

THESIS

**THE WORLD BANK'S INFLUENCES ON THE POLITICAL ECONOMY
OF GEOTHERMAL LIBERALIZATION UNDER PRESIDENT SUSILO
BAMBANG YUDHOYONO ADMINISTRATION**



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**STUDY PROGRAM MASTER OF INTERNATIONAL RELATIONS
FACULTY OF SOCIAL AND POLITICAL SCIENCES**

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THESIS

**Written for one of the requirements to complete the study program Master of
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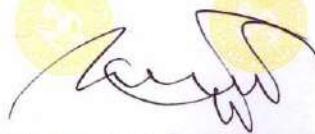
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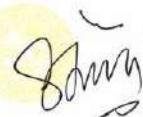
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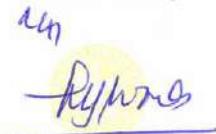
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Some part or all the contents of this thesis with the title, "The World Bank's Influences on the Political Economy of Geothermal Liberalization under President Susilo Bambang Yudhoyono Administration" was never submitted to obtain an academic degree in any field of study and/or other university and never been published/written by individuals other than the author except when written with the format of quote in contents of the thesis.

Surabaya, 20 June 2017



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PAGE OF DEDICATION

To my family, colleagues, and friends.

And

A special feeling of gratitude to my loving parents, I
hope this achievement will complete the dream that
you had for me all those many years ago when you
choose to give me the best education you could.

Massive thank you,

Erlin

INSPIRATIONAL PAGE

*"For indeed, what man of sound mine, although he inspects
the disparate composition of this shapeless mass of clay,
nonetheless does not doubt that we have been divinely
conceived with an equal soul"*

Maria Gaetana Agnesi

(1727, the Female Sex Are by No Means Inappropriate, the Studies of the Liberal
Arts)

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LIST OF ABBREVIATIONS

ADB	Asian Development Bank
API	Asosiasi Panas Bumi Indonesia
BPK	Badan Pemeriksa Keuangan
CAS	Country Assistance Strategy
CER	Carbon Emission Reductions
COD	Commercial Operation Date
CPF	Country Partnership Framework
DIM	Daftar Inventarisasi Masalah
DPL	Development Policy Loan
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	Green House Gas
GoI	Government of Indonesia
GPE	Governance and Political Economy
IDB	Inter-American Development Bank
IFI	International Financial Institutions
IIGF	Indonesia Infrastructure Guarantee Fund
IMF	International Monetary Fund
INSTANSI	Institutional, Tax Administration, Social and Investment
ITB	Institut Teknologi Bandung
KAU	Komisi Anti Utang
MEMR	Ministry of Energy and Mineral Resources
MENA	Middle East and North Africa
MOF	Ministry of Finance
MOU	Memoranda of Understanding
MP3EI	Master Plan for Acceleration and Expansion of Indonesia's Economic Development
NGO	Non-Government Organization
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development

PD	Presidential Decree
PGE	Pertamina Geothermal Energy
PLN	Perusahaan Listrik Negara
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public- Private Partnership
R&D	Research and Development
REDD	Reduction of Emissions from Deforestation and forest Degradation
RPJMN	Rencana Pembangunan Jangka Menengah Nasional
RUU	Rancangan Undang-Undang
SOE	State-Owned of Enterprises
TI	Transparency International
UGM	Universitas Gajah Mada
UNCC	United Nations Climate Conference
USAID	United State Agency for International Development
WTO	World Trade Organization

ABSTRACT

This study explores the role of the World Bank in influencing the Indonesia's political economy particularly in governing Indonesia's geothermal. With the specific task to provide an account of liberalization policy in Indonesia's geothermal during Yudhoyono administration, the research questions applied are how was the interrelation between the World Bank and the Yudhoyono government in making the liberal geothermal regulatory framework? To some extent, what was the reason behind the making of the liberal geothermal framework? Knowing that Indonesia has been seen as an emerging market for geothermal industry, it is important to mapping out how the World Bank as an influential actor in policy making has integrated to Indonesia's political economy by bringing the liberal agenda to open the market access.

As the liberalization policy instilled by the World Bank has been used by developed countries to exploit Indonesia as Developing Country, World-System theory is used to construct the mechanism of this thesis. Upon completion of this research, the author found that the World Bank has a particular pattern of integration by using its foreign loans as the best strategy and the weaknesses of Indonesia has made Indonesia had no option but to accept the concept of liberalization. To some extent, the advanced industrialized countries have gained more positive impacts from financial, expertise and technology interdependences, while Indonesia has become more dependent on economic relationship.

Thus, the findings may be useful theoretically and practically. For International Relations studies to know the policy reforms process. As for government officials to examine the outcomes of its liberal geothermal regulatory.

Key words: **Indonesia, Political Economy, the World Bank, Yudhoyono's administration, geothermal liberalization**

CHAPTER I

INTRODUCTION

1.1 Research Background

The task for this research is to provide an account of liberalization policy in Indonesia's geothermal during President Soesilo Bambang Yudhoyono administration starting in 2004 through 2014. In order to deal with the complexity and massive details, the vein of this research is focused on one primary topic which is tracing and understanding the international integration of policy transfer and norm diffusion over geothermal industry.¹

It is worth noting that the awareness of geothermal development in Indonesia has significantly increased along with the concern of energy security. As many scholars argued that Indonesia will run out of fossil fuels in less than 12 years and will become entirely dependent on energy imports unless decisive action is taken (Abdullah 2005; Husman et.al 2013; As Hikam 2014; Riza Azmi et.al 2014).

In addition to the concern of energy security, geothermal development aimed to deal with another global issue of climate change. There is a pressing need to accelerate the development of advanced energy technologies in order to address the global challenges of providing clean energy, mitigating climate change and sustainable development. Recalling the facts that Indonesia is the fifth biggest Green House Gas (GHG) emitter among Organisation for Economic Co-operation and Development (OECD) and key part partner countries in which China ranks first (10.8 bt) ahead of the United States (6.7), India (2.7) and Rusia (2.5), making Indonesia pushed to limit the rise of CO₂ emissions by reducing the share of fossil

¹ Geothermal energy is heat derived below the earth's surface which can be harnessed to generate clean and renewable energy with very little emits and almost zero Green House Gas. The usage of geothermal energy can be classified into two kind of usage. First, direct use such as for hot water tourism object or palm sugar processing industry. Second, indirect use to generate electricity after the completion of exploration and exploitation processes. Nenny Saptadji, “*Sekilas Tentang Panas Bumi*,” [online] http://www.geothermal.itb.ac.id/sites/default/files/public/Sekilas_tentang_Panas_Bumi.pdf, (accessed on 16 October 2016)

fuels and increasing the share of geothermal and other renewables in the energy mix (OECD, 2010). Geothermal plays major role in renewable energy sector and climate change matters due to geothermal's capability to provide clean energy with very little emits and almost zero GHG. Furthermore, geothermal energy is the only renewable energy source which is totally independent of daily, seasonal and climate variation, allowing it to provide power with a higher availability than any other energy source including fossil fuels and nuclear (Kunkel et al, 2012)

Translating this pressure, at the 2009 G20 summit, Yudhoyono on behalf of the Government of Indonesia (GoI) committed to reduce the country's carbon emissions up to 26% by 2010 against a business as usual trajectory (Dutu, 2015). The initial commitment actually had been shown since two years before when Indonesia hosted the United Nation Climate Change Conference 2007. Since then, Indonesia had been able to put climate change issue into a national planing and budget (Thamrin, 2011).

