

# Limitation of Fuel Subsidy in Healthizing State Revenue and Expenditure Budget

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**Abstract.** *Fuel oil (BBM) subsidy policy in Indonesia has been an important element in economic policy since the era of President Soeharto's administration. Initially, this subsidy was aimed at maintaining energy price stability and protecting people's purchasing power, especially low-income groups. However, over time, fuel subsidies have created various economic and environmental problems, including a large burden on the State Revenue and Expenditure Budget (APBN), economic distortions, and obstacles to the renewable energy transition. This research uses a normative legal approach to analyze fuel subsidy policies within the framework of the welfare state in Indonesia, with the aim of formulating more effective regulations. The data used is primary, secondary and tertiary legal materials which are analyzed descriptively-analytically. The research results show that the fuel subsidy policy has not been effective and efficient, with most of the benefits being enjoyed by the middle and upper income groups, while those who should benefit, namely the poor, are left behind. Therefore, it is necessary to reformulate fuel subsidy policies with the principles of social justice, economic sustainability, transparency and accountability. Formulating more targeted policies, developing renewable energy, and implementing the principles of good governance will strengthen the welfare state and support more equitable and sustainable development.*

**Keywords:** *Fuel Subsidy, Healthizing State Revenue, Expenditure Budget*

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## INTRODUCTION

Fuel Subsidies (BBM) have been a crucial element in Indonesia's economic policy since the era of President Soeharto's government. Initially, this policy was aimed at maintaining energy price stability and protecting the purchasing power of the people, especially the low-income group. However, over time, fuel subsidies have given rise to various complex problems, both from an economic and environmental perspective. The ever-increasing burden of subsidies on the State Revenue and Expenditure Budget (APBN) has raised questions about its sustainability and effectiveness in achieving social welfare goals (Aristoteles, 1985). Indonesia with its large population and growing economy, has a high energy demand. Fuel subsidies have become the main instrument for keeping fuel prices affordable. However, this policy has created a heavy reliance on subsidies. At its peak, fuel subsidies reached one-fifth of the total state budget, burdening the APBN and reducing funding allocation for productive sectors such as education, health, and infrastructure.

The large amount of fuel subsidies has created significant economic distortions. Low fuel prices indirectly encourage excessive consumption and hinder energy efficiency. In the field, fuel subsidies are enjoyed more by the middle to upper-income groups, thus exacerbating social and economic inequality. Studies have shown that about 70% of fuel subsidies are enjoyed by the top

40% of the middle to upper-income population, while only 30% are enjoyed by the bottom 60% of the middle to lower-income population. In the long run, fuel subsidies can reduce incentives to develop alternative energy sources and slow down the transition to renewable energy. This contradicts global efforts to reduce carbon emissions and address climate change. The elimination of fuel subsidies in many countries has proven to improve energy efficiency and accelerate the adoption of clean energy technologies. Restricting or eliminating fuel subsidies is not an easy policy to implement. This step can trigger public rejection, especially among the lower-middle class, as it impacts fuel price increases. Large-scale demonstrations often become a response to this policy. The government needs to address this political challenge by providing targeted compensation, such as direct cash assistance (BLT) and alternative energy subsidies.

Fuel subsidies have been a significant economic policy in Indonesia, particularly since the era of President Soeharto. Initially, the policy aimed to maintain energy price stability and protect the purchasing power of low-income groups. Over time, however, fuel subsidies have created various economic and environmental issues, including a significant burden on the state budget (APBN), economic distortions, and negative impacts on renewable energy transition efforts (Haryanto, 2016). The large budget allocation for fuel subsidies often hinders funding for strategic sectors such as education, health, and infrastructure (Kim & Samudro, 2021). Ironically, studies show that the majority of the subsidy benefits are enjoyed by higher-income groups, exacerbating social inequality (Widrian et al., 2022). Fuel subsidies also reduce incentives to develop renewable energy, which is crucial for Indonesia's global commitment to reducing carbon emissions (Rahman et al., 2021). Restricting or abolishing fuel subsidies is not without challenges. Public resistance, including protests, often becomes a major obstacle. Therefore, the government needs to formulate effective compensation policies, such as direct cash assistance (BLT), to mitigate adverse impacts (Roziqin et al., 2021). Additionally, fuel subsidy reforms require an approach reflecting social justice principles, as advocated by Aristotle, Locke, and Rousseau (Rousseau, 1968).

