrial development, these subsidies played an important role in shifting households away from kerosene and firewood toward gas and electricity.

Today, however, the policy is no longer delivering on its original promise.

Indonesia now spends IDR 203.5 trillion (USD 12.2 billion) each year on household LPG, electricity and fuel energy subsidies alone—around 40% of total social assistance spending, nearly 6% of the state budget, and roughly equivalent to the entire health budget. Although framed as a tool for social equity, the subsidies disproportionately benefit higher-income households.

These subsidies are also locking Indonesia into a fossil-fuel dominated energy mix. With 72% of domestic electricity generation coal-based, subsidised prices disadvantage renewable energy, weaken emissions-reduction efforts and slow growth in the clean energy sector that is critical to Indonesia's long-term economic competitiveness.

The result is a policy that has become a growing burden on the state budget with limited returns for equity, productivity, or long-term development.

Fortunately, the government already has all the tools it needs to reform the subsidy system.

This report sets out a practical, phased pathway to reform household electricity and LPG subsidies by shifting support from subsidising energy products to supporting people directly.

Key recommendations include:

- **Shift subsidies from commodities to families**, providing support directly to eligible families as a fixed, conditional monthly cash transfer, rather than subsidising specific products such as LPG canisters. Any unused subsidy should be retained by families to be used for other energy-related expenses, including upgrades to renewable energy or energy-efficient technologies.
- **Enable households without access to LPG or grid electricity** to use the subsidy to invest in off-grid renewable energy solutions, expanding energy access in remote and underserved areas.
- **Integrate energy subsidies into the national social protection system**, improving targeting, transparency, and efficiency.
- **Phase in reforms over time**, supported by the establishment of a Cross-Ministerial Socialisation and Education Team to lead a coordinated public awareness and engagement campaign.
- **Redirect fiscal savings from subsidy reform** to high-impact investments in education, health, and clean energy that deliver long-term benefits for families, communities, and productivity.

Implementing these reforms would deliver substantial benefits. An estimated IDR 95.97 trillion (USD 5.8 billion) per year could be freed from the state budget and redirected to more productive uses. Subsidies would become fairer and more inclusive, with support concentrated on low-income families rather than the wealthy. Households in remote and underserved areas would gain new access to clean energy sources. Reduced reliance on coal-fired power would support Indonesia's emissions-reduction goals and strengthen its renewable energy industry.

While the rewards will be significant, successfully implementing these reforms will require political will, bold leadership and strong public engagement. Resistance is likely from households and businesses who currently benefit from subsidised LPG prices but would no longer be eligible under a more targeted system. Clear and consistent communication will be essential to explain the direct benefits of reforms, demonstrating the scale of budget savings, and showing how this funding will be redirected to higher-impact investments that benefit everyone, like renewable energy, education and health.

If done right, a reformed energy subsidy system would not only protect Indonesia's most vulnerable citizens; it would also strengthen fiscal sustainability, accelerate the energy transition, and help build a more productive, resilient, and prosperous economy.