Throwing back to the history of geothermal development in Indonesia, the starting point was an early geothermal exploration in Indonesia which was carried out by Dutch Colonial in 1918 in Kamojang, West Java until 1928 when it was practically stopped (Mansoer & Idral, 2015). Then in 1972 the GoI conducted a more complete inventory with technical assistance from Italy, Japan, New Zealand and USA for which resulted a basis to issue new policies to accelerate goethermal development and encourage energy diversity in Indonesia by appointing the state-owned oil company Pertamina to explore and develop geothermal energy. Through Presidential Decree (PD) no. 16/1974 Pertamina allowed to operate the Kamojang field and to explore other geothermal resources in Indonesia (Fauzi, Suryadarma, Soemarinda, & Siahaan, 2005). Then the GoI issued the new PD no. 20/1981 allowing Pertamina to enter joint ventures with local and international partners.²

² It was considered as the starting point of geothermal partial liberalization in Indonesia. The first private development contrats were signed in 1982 – 1984 between Pertamina and Chevron Ltd for Gunung Salak and Darajat projects in West Java. Then seven private geothermal companies signed contracts of joint operation with Pertamina for ten contracts areas between 1994 and 1997. See Amir Fauzi et al., " Geothermal Development in Indonesia: An overview of Industry Status and Future Growth". World Congress Geothermal (Kyushu: Geothermal Division Pertamina, 2000).

But when the economic crisis 1997 hit Indonesia and led the GoI to issue the PD no. 5/1998, this decree resulted in significant delays to geothermal projects. Up to the year of 2000 no significant development in geothermal activities for new geothermal fields (Mansoer & Idral, 2015). The crisis has welcomed the involvement of the International Monetary Fund (IMF), the World Bank and the Asian Development Bank (ADB) to offer lendings with conditionalities. As the tangible result was the Road Act as part of a broad campaign of statutory liberalization in vital sectors that those donors demanded in exchange for loans. The other resulting laws included those focusing on telecommunications, oil and gas, electricity, water, forests, and railways. All in all, these statutes were intended to signal policy continuity and credible commitment to market-based competition and as the new era of fully liberalization (Davidson 2015).

Though Indonesia has widely opened the doors for all private sectors both local and international but it is not interesting enough for them to come and invest to Indonesia without macroeconomics stability, policy certainty and friendly business regulation. Therefore, the World Bank has done a wide-ranging policy dialogue with the GoI focusing on improving the climate for high quality investment and addressing the core issue of governance. This focus reflected in the new Country Assistance Strategy (CAS) of October 2003 (IMF 2004). As for the geothermal development, a part of the economic reforms suggested by the IMF and the World Bank mandated the GoI to reduce its dependence on the oil sector, expanding the role of the private sector, and encouraging the creation of a competitive non-oil (Jupesta, 2010).

In terms of Indonesia's external debts, Yudhoyono declared that Indonesia has paid all Indonesia's IMF loans in 2006 or four years before the due. But it does not mean

However in 1985, Indonesia maintained a liberal regime for capital outflows by resident individuals and juridical entities, while prohibiting lending abroad by banks and financial institution. Selective control applied to capital inflows and direct investment inflows were limited by domestic ownership requirements. Furthermore the purchase of equity by foreign investors in the local stock market was prohibited, and limits were imposed on foreign borrowings. Trade policy remained substantially protectionist. See R. Barry Johnston et al., "Sequencing Capital Account Liberalization: Lessons from the Experiences in Chile, Indonesia, Korea and Thailand". (IMF Working Paper, 1997)

that Indonesia becomes a nation free of foreign-debt because World Bank came to replace IMF. Indonesia's foreign debts exist since Soekarno administration (Armenia, 2015). In regards to the Indonesia's geothermal development, the World Bank approved its ever Development Policy Loan (DPL) dedicated to climate change mitigation and adaptation in Indonesia. The US\$ 200 million "Climate Change Development Policy Loans" is designed to support the Indonesian government in its efforts to adopt a lower carbon, more climate-resilient growth path (World Bank 2010). Aside of Climate Change DPL, the World Bank also proposed another development policy loan to support continued progress in Indonesia's policy reforms during the transition between administration and from stabilization to development. The loans support the Government's public policy statements and agenda in key economic areas with a specific focus on maintaining macroeconomic stability, enhancing the investment climate, and improving public financial management and anti-corruption (World Bank 2004). More to add, Pertamina Geothermal Energy (PGE) has indicated their interest in securing the maximum possible loan to finance the project, while the GoI has tentatively agreed by signing a memorandum of understanding with the World Bank for a loan up to US\$500 million under the project name "Geothermal Clean Energy Investment Project" (World Bank, 2009).

Coupled with external pressures, Indonesia revealed that due to the limitation of financial resources and technology as well as the lack of human capital has caused the GoI relies heavily on the private sector participation through large investments. Clearly it has been shown from the Yudhoyono's commitment in the Bali Declaration – the World Geothermal Congress 2010 which indicated that Indonesia agreed to support large investments on geothermal projects as well as accept the major role of international funding agencies, remove and reform the legislative and administrative barriers, create a favorable political climate, and establish the policies to facilitate accessing all of sources (Suryadarma and Wirakusumah, 2015).

Therefore, to flesh out the national energy security and climate change agenda, the GoI who holds a vital role in making the policy and regulations and has to ensure it works best for the nation prosperity, yet at the same time enhancing the international

relations, has changed the relevant political and structural in governing energy. For instance, the establishment of Indonesian Geothermal Special Forces/Pansus Panas Bumi on 2013 to draft the new Indonesian Law of Geothermal, and the commitment to make a competitive business climate as a top priority which is clearly stated in the Government of Indonesia's medium term development plan for 2009-2014 (BAPPENAS, 2005). The World Bank also helped on the Masterplan for Acceleration and Expansion of Indonesia's Economic Development (MP3EI). Regarding the regulations, the Indonesian government aims to amend or remove regulations that inhibit the implementation of investments (Buletin Parlementaria 2013; Basri et al. 2014).

Now the stakes are very high. With the rising of neoliberal regime of development in Indonesia, the author agrees with many scholars viewing that Indonesian economy is on the hand of international structural power. In the context of geothermal liberalization in Indonesia, the new geothermal Indonesian law no. 21/2014 strongly indicates the norms of liberalization at some points. First, the article number 22 says the government sets out the geothermal pricing policy. The truth is the World Bank has helped to set it out prior the law issued under the approval of Indonesian Parliaments.³ Second, the article number 46 about the reduction of investment barriers. Third, the article number 55 which confirms that the GoI will provide for non-fiscal and fiscal incentives to boost the development of Indonesian geothermal. Obviously those are the norms of economic neoliberal globalization where the movement of good, people and capital are cross-border, the state gradually cuts down the trade barriers and the role of state has been hijacked (Friedman 2007, Fischer 2012).