## METHODS

This study employs a normative legal approach, focusing on the restriction of fuel subsidies within the framework of the welfare state in Indonesia. This approach was chosen to analyze the alignment of fuel subsidy policies with the principles of the welfare state and to formulate an ideal regulatory framework for restricting fuel subsidies in accordance with the constitution and prevailing laws and regulations in Indonesia (Dean, 2016). Normative legal research emphasizes the study of legal texts, legislation, and legal doctrines to understand and analyze legal issues (Bhat, 2019). In this context, the normative legal approach is used to: first, analyze the legal basis of fuel subsidy policies, including relevant laws and regulations such as the 1945 Constitution, the State Budget Law (APBN), and other related regulations; second, examine relevant legal principles, such as the principles of legality, proportionality, and public interest; third, analyze court decisions related to fuel subsidies to understand the legal interpretation in concrete cases; and fourth, formulate an ideal framework for regulating fuel subsidy restrictions based on legal principles and the objectives of the welfare state.

The data used in this study are secondary data, comprising primary legal materials, secondary legal materials, and tertiary legal materials. Primary legal materials include relevant laws and regulations, such as the 1945 Constitution, laws on state finances, and their implementing regulations. Secondary legal materials consist of textbooks, scientific journals, articles, and other relevant documents. Meanwhile, tertiary legal materials include legal dictionaries and legal encyclopedias. Data were collected through a literature review by examining relevant secondary data sources. The data were analyzed qualitatively using a descriptive-analytical method, in which the collected data were systematically organized to address the research questions and achieve the research objectives.

## RESULTS AND DISCUSSION

### Evaluation of Fuel Subsidy Policy in Indonesia

The fuel oil (BBM) subsidy policy in Indonesia has been an ongoing debate. On the one hand, fuel subsidies aim to maintain affordable fuel prices for the public, control inflation and encourage economic growth. However, on the other hand, fuel subsidies also create a heavy fiscal burden, are prone to leakage and abuse, and can create disincentives for the use of renewable energy. To answer the question regarding the effectiveness of the fuel subsidy policy in the context of restructuring the APBN and strengthening the concept of the welfare state in Indonesia, a comprehensive and objective evaluation is needed (Indonesian Ministry of Finance, 2021). Effectiveness is measured by achieving its goals: controlling inflation, increasing social welfare, and economic growth. The budget allocation for the health sector in Indonesia is still low compared to OECD countries (OECD, 2023). As well as the education budget, and infrastructure (Ministry of PUPR RI, 2020).

Fuel subsidies that are not well targeted can worsen inequality, while large subsidies can enlarge the budget deficit, increase the debt ratio, and reduce budget allocations for priority sectors such as education and health (Indonesian Ministry of Finance, 2022). The government needs to consider reducing fiscal risks by reforming fuel subsidy policies (Indonesian Ministry of Finance, 2022). It is also necessary to consider the impact of biodiesel policy in Indonesia (Widrian et al., 2022), and the pros and cons of eliminating fuel subsidies. Fuel subsidies have also been a concern since 2014. This case study aims to explore the impact of fuel subsidies on the budget items in Indonesia's state budget (APBN) during the 2020-2023 period. This period was selected due to the various dynamics that influenced Indonesia's economy, including the COVID-19 pandemic, the war in Ukraine, and the global economic recovery. These situations exerted significant pressure on the economy and fiscal policies of the country, while also creating new opportunities. Through a comprehensive data analysis, this study seeks to illustrate how fuel subsidies affect the balance of the national budget, and how the government has managed these subsidies amidst the challenges faced.

For a deeper analysis, the data used in this case study is sourced from various official and reliable resources, including the State Budget Law (Undang-Undang APBN), the Financial Notes (Nota Keuangan), the Central Government Financial Statements (Laporan Keuangan Pemerintah Pusat or LKPP), and publications from the Ministry of Finance. The State Budget Law provides the legal framework for allocating fuel subsidies in the national budget, while the Financial Notes and LKPP offer insights into the fiscal and economic conditions that underpin these policies. Publications such as "APBN Kita" and "Informasi APBN" from the Ministry of Finance are also utilized to supplement the data, offering a more detailed overview of the realization and allocation of fuel subsidy funds during the studied period. The trend of fuel subsidy expenditures between 2020 and 2023 reveals significant fluctuations. In 2020, fuel subsidy spending was recorded at Rp157.6 trillion, lower than the previous year's expenditure of Rp172.4 trillion. This reduction was influenced by the drop in global oil prices due to the COVID-19 pandemic, which allowed the government to reduce its budgetary burden. However, in 2021 and 2022, fuel subsidy spending increased sharply, reaching Rp212.5 trillion in 2021 and Rp271.4 trillion in 2022, driven by the global economic recovery and rising oil prices due to the war in Ukraine. In 2023, fuel subsidy spending was projected to decrease to Rp208.9 trillion, in line with the government's efforts to control the budget deficit.