Then again all the changes of policies above seen as a tangible expression of the type of regulatory capitalism by many scholars. One of the scholars, Hikmahanto Juwono argued that Yudhoyono's foreign policy "A Million Friends Zero Enemy"

³ Djajang Sukarno from the Directorate General of Renewable Energy and Conservation Energy gave an official statement that in accordance with the regulation of feed-in tariff, the World Bank has helped to set up the pricing policy. (2012) in a "Pemerintah Akan Berlakukan Feed In Tariff"

perceived as all nations are friends until Indonesia's sovereignty is degraded and national interest is jeopardized. People presumed that Yudhoyono has overly guided Indonesia to open economic and international prominence as demanded by developed countries (Ichsanudin, 2014). However, worth to note the confessions of Perkins (2004) and Simpson (2008) who stated that the United States had consistent aims to draw on Indonesia whenever they desire to satisfy American political, economic and military needs by establishing modus vivendi through extensive economic aids.⁴

In addition to get in depth analysis of case investigation, it is important to see the motivation of the international integration. There are two significant arguments to explain the background of international and global interventions. First, Indonesia's geothermal potential is huge and can contribute to energy access in off-grid areas.⁵ Currently Indonesia is the world's third largest geothermal electricity producer with installed production capacity of 1,345.3 MWe out of 29,000 MWe (Nenny Saptadji 2008 and Mansoer et al. 2015). It means that only 4.6% has been developed in the past 30 years since the Kamojang was launched as the first geothermal power plant in Indonesia (Mujiyanto et al. 2013). Thus, the energy sector is important to the Indonesian economy not only to serve more than 250 million Indonesian populations, but also as a share of trade for which energy represents the largest export and the second largest import by value. There remains a lot of potential trade and investment in Indonesia's energy sector. Second, Indonesia as the third biggest geothermal resource in the world in which empirically geothermal energy is

⁴ Perkins and Simpson have witnessed based on their experiences as the Economic Hit Man, a concept set by the US to cheat countries around the globe through capital flows both aid and loans in order to control the poorer countries economically, politically and militarily. Indonesia was the first victim for them when they were assigned in 1971. See John Perkins, "The Confession of Economic Hit Man". (San Francisco: Berret – Koehler Publisher Inc, 2004) and Bradley Simpson,"Economist with Guns:Authoritarian Development US – Indonesia Relations, 1960 – 1968". (California: Standford University Press, 2008)

⁵ Indonesia lies between the Ring of Fire, a major area in the basin of Pacific ocean. The characteristics of this position enables for a direct interaction with three plate tectonics; Pacific, India - Australia, and Euroasia. Accordingly Indonesia geothermal resources is the third largest in the world. See video *Lingkar Diskusi Indonesia* series 2 dated 9 November 2012 with the theme,"Indonesia Geothermal Energy Potentials". This video uploaded into Youtube on 11 November 2012 by Indonesian Student Forum Discussion in New Zealand. Accessed on 6 October 2016.

indigenous, sustainable and environmentally responsible to counteracting global warming by displacing carbon-intensive energy usage will play major role to combat climate change global issue (Darma et al. 2010).

To sum up, this background provides information about the dynamics of regulatory change particularly on the process of governing Indonesia's geothermal, which is the combination of highly diverse forms of political domination and various foms of capitalism. In short, for good or bad, Indonesia was being dragged into the era of fully liberalization which could potentialy put Indonesia in the foreign direct investment dependancy condition.

1.2 Research Questions

Based on the facts and arguments presented in the background section, this research asks, under the political economic context, two questions. First, how was the interrelations between the World Bank and the Yudhoyono government in making the liberal geothermal regulatory framework? Second, what was the reason behind the making of the liberal geothermal framework to some extent?

1.3 Research Objective

This research aims to analyze the role of the World Bank in influencing the Indonesia's political economy particularly on the Indonesian government's rule making with reference to the liberalization of geothermal development. Broadly speaking, the areas of development are exploration and exploitation to which the GoI sets up the regulation. More to add, this research employs political economic theories to investigate the case.

1.4 Literature Reviews

In regards to the field of this research to analyze factors which have influenced the Indonesian government in the rule making related to the liberalization of geothermal, the author found there have been a small amount of previous academic research focused on this field. Thus to determine the significance of this research, the author outlines the major relevant themes begin with the most general aspects and gradually narrow it by putting them each in three “C” classifications: (1) Critics toward neo-liberal globalism, (2) Correlation between foreign debt and weak governance, (3) Cross country evidence of geothermal development.

1.4.1 Critics Toward Neoliberal Globalism

Neoliberal globalism is variously known as Structural Adjustment Programmes, the Washington Consensus, the Wall Street–Treasury Complex, Liberal Productivism and the New World Order. Plenty of empirical studies have shown the main impacts of neoliberal globalism have negatively affected the periphery and semi-periphery classes of countries. Because in reality, globalization is a political project whose proponents are seeking a wider form of economic and ecological recolonization.

An evidence of the negative impact of neoliberal globalism has been explored by Otero (2004) by capturing what happened in Mexico with the specific case of food dependency of peripheral countries on developed nations, along with the intervention of suprastate organizations such as the IMF and the World Bank. Highlighting the shifting condition of food security in Mexico in which previously Mexico was a food exporter but then became a food importer. The disaster began when the farmers have always been poor due to their inability to compete. The neoliberal planners then offered a set of ideas on freeing agriculture and administering a streamlined rural sector. They alleged that ex-farmers would find work in industry, commerce and other services, for which they predicted an annual growth of between 6 % and 7% in the 1980s and 1990s. Yet the neoliberal planners couldn't live up their promises as during the tunnel years the Mexican economy did not grow and the

expelled country people wound up in urban marginality, swelling the useless informal sector, and risked undocumented migration.

Knowing this fact, the author could't more agree with the dependence theory saying that the advanced industrialized countries do not necessarily lead to the poorer countries' economic growth because simply region to region is different. Back to Mexican, there was also a pressure on the politics of pricing to eliminate the Mexican own agricultural support programmes which being used as a new colonial weapon to ruin farmers in Mexico. On the other hand, they suggested the huge increase in subsidies to US agriculture under the new Farm Bill and the tariff elimination of January 2003 under NAFTA. In this case, elimination of tariffs means the possible loss of thousands of jobs in the pork and honey industries. Thus, due to the perversity of neoliberal conversion, food sovereignty has been lost. Generally speaking it seems like the IFIs' influences on the pricing policy, trade barriers removal and attractive subsidy for investor are common practices as they did to Indonesian geothermal.

Likewise, Springer (2010) also found the negative impact of neoliberal in Cambodia. Due to economic crises, private firms have plundered Cambodia's forests along with numerous public assets. This situation of privatization has served the wealth and privilege of the elite to simultaneously placing even more pressure on the limited economic means of the poor. The underprivileged were forced to purchase goods they were previously able to collect from communally held forests, and they even have to pay for services that were formerly provided for free. For instance, there have been extensive cuts to public health care and education. Moreover, civil service downsizing and salary slashing have resulted the high levels of unemployment and pervasive rent seeking. Additionally, footloose capital has caused numerous factory closures, which has translated into severe job insecurity as well as the cost of living has risen significantly due to the International Financial Institutions' (IFI) economic policies that promote inflation and currency devaluation.

By the same token, Veltmeyer (2000) revealed about the dynamics social change in Latin America caused by neoliberal's engagements. He mentioned that from 1965 to 1980 Latin America experienced rate of growth above the world average which was close to 6% per annum. But this growth was actually by virtue of its dependency on external financing which had affected a high economic cost manifest in conditions of a debt and finally reached crisis proportions in 1982 (from US\$28 billion in the 1970s to US\$239 billion). In the context of this crisis, the political regimes and the economies in the region were subjected to a neoliberal programme of stabilization and structural adjustment measures.

The impact of the structural adjustment programmes had affected a wide range of aspects. For instance, the impact towards Latin American working class which was argued that labor was the primary mechanism of internal adjustment to the globalization process and the construction of a New Economic Order. In regards with the ruling working class, as many scholars believe that the politics of this adjustment was examined in terms of a strategy to make labor becomes more flexible so that more amenable to the dictates of capital.

Another negative impact towards a related strategy to decentralise government decision-making as the institutional basis of a community-based form of participatory development. However evidences have shown that decentralization was an initiative 'from above' rather than 'from below' and responds to a political agenda pursued by the economically dominant and political classes. Veltmeyer further argued that the political dynamics of change, with particular reference to the electoral process has a strong favours of the deepening of neoliberal policies and clearly not in the side of underprivileged people.

Lastly, Juhazs (2008) addressed about the real capital of monopoly who is able to run the world. Juhazs's research found out that the "Seven Sisters" which comprises of Standard Oil of New Jersey (Exxon), Standard Oil of New York (Mobil), and Standard Oil of California (Chevron), joined with Gulf, Texaco, BP and Shell, they have formed a cartel and owned the vast majority of the world's oil as well as

controlled the economic fate of entire nations. The main takeaways from this research are oil companies hold an unparalleled influence over the government, not appropriately regulated and missrepresenting the truth about the causes of high gasoline prices.

Theoretically, most compelling evidence shows that a lot of phenomenon happened because of disparities which have arisen within the World – System, has led the opinion that equal exchange is a non – sense. And through the literatures above, the author comes to the argument that is not easy to place our trust on the global agencies and international donors. In regards to this research, all the studies above are different with the context of this research though definitely enrich with valuable insights. The institutional context of regulation in this research will describe the locus where regulations of Indonesian geothermal are drafted based on the International intervention.

1.4.2 Correlation Between Foreign Debt And Weak Governance

Economic crisis which hit developing or underdeveloped countries is like the main gate for the International Financial Institutions to intervene and infuse their norms. More to add, since the late 1980s, the terms ‘governance’ and ‘good governance’ have increasingly became part of the development discourse which can lead to the one of pervasive web control economically and politically by offering financial aids both grant or loan.

Arruda (1999) stated that Brazil owes nearly US\$230 billion to private banks, governments and multilateral agencies such as the World Bank and the Inter-American Development Bank. Today, every Brazilian child born already owes around US\$ 1,400 and it will go on paying eternally because this is a debt that grows the more it is paid. This condition happened due to their fear of the insolvency of the government led by Cardoso after the wave of capital flights where investors were withdrawing the money they have invested in Brazil. In order to avert insolvency, the Cardoso government opted to resort to the IMF to accept its funds

and demands that might be one of the harshest foreign loan agreements in Brazil's history. In this way, Brazil was becoming more and more indebted in order to pay off previous debts, instead of building on its own resources and applying them to economic development and social and environmental programmes. Clearly that debt keeps Third World countries under control in order to preserve their access to Third World's resources and markets.

Another relevant literature written by Harrigan and El-Said (2009) who explored two aspects of policy-based lending to the Middle East and North Africa (MENA) region. Firstly the financial flows from the IMF and the World Bank and secondly the economic reforms attached to such flows. The burden of debt in MENA was due to the poor performance of Arab economies including poor economic management and corruption over the same period.

Harrigan and El-Said strongly believed that the geopolitical motivation for the flow of funds was backed by strong economic interest. For example, globalisation of the region in the form of many of the Free Trade Agreements represents an important instrument to facilitate globalisation by locking in reform measures demanded by the IMF, World Bank and the World Trade Organization (WTO). However, as for MENA, reforms associated with external borrowing on unfavourable terms had induced a ballooning in foreign debt. The negative impact can be seen from the collapse of oil and gas prices in 1986 followed by a large devaluation in 1988 which contributed to escalating inflation and unemployment which triggered strikes, riots and growing domestic opposition to the regime.

Given these points, development over borrowing is utopian, despite the fact that business of international development continues with a view to reshaping the world in accordance to the common logic of the liberated market. To strengthen this opinion, Smith (2008) researched on what happened in Kenya when President Moi in the early 1980s began taking structural adjustment loans which all of the loans were tied to conditionalities. By 1992, annual debt repayments were equivalent to 40 % of export earnings. And after the fall of the Soviet Union in 1989, aid

throughout Africa was increasingly linked to “good governance” and democratic reform. It leads to the most of Kenyan development plans which were fictive and even the debt money went to Kenyan corrupt government. But the IFIs and donor countries didn’t really bother its creation has disappeared to corrupt governments. They didn’t care no matter to whom and no matter what the result.

More to add, a terrific yet controversial autobiographical book written by Perkins (2004) enriched the foreign debt discourse. His job as an economist was actually to convince leaders of underdeveloped countries such as Indonesia and Ecuador to accept substantial development loans from institutions like the World Bank and United State Agency for International Development (USAID) for large construction and engineering projects that would primarily help the corporatocracy rather than the poor. He was also making sure that these projects were contracted to U.S. companies and in the end these loans would give the U.S. political influence and access to natural resources for U.S. companies. Taken as a whole, the literatures above are very relevant with what this research aims to examine. The creation of development loans is basically to support the neoliberal agendas to preserve and secure their access of resources and markets.

1.4.3 Cross Country Evidence of Geothermal Development

Geothermal heat as a source of electric power has gained increasing attention world-wide as a sustainable and clean energy including benefits for energy efficiency and energy conservation. Practical experiences in some countries below will enrich our insights and at the same time will show that geothermal development research taken from the international political economy’s perspective is yet to be done.

Green and Steinberger (1976) did a social science study about geothermal development in Imperial Valley, California by capturing some issues regarding regulatory policy, political participation, and social implications of geothermal resource development. They found that government officials have created a complex array of Federal, state and country regulations to monitor the development.

More to add, land acquisition and resources exploration became another problems. In conclusion, Green and Steinberger suggested that in the management of natural resources, it is the obligation of government to protect the interests of various publics who own or are affected by the use of these resources and to see the general welfare of the local people is not abused by private interests. With this being said, the author argues that this recommendation will be hardly to happen in Indonesia where 95% shares of geothermal development can be owned by foreign investors while local only owns the rest that is 5% of shares. In addition, according to Government Regulations no. 39/2014, foreign investors may own 100% shares for power plant investment (Wahyuni, 2014).