The proportion of fuel subsidy spending to total government spending also shows fluctuations that reflect the significant impact of subsidies on the national budget. In 2020, the proportion of fuel subsidies to total government spending was 6.2%, lower than the 7.2% recorded in 2019. However, in 2021 and 2022, this proportion rose sharply to 7.7% and 9.6%, respectively, indicating a heavy fiscal burden. This increase signifies that fuel subsidies remained a key priority in the national budget despite the fiscal challenges faced by the government. In 2023, the proportion of fuel subsidies is projected to decrease to 6.8%, reflecting stricter fiscal

policies and the redirection of funds towards more productive sectors. An analysis of the comparison between fuel subsidy allocation and other sectors such as education, health, and infrastructure reveals that, despite significant allocations for these sectors, fuel subsidies still occupy a considerable share of the national budget. In 2022, fuel subsidy expenditure of Rp271.4 trillion was higher than the allocation for education, which was Rp542.8 trillion, and for health, which amounted to Rp255.4 trillion. This raises questions about whether the allocation of funds is optimal, and whether fuel subsidies should be prioritized over sectors more directly related to improving the quality of life for the public, such as education and health.

This study identifies that, although fuel subsidies aim to provide affordable energy access to the population, they have the potential to contribute to fiscal instability. Unchecked increases in fuel subsidies could worsen the budget deficit, raise the debt-to-GDP ratio, and reduce the allocation of funds for other priority sectors. Therefore, there is a need for reform in fuel subsidy policies to ensure greater efficiency and effectiveness, taking into account social equity and fiscal sustainability. The government must optimize the use of subsidies to support more sustainable development and ensure that the allocation of national budget resources is used productively and in a manner that benefits the broader society.

### **Fuel Subsidy Policy from a Welfare State Perspective**

Fuel subsidy policy is a crucial instrument in achieving the goals of a welfare state, which aims to create a just and prosperous society. From a welfare state perspective, fuel subsidies should reflect the principles of social justice, equity, fulfillment of basic rights, and reduction of social and economic disparities. However, the reality of implementation in Indonesia reveals various obstacles that hinder the achievement of these goals. The principle of social justice, which demands a proportional distribution of resources to those most in need, has not been fully realized. Data indicates that the majority of fuel subsidies are enjoyed by the upper-middle class, resulting in disparities in access to the benefits of subsidies (Nasional & Nasional, 2014). This inequality contradicts John Rawls' notion of distributive justice (Rawls, 1971) and Amartya Sen's view of equity as the foundation of just development (Sen, 2014).

Inefficient fuel subsidies often burden the state budget, reducing allocations for priority sectors such as education, healthcare, and social protection. These subsidies also have the potential to exacerbate social and economic disparities, as the poor receive significantly less benefit than the wealthy (Smeeding et al., 1993). Another negative impact of fuel subsidies is the increased consumption of fossil fuels, which contributes to environmental degradation and contradicts the principles of sustainable development. This inequality is further aggravated by ineffective subsidy distribution mechanisms, lack of transparency and accountability, and the influence of political and economic interests. To address this inequality, comprehensive policy reforms are necessary.

The government should develop a more targeted subsidy distribution system, leverage digital technology, and enhance oversight. Transparency and accountability must be strengthened so that the public can monitor the management of subsidies. Moreover, the government should reduce reliance on fossil fuels by promoting the development of renewable energy and public transportation. Fuel subsidy policies should also be directed towards achieving social justice, prioritizing the poor and vulnerable as the primary beneficiaries. Through these reforms, fuel subsidies can become an effective tool in supporting the principles of a welfare state and improving the well-being of society as a whole.

### **Ideal Form of Regulation of Fuel Subsidy Limitations within the Welfare State Framework**

Fuel subsidy restriction is a multifaceted challenge within the welfare state framework, as it intersects with several important social, economic, and environmental principles. A well-designed subsidy restriction policy should strike a balance between ensuring fiscal efficiency and upholding social justice, ensuring that vulnerable populations are not disproportionately affected. Given the economic pressure that fuel subsidies can place on the national budget, the

restriction is often seen as a necessary measure to ensure that government resources are allocated effectively and can be directed toward other critical sectors, such as education, health, and infrastructure.

However, this must be done carefully to avoid exacerbating inequality. The principles guiding fuel subsidy restrictions must prioritize social justice, ensuring that the most disadvantaged groups continue to have access to affordable energy. It is essential that any policy changes take into account the potential impact on low-income households, who often depend on subsidized fuel for daily transportation and energy needs. As part of this, economic sustainability must be a core consideration. By transitioning towards more sustainable energy sources and reducing dependence on fossil fuels, Indonesia can lower its long-term fiscal burden while addressing environmental concerns, thereby fostering a more resilient and sustainable economy. Moreover, transparency and accountability are crucial in the implementation of fuel subsidy restrictions.

The process must be open to scrutiny to ensure that the funds saved are reallocated effectively to benefit the public. Policies should be developed and communicated transparently, ensuring that the public understands the reasons for the changes and how they will benefit in the long run. Finally, efficiency and effectiveness are vital in achieving the policy's intended goals. The reallocation of subsidy funds must be carefully managed to ensure that it achieves the desired economic, social, and environmental outcomes without introducing new inefficiencies or inequalities (Vogt-Schilb & Hallegatte, 2017).

### ***Ideal Principles of Fuel Subsidy Restriction***

Social justice is a paramount principle in the regulation of fuel subsidies. The government must ensure that fuel subsidies are not enjoyed by all segments of society but are channeled to those who truly need them, namely the poor and vulnerable. One mechanism that can be implemented is using the Integrated Social Welfare Data (DTKS) as a database to determine targeted subsidy recipients (Bappenas, 2020). The Family Hope Program (PKH) in Indonesia is an example of a policy that can channel fuel subsidies effectively, ensuring that assistance is only received by poor families with specific requirements, such as children attending school or pregnant mothers undergoing health checks (Ministry of Social Affairs, 2022).

Economic sustainability is a crucial consideration in fuel subsidy restriction. Too rapid or abrupt restrictions can negatively impact inflation and consumer purchasing power, potentially harming the national economy (Kohler, 2023). Therefore, fuel subsidy restrictions should be implemented gradually and accompanied by supportive mitigation policies, such as the development of renewable energy and energy efficiency improvements (Tanaka, 2011). Indonesia's history, particularly the sudden fuel price increase in 1998, highlights the importance of careful subsidy management to avoid social unrest and economic crises.

Transparency and accountability are also crucial in fuel subsidy management. The government must provide clear and open information about subsidy budgets, beneficiaries, and the distribution process. This can be achieved by publishing regular reports on the use of subsidy funds and ensuring that these reports are easily accessible to the public. Transparent reporting will strengthen public trust in the policies adopted and prevent the misuse of subsidy funds (Kaufmann & Bellver, 2005). Efficiency and effectiveness in fuel subsidy distribution are the final, equally important aspects. The government must ensure that the subsidies provided actually reach their intended targets without leakage or misuse. One way to improve efficiency is to utilize information technology in subsidy distribution, such as mobile applications or non-cash payment systems (Apriantoro et al., 2022). The use of efficient systems will minimize the possibility of subsidy misuse and enhance oversight of subsidy distribution.

### ***Ideal Form of Fuel Subsidy Restriction Regulation***

Targeted restriction mechanisms should consider clear and transparent criteria for subsidy recipients. The government needs to establish criteria based on social and economic



indicators, such as income level, number of dependents, and place of residence. Using the Integrated Social Welfare Data (DTKS) as a database to determine subsidy recipients can be a more effective step in ensuring that fuel subsidies are provided to those who truly need them (Bappenas, 2020). Ideal fuel subsidy policy alternatives can include several options. One is to provide direct subsidies to low-income households, which is more targeted than general subsidies.

Programs like Direct Cash Assistance (BLT) or subsidies for healthcare and education can be more effective in reducing poverty and social inequality (Ministry of Social Affairs, 2022). Additionally, the government can use fiscal instruments, such as carbon taxes and motor vehicle taxes, to encourage energy efficiency and reduce fuel consumption, while increasing state revenue that can be allocated for infrastructure development and social programs (Hirst & Brown, 1990). Renewable energy development is also a long-term policy that needs to be considered in fuel subsidy regulation. Reducing dependence on fossil fuels through the development of renewable energy, such as solar and wind energy, will support sustainable development and reduce negative environmental impacts. The government can provide incentives to encourage investment in the renewable energy sector and support its use on a larger scale (Sen & Ganguly, 2017).

### **The Role of Good Governance in Fuel Subsidy Regulation**

The principles of good governance play a critical role in the regulation and management of fuel subsidies, ensuring that the distribution and use of these subsidies are conducted in a manner that benefits society equitably and sustainably. Transparency is a foundational element in this process, as it allows the public to access relevant data and information regarding fuel subsidies, thereby fostering trust in the government's actions. By making detailed records on subsidy allocations and expenditures publicly available, the government can ensure that taxpayers and stakeholders are informed about how resources are being spent.