Then Mizuno (2013) did a research about geothermal development in New Zealand to get a better understanding on how New Zealand has overcome some of its barriers to geothermal power development which can benefit government policymakers and developers. Mizuno was interested with New Zealand's geothermal because New Zealand is blessed with geothermal resources, has started the geothermal power generation very early and has undergone various environmental problems such as land subsidence and the disappearance of geysers as well as institutional problems. As for the institutional framework formation and adjustment efforts over the years, New Zealand has reduced the uncertainties related to the development permit process and created a business-friendly environment. Supported by New Zealand's target to meet 90% of electricity generation from renewables by 2025 has made the cost competitiveness of geothermal is very strong which pushes the trend of renewable energy.

The key point taken from Mizuno's research when we compare between New Zealand geothermal development and Indonesian is the level of government commitment and the availability of technology. New Zealand government consistently commit to support the geothermal development all the way and hand in hand with any relevant parties including the banks. Therefore, New Zealand is not demanding on foreign direct investment to govern its geothermal resources (Mizuno, 2013). Whilst the GoI was a bit late in putting attention on renewables

particularly on geothermal even though the first development started since 1972. To date, Indonesian banks not willing to support financing the geothermal development due to its high risk exploration.

1.4.4 Research Gap

Extensive literatures have been reviewed in exposing the international intervention in governing geothermal as domestic sector but the author didn't find any satisfied result albeit numerous literature have similar shade of angle and perspectives.

This research focuses on the international factors to explain why the external actors have consistently exercised considerable influency over rule making in Indonesia. First, the fact that Indonesian economy has been undergoing intense intervention from external actors such as global agencies, multinational companies, non-governmental organisations, as well as from education elements. The aim of this integration to lead Indonesian economy into global marketplace and world economy. Second, the trade and capital market liberalization are actually two key components of a broader policy framework, known as the Washington Consensus. This consensus forged between the International Monetary Fund, the World Bank and the U.S. Treasury to constitute the set of policies that they think would be best to promote development. Moreover, the author is keen to take the challenge given by Pia Riggirozzi (2009), an associate professor in global politics at the University of Southampton, who says this way,

“The fields of International Relations and International Political Economy have, in general, given insufficient attention to the policy processes that underlie policy reforms and outcomes in developing countries, and hence the divide between the international and the national arenas”.

1.5 Theoretical Framework

The theoretical framework is developed to understand why a state's domestic regulation can be liberalized by the World Bank. The world-system theory, essentially capitalist in nature, makes possible a comprehensive understanding of

the external and internal manifestations of the liberalization process during the period. In addition, as the variables of weak governance and debt burden play major roles in the investigation, they are essential concepts to define within the theoretical framework. Throughout the history of global governance, the global policy arena is filled with a wide variety of actors such as international organizations, corporations, professional associations, advocacy groups and the other elements who like seeking to govern activity in any issues or areas they care about. They act like active agents who want new structures and rules to solve problems, change outcomes and transform international life. To gain an even better sense of what might be influencing the domestic political economy, the following conceptual and theoretical arguments would be elaborated into more details.

1.5.1 World-System Theory

The World-System theory⁶ is used to construct the research mechanism. In this theory, the level of nation-state is classified into three levels hierarchy which are Core (Developed Countries), Semi-Periphery (Developing Countries) and Periphery (Third World Countries). Core Countries are dominant capitalist countries that exploit peripheral countries for labor and raw materials. On the other hand, Peripheral Countries are dependent on core countries due to lack of capital and have underdeveloped industry. Semi-Peripheral countries share characteristics of both core and peripheral countries. For the most part, Core Countries focus on higher skills and capital-intensive production. The rest of world focuses on low-skill labour-intensive production and extraction of raw materials. The Core Countries constantly reinforce its dominance towards the rest of the world (Wallerstein, 2000).

Historically the world-systems theory was significantly influenced by the dependence theory that was built under the fact that the advanced industrialized

⁶ The World – System theory is found by Immanuel Wallerstein. Its emphasis are on the world-systems rather on the nation-state and on the distinction of one another such as history, economics, political science and sociology. See Immanuel Wallerstein , “World System Analysis,” (Durham: Duke University Press, 2006)

countries did not necessarily lead to the poorer countries' economic growth (Ferraro, 2008). With attention to Mattli (1999) who argues that the importance of intraregional interdependence and interregional dependence differ from region to region. The developed and industrialized regions in northern hemisphere will gain more positive impacts from intraregional interdependence. Whereas less developed regions of the southern hemisphere are likely to be more dependent on economic relationship with other world regions. This is simply due to the fact that the low level of economy and underdeveloped production structure remain a huge obstacle for intraregional trade. Thus, the South are very dependent on the development aid as well as trade and foreign direct investment.

Immanuel Wallerstein is the best-known analysis of the world system. He revealed that the rise of capitalism began when Europe as the West used its advantages and gained control over most of the world economy. They presided over the development and spread the industrialization. It was a time when a world-economy rooted in a capitalist economy and indirectly resulting in unequal development (Wallerstein, 1974). Throughout his analysis, Wallerstein draws how the world-system theory works. Strong states in core areas, those that are militarily relatively strong to others and not dependent on any group within the state, they serve the interest of economically powerful classes. Furthermore, they also absorb economic losses and help to maintain the dependence of peripheral areas. In this system, semi peripheral areas are a necessary structural element because they partially deflect the political pressures, which groups primarily located in peripheral areas might otherwise direct against core-states, thus preventing unified opposition. However, shared ideology solidifies the commitment of ruling groups to the system. They must believe the system's myths that their own well-being is wrapped up in the survival of the system as such. Lower strata countries tend to become incorporated into the nationally unified cultures created by ruling groups. It is such of an ideology of liberalism that has been the global geoculture since the mid-nineteenth century (Wallerstein, 1998).

The capitalist world economy, as envisioned by Wallerstein, is a dynamic system which changes over time. However, certain basic features remain in place. This is because the world system's key feature where the capitalist world-economy has no single political centre. It can flourish precisely because its bounds of a multiplicity of political system has given capitalist a freedom of structurally based - manoeuvre and it makes possible the constant expansion of the world-system (Lechner, 2001). Shift in dominance from one power to another caused by advances in productivity, the fragility of monopoly, and success in war. Periods of clear leadership alternate with struggle in the core areas can be seen when Netherlands was a hegemon in the mid-seventeenth century, the UK in the mid-nineteenth, and the US in the mid-twentieth (Wallerstein, 1995).

1.5.2 Weak Governance

The origin word of governance derives from the ancient Greek, *kubernân*, refers to the steering a ship or cart, but Plato already used it in a metaphorical way to refer to the steering of human beings (Barata, 2002). Bevir (2013) defines the word of governance as all manners of entities that refer to the actions and processes by which stable practices and organizations arise and persist. A variety of entities can govern but the most formal governing body is a government that whose sole responsibility and authority to make bindings decisions in a given geopolitical system by establishing laws. Thus, the World Bank (1991) defines governance as the manner in which power is exercised in the management of a country's economic and social resources for development. The definitions and term may vary, but from the point of view of developing countries, especially in Africa, Asia, and South America, it clearly connotes as a set of recipes concerning structural adjustment and constraints imposed by Western institutions with its values (Hufty, 2013).

From the concepts of governance, then it is developed into an analytical tool for the social and development sciences that does not fall prey to ideological connotations which is called by Governance Analytical Framework (GAF). It is a practical methodology for investigating governance processes, where various stakeholders

interact and make decisions regarding collective issues by creating or reinforcing social norms and institutions. Hufty (2011) proposes the methodology of GAF based on five main analytical units such as problems, actors, norms, processes and nodal points. However, there are three factors which are gradually come to modify the vision. First, the actors present on the international scene diversified in nature and multiplied in number, for instance, multinational companies, unions, intergovernmental and non-governmental organizations. It makes the traditional frontiers between domestic and international politics become increasingly blurred. Second, multilateral agreements and regional integration have increased over the years and rendered international life more complex. Third, globalization has led to the increasing of political homogenization, trade liberalization, and macroeconomic coordination between actors at all levels, in analogy with corporate governance (Krasner 1982, Young 2002, Hufty 2011).

Throwing back in the early 1990s, the World Bank adopted the concept of governance started when the Bank explained the failed implementation of the development agenda in sub-Saharan Africa in which the Bank identified the absence of recipient government's commitment to reform and labelled it as a problem of governance (World Bank, 1992). In a broader sense, the Bank recognizes the weak governance through several key symptoms such as (1) failure to make clear separation between what is public and what is private. Hence, a tendency to make a direct public resources for private gain; (2) failure to establish a predictable framework of law and government behavior conducive to development, or arbitrariness in the application of rules and laws; (3) the existence of excessive rules, regulations, licensing requirements which impede the functioning of market and encourage rent-seeking; (4) priorities inconsistence with development, resulting in misallocation of resources; (5) excessively narrowly-based, or non-transparent decision making. Those problems occur due to lack of capacity or violation, for instance, pervasive corruption. In addition, lack of an educated and trained manpower as well as weak institutions can substantially reduce the capacity of countries to provide sound development management (World Bank, 1991).

However, it soon lost its analytical function and instead became a tool for political transformation, with profound consequences. Regardless the limited effectiveness of its structural adjustment programs, there is a fundamental reason questioning for its role in development aid in which the World Bank had come under pressure to intensify its interventions and extend them to political and institutional aspects in borrowing countries. (Santiso, 2001).

1.5.3 The Burden of Debt

Government debt is the debt owed by central government in which government creates debt by issuing securities, government bonds and bills, or borrow directly from an organization such as the IMF or the World Bank or international financial institutions. These bodies are happily to lend to a national government that the country owns sovereign currency because generally it is considered risk-free since the debt and interest can be paid by raising tax receipts either by economic growth or raising tax revenue, a reduction in spending, or by creating more money (Rubin, 1997). Henceforth, government debt can be classified into external debt or foreign debt and internal debt. External debt is the total debt of a country owes to foreign creditors, while internal debt owed to domestic lenders.

External debt can be a real debt burden because it may cause a depreciation in the exchange rate and hence a worsening of the terms of trade, for instance imports be more expensive. In addition, high public debt may cause higher taxes, which distort work incentives. With these points, economists define the debt burden for a country as the cost of servicing the public debt (Pettinger, 2012).

The national debt relates to intergenerational equity because future generations will shoulder the consequences. Theoretically, a country will impose huge debt burdens on our children due to a simple reason that at one point we will all be dead and the ownership of our debt will be passed on to our children (Baker, 2011). As for the consequences, there are several factors to consider. First, for every dollar of debt held by public, there is a government obligation counted as an asset by investors.

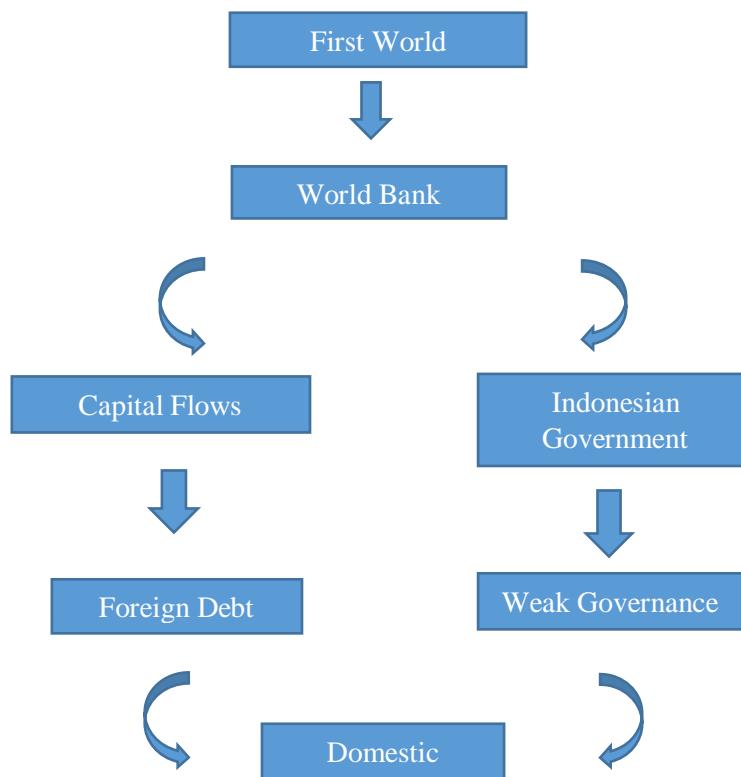
Future generations benefit to the extent these assets are passed on to them. Unfortunately, the fact showed that as of 2010, approximately 72% of the financial assets were held by the 5% wealthiest of the population. It means that only a fraction of the people in the future generations will receive principal or interest from investment related to the debt incurred today. Therefore, it will pose an increasing of inequality. (Krugman, 2009). Second, higher debt levels imply higher interest payments, which create costs for future taxpayers, for instance higher taxes can imply to a lower government benefits, higher inflation, or increased risk of fiscal crisis (Huntley, 2010). Third, for every dollar of intergovernmental debt, there is an obligation for specific program recipients, generally non-marketable securities. Adjustments that reduce future deficits in these programs may also apply costs to future generations via higher taxes or lower program spending (Krugman, 2009).

The dynamics of power and rule setting in the International Political Economy have been largely explained by the capacity of the World Bank to lead the process of liberalization and globalization in developing countries (Stiglitz 2003; Jacobi 2009; Finnemore 2010). The main engagement of the World Bank is through capital flows given to underdeveloped countries via loans and other financing in which first world countries have been the biggest supporters. The hidden objectives behind the capital flows is to control the third world economies. Though the World Bank is no longer forcing structural adjustment loans on third world countries because by the late 1990s the loans had labelled a bad name due to their dirty agenda which were not really helping countries to move out of poverty, but the World Bank's new language "Poverty Reduction Strategy Programs" is essentially the same (Stiglitz, 2002).

In brief, the importance of capital flows for the first world countries as the one of pervasive web control economically and politically that sustain today's global empire. The third world countries could be lured to take on debt to build grandiose projects that promise modernization and prosperity, yet at the end, the flow of money will be back to the first world countries through various ways such as rigged

bids, flight capital, kickbacked deposited in offshore accounts, manipulated commodities markets, arm contract or even money laundering (Hiatt 2007).

Given these points, the below scheme helps to explain the linkages between the foreign debt and weak governance in the way to intervene the state's domestic regulation.