Additionally, involving the public in the oversight and evaluation of subsidy policies helps maintain a robust system of checks and balances, making sure that the subsidies are allocated fairly and efficiently. Accountability, another key principle, is essential in ensuring that subsidy funds are used appropriately and effectively. Independent audits and evaluations, particularly those conducted by the Supreme Audit Agency (BPK), play a crucial role in scrutinizing the management of fuel subsidies (Dwiputrianti, 2011). These audits help identify potential mismanagement, waste, or corruption, and ensure that the funds are directed toward their intended purposes. By providing a mechanism for accountability, the government can improve the credibility of its subsidy programs and ensure that they contribute to the welfare of society rather than being diverted for other purposes.

Public participation further strengthens the governance framework by ensuring that decisions regarding fuel subsidy policies reflect the needs and concerns of the citizens. When people are involved in the decision-making process, they are more likely to feel that the policies are fair and just, leading to greater public support and compliance. Engaging the public in discussions and evaluations of subsidy reforms can enhance the legitimacy of these policies, making them more inclusive and better aligned with societal values. As Speer (2012) notes, fostering a participatory approach in governance ensures that the voices of the citizens are heard and that policies are better adapted to the needs of the population, leading to more effective and equitable outcomes (Speer, 2012).

### **The Urgency of Fuel Subsidy Policy Reformulation**

The reformulation of fuel subsidy policies in Indonesia has become an urgent necessity due to several challenges, including inaccurate targeting, inefficiency, and the negative environmental impacts associated with fossil fuel consumption. These issues undermine the potential of subsidies to effectively support vulnerable populations and contribute to sustainable development. To address these challenges, the policy reform should focus on improving the

targeting of subsidies, ensuring that they reach the intended beneficiaries, and enhancing their efficiency in achieving economic and social goals. Additionally, reducing the nation's reliance on fossil fuels by promoting alternative energy sources is crucial to achieving long-term sustainability and addressing the global climate crisis. In this context, the new fuel subsidy policy should align with the principles of economic sustainability and prioritize the development of renewable energy. This approach would not only reduce the environmental burden but also strengthen the welfare state by fostering policies that are more equitable and better aligned with the needs of the population. The goal is to create a more just and inclusive energy policy that serves the public interest, ensures fair access to resources, and supports the transition towards a greener, more sustainable energy future.

## CONCLUSION

Based on the analysis and discussion that has been described, it is clear that the current fuel subsidy policy in Indonesia has weaknesses in achieving its objectives. Subsidies are not yet fully effective and efficient, with the benefits being enjoyed more by the upper middle class, not the poor who should be the main target. This is contrary to the concept of a welfare state which aims to create a just, prosperous and prosperous society. In addition, fuel subsidies burden the APBN and reduce budget allocations for priority sectors, creating fiscal risks. To achieve the goals of a welfare state, fuel subsidy policy reform is needed that leads to increased efficiency, effectiveness and fairness. The current fuel subsidy arrangements are not fully in line with the concept of a welfare state, because they are not well-targeted and inefficient, hampering the achievement of welfare state goals. Ideally, regulations regarding restrictions on fuel subsidies must take into account the principles of social justice, economic sustainability, transparency and accountability. The limitation mechanism must be right on target, with subsidies received by people in need. The government needs to consider alternative fuel subsidy policies such as direct subsidies and the use of fiscal instruments, as well as accelerating the development of renewable energy to achieve the goal of a more effective and sustainable welfare state.

Based on the conclusions outlined, several suggestions are put forward to improve fuel subsidy policy in Indonesia and direct it in a more effective, efficient and fair direction. First, reformulation of fuel subsidy policy is needed to ensure that subsidies actually reach targets and are in accordance with welfare state principles. This reformulation must involve all stakeholders to achieve a comprehensive solution. Second, increasing the efficiency and effectiveness of fuel subsidies by developing a targeted distribution system can prevent leakage and misuse. Third, accelerating the development and use of renewable energy is critical to reducing dependence on fossil fuels and achieving sustainable development goals. Fourth, the application of good governance principles in regulating fuel subsidies, such as transparency, accountability, participation, efficiency and effectiveness, is very important to increase public trust. Fifth, strengthening the checks and balances mechanism in regulating fuel subsidies can avoid abuse of power and ensure policies are implemented in accordance with the principles of good governance. Finally, increasing public awareness of the importance of efficient and environmentally friendly energy use is an important step to support sustainability and create a better welfare state.

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