With this being said, we come to understand that there are two fundamental factors, the burden of debt and weak governance, that have widely opened the doors for external actors to intervene the state's domestic political economy including in drafting domestic regulation. Weak governance which consists of untenable politics, incompetence and corruption are subject to the international intervention towards domestic political economy. Foreign loans used as a means of strategic plan.

1.6 Argument

This thesis makes two interrelated arguments. First, Indonesia has been getting very dependant on foreign direct investments to develop geothermal renewable energy resources. It is because of lack of human capital, technology and financial resources. In doing so, the Yudhoyono administration has liberalized the Indonesian geothermal. Second, this condition was pushed by external actors who captured the promising opportunities in geothermal development. In this case, The World Bank cemented its influence through capital flows/loans to intervene effectively. This could happen by exposing the need for foreign aid along with the liberal agenda of good economic governance. Hence, the World Bank was able to instill its influence in geothermal rule making as clearly seen in the new law of Indonesian geothermal, UU no. 21 year 2014. In short, the World Bank has offered its foreign loans to Indonesia that was lack of human capital, technology, and financial resources to develop and utilize the Indonesian geothermal. This kind of foreign loans come with certain conditionality of policy and regulations making to promote open economic and liberalisation agenda.

1.7 Research Scope

The research is conducted through over observations of what happened on the regulation of Indonesian geothermal during the Yudhoyono administration from 2004 to 2014, how it could happen, who have intervened, what the motive was and how this actor have intervened. Important to note that this research would not be analyzing the effectiveness Indonesian geothermal liberalization. The limitations of this research are focus on two variables which are the World Bank's loans and the weakness of governance. Thus, the scope would be gathering information and data from such a framework applied to relations between international actors and governments as well as interstate relations. Therefore, information collected from beyond would be irrelevant.

1.8 Method of Data Collection

In this research, interview is considered the most appropriate method of data collection from the primary resources as they provide the first-hand insights from individuals working or studying in the area of the World Bank – Indonesia relations. In addition, the secondary data is necessary to examine the relevant policies and regulation in which the sense of liberalization strongly occurred. This data will be obtained from academic and official literatures.

The author has interviewed the following respected people by dividing into two groups of open-ended interviews to get comprehensive perspectives. The first group is from international side. The second group is from domestic side.

Group 1: International Side

1. Ndiame Diop (Lead Economist for Indonesia, the World Bank)
2. Holly Bailie (Director of Climate Change Unit, British Embassy Jakarta)
3. J. Scott Younger (International Chancellor of the President University; Director of Clean Coal Technologies Inc; President Director of Glendale Partners)
4. Gailius Draugelis (Lead Energy Specialist, the World Bank)
5. Bryan Holford (Institutional Reform Adviser, AIPEG)
6. Rizka Sari (Climate Change Advisor, British Embassy Jakarta)
7. Ibnu Edi Wiyono (Economist, The World Bank)
8. Nofa Farida (Prosperity Fund Manager, British Embassy Jakarta)

Group 2: Domestic Side

1. Robby Aulia Fadila (Former Expert Staff, Indonesian Parliament)
2. Ernawati Munadi (Former Technical Adviser of the World Bank)
3. Saleh Abdurrahman (Head of Energy Crisis Mitigation, National Energy Council)
4. Siti Mariani (Primary Energy Analyst, National Energy Council)
5. Juanto (Commission Eradication Corruption)

6. Yunus Saefulhak (Director of Geothermal, Directorate General of New, Renewable Energy and Energy Conservation)
7. Roni Chandra Harahap (Section Head for Geothermal Planning)
8. Ali Mundakir (Vice President Corporate Communication at Pertamina)

1.9 Research Type

This is explanatory research which explains the World Bank's norm diffusion and intervention towards the Indonesian geothermal liberalization under the Yudhoyono administration.

1.10 Structure of Discussion Chapters

The thesis statement is developed into the following discussion chapters.

- | | |
|-----------|---|
| Chapter 2 | Presents a descriptive picture of Indonesia's geothermal industry under the Yudhoyono government, focusing on its weaknesses in terms of human capital, technology, and financial resources. Beside the weaknesses, the chapter shows what the Indonesian geothermal needs from abroad, such as loans, aid, technical assistance and foreign direct investment. |
| Chapter 3 | Explains how the World Bank instilled its influence on Indonesia's geothermal industry through the liberal agendas; engagement with politicians, government officials, and parliamentarians |
| Chapter 4 | Analyzes the causal relationships between liberal agendas, the need for foreign aid and weak governance which caused the decision of Yudhoyono government to liberalize Indonesia's geothermal industry |
| Chapter 5 | Conclusion which confirms the thesis arguments and summarizes important findings supporting the arguments. It also provides recommendation for future research in the field. |

CHAPTER 2

INDONESIA'S POLITICAL ECONOMY AND THE WORLD BANK INTERVENTIONS: NEO-LIBERAL ADJUSTMENT OVER INDONESIA'S GEOTHERMAL DEVELOPMENT

This chapter focuses on the descriptive picture of geothermal development in Indonesia under the Yudhoyono administration. Indonesia which is known as “The Ring of Fire”, that starting from the northern tip of Sumatra and passing through Java, Bali, Nusa Tenggara, Sulawesi and Moluccas island associated with 500 volcanic cones and more than 129 active volcanoes has made Indonesia blessed with an abundant natural resources including geothermal (Sun&Wind Energy, 2012). However, the development of Indonesia's geothermal is practically very slow. Therefore, this chapter examines on its weaknesses particularly in terms of financial resources, human capital, and political issues. Considering those weaknesses, this chapter shows what the Indonesian geothermal needs from abroad, such as loans, aid, technical assistance and foreign direct investment.

2.1 Geothermal, Energy Security and Climate Change Agenda

During 2004, oil prices reached levels unprecedented in recent years. There was a global concern about oil costs and oil security where the oil price was highly increased albeit world oil markets remain adequately supplied. This condition had pushed the world to look for ways on how to improve their capability to handle market volatility and possible supply disruptions in the future (Agency, 2005).

Indonesia also been impacted and suffered from the peak of oil prices because of the sustained economic growth as well as the growing population which have led to increasing demand for energy under the dependency of fossil fuels. The supply of fossil fuels was barely able to keep up with the increasing demand since its declining production as the consequence of unrenewable energy. As a result, Indonesia has faced the unfortunate situation of oil deficit. On 2004, Indonesia hit by a 5 million ton of oil deficit which kept growing until 2012 with the 27 million

ton of oil deficit. Indonesia has no option but to import both raw oil/crude or fine oil such as gasoline, diesel and kerosene (Nasir, 2014).

Moreover, Indonesia was bleeding financially to billions dollars of state revenues mainly for energy subsidies. In 2009, the energy subsidy forecast was IDR 91 trillion whilst in 2011 fuels subsidies accounted for 13% of expenditures and have made diesel and petrol prices among the lowest in the world (Younger, Dedication To Infrastructure, 2014). Under those circumstances, the World Bank and others have long urged Indonesia's government to squander less money on inefficient subsidies to be well spent on other vital sector of economy instead. And the GoI appeared to have agreed to cut in subsidies that would have led to a price rise of one-third. However, the president was accused to had been apparently deaf to the appeals of poor Indonesians who were suffer from higher fuel prices and, as a consequence, higher food prices too (Banyan, 2012).

Since that failure, few other initiatives have been issued from the presidential offices. For instance the program namely *Bantuan Tunai Langsung* or cash transfer which given at the first time on 2005 under the PD no. 12/2005, then on 2008 under the PD no.3/2008 and the last one on 2013. But investigations by International NGO Forum on International Development reported that the financial resources for this kind of program was from foreign loans, precisely from World Bank's loans and was designed as a policy driven for Indonesian macro economics (Meryani, 2009). The condition was getting worse because corruption as the most compelling evidence of the negative sides of cash transfer programs was widely reported (Didi, 2006).

In that case, the urgency of energy diversification is essential to move away from the use of fossil fuels as quickly as possible. It is actually not a hard thing for Indonesia that is blessed with abundant energy resources both renewables and non-renewables. Thus has a choice of approaches, although a given solution usually presents itself for specific situation. There is so much to do and a whole range of areas of energy supply to be explored further and developed, not just for the Java

heartland but for many communities across the country, so that while they are contributing to the growth of the nation, they are also benefiting themselves.

Therefore, the GoI has tried to map out its own potential energy resources, especially the renewable ones, and set out a master plan to maximise their use. The National Energy Blueprint 2005 – 2025 has targeted the share of renewable energies in the primary energy supply to grow from the current 4.3% to 17% in 2025 in which geothermal playing an increasingly important role. Followed by supporting PLN, the state-owned power company, in devising and implementing the 10,000 MW Fast Track program to meet Indonesia's growing demand and aim to achieve 86% electrification rate by end of 2016 (ESDM, 2006). To ensure a more environmentally sustainable development, the GoI launched a second 10,000 MW Fast Track program in late 2008 that is predominantly made up of renewable energy, with geothermal energy making up 40% of the target (Suryadarma and Wirakusumah, 2015).

Apart of energy security, the need to increase the power generation from the renewable energy resources is to tackling the climate change issue. Nowadays, climate change becomes the hottest topic and even such is the dominance of the anthropogenic global warming lobby that hundred of the world's leading scientists involved in climate research drafted a letter to the UN Secretary General at the time of the UN Climate Conference in Bali, December 2007. They expressed their concern that the UN Climate Conference was taking the world in entirely the wrong direction. Therefore, the UN agreed to focus on fighting climate change and encouraged global nations to take any actions to mitigate the threat of inevitable natural climate changes, whatever varied forms they make take (Shah, 2008).

As for Indonesia, recognizing that Indonesia ranks as the fourth worst emitter of greenhouse gases in which much of this relating to the deforestation issue, added with towns and cities as the major hot spots with the ongoing rapid urbanization, Indonesia committed to be a focal points for a majority of excessive CO₂ emissions. Improving the energy efficiency of major conurbations will make a considerable

impact towards curbing carbon emissions. Given this fact, Yudhoyono has made a strong commitment to reduce greenhouse gas (GHG) emissions by 26% by 2020, with additional 15% reduction contingent upon international support. The President announced his commitment to the reduction of emissions in Pittsburgh in September 2009 during a meeting of G20 states, and reaffirmed in Copenhagen during the Summit on Climate Change in December 2009. This commitment was incorporated in the National Action Plan to Reduce GHG Emissions (RAN-GRK) by focusing in five sectors; forestry and peatland, agriculture, energy and transportation, industry, and waste (Jupesta, 2010).

However, notable there are three constraints from external and internal circumstances on the application of Indonesia's response to climate change. Firstly, the lack of global commitment, particularly from United States (US) and China as the great power and the key actors in making this agenda success, plays the major constraints. Moreover, Indonesian economic and political power is weaker than US and China which could influence the way to pursue high point of diplomatic concession from the more powerful states. Secondly, the lack of synergy in domestic structures in which local governments do not always operate in synergy with the central government's conduct of policy due to the incompatibility between the control government's policy and the local government's interests. Thirdly, the social and cultural constraints. For instance, the resistency of local communities to accept the REDD programs (Reduction of Emissions from Deforestation and forest Degradation) (Wicaksana, 2015). All in all, an integrated and comprehensive strategic approach is mandatory in attempts to develop a more effective global order for climate change mitigation including a combined focus of actions in order to make successful.

In sum, geothermal development does a matter since the contribution of geothermal energy in climate change mitigation is very significant due to its characteristics which are global-wide distribution, indigenous resource, production independent of season, immune from weather effects and climate change impacts, effective for on and off grid developments and for provision of base-load power. In off-peak periods this base-load generation can also be used to recharge battery-powered vehicles,

helping to mitigate CO₂ emissions from fossil-fuelled transportation (Bromley et.al, 2010).

2.2 The Search For Help

The GoI recognized that geothermal energy development in Indonesia has grown very slowly though the demand cannot afford to wait. Despite having an estimated 29.000 MW of geothermal power potential, less than 5% of Indonesia's geothermal resources have been developed to generate electricity. The second Fast Track program is expected to achieve the target and expected to lead Indonesia to become the world leader in geothermal power generation capacity when the program is successfully implemented. However, the implementation generally remains elusive due to several issues, especially to develop independently. Thus, Indonesia was searching for help to cope with the three major concern which have inhibited the development and acceleration process.

First concern is related with human capital issue. The Ministry of Energy and Mineral Resources (MEMR) nicely quoted,

” Globalisasi yang sudah pasti di hadapi oleh bangsa Indonesia menuntut adanya daya persaingan dalam dunia usaha. Untuk mengatasi persaingan, Indonesia harus bisa memiliki sumber daya manusia yang berkualitas untuk mengolah sumber daya alam yang melimpah. Hal ini perlu dilakukan agar Indonesia mampu mengolah sumber daya alam tanpa campur tangan pihak asing” (ESDM Mag. 10, 2012).

In fact, according to the MEMR, Indonesia might be blessed with an abundant of natural resources, however Indonesia is lack of qualified manpower for which has caused the poor performance of natural resources management. In addition, it also mentioned that the incompetence in managing Indonesia's natural resources has led to further concern. With the low qualified of human resources, Indonesia is not able to maintain its environment properly.

As for geothermal development in Indonesia, since 1972 there were a large number of recognition of geothermal prospects in Indonesia, which was followed by the establishment of the first geothermal project, Kamojang, in the 1983 (Saptadji, 2010). This first geothermal project has received considerable attention in Indonesia

including from some earth scientists and engineers. They realized that to support geothermal development in the future, the basic foundation is through education. The first effort was from Institut Technology Bandung (ITB) by sending several junior staff to study geothermal technology in New Zealand. Simultaneously, starting from 1985 one or two courses about geothermal was included in the undergraduate program of studies of Geology, Geophysics, Mining and Petroleum Engineering. Later on, there are a few geothermal faculty for undergraduate and graduate study in Indonesia such as in ITB and Universitas Gajah Mada (UGM).

Moreover, the GoI and New Zealand as the expert on geothermal development signed an Memoranda of Understanding (MoU) on 17 April 2012 and followed by an MoU between Pertamina as the State-Owned Enterprises and Auckland Uniservices Limited, the University of Auckland, agreed to carry out the geothermal project in Indonesia that focus on Capacity Building and Post Graduate in geothermal sector (Antara, 2012). Even so, this was not enough for developing Indonesia's geothermal independently and to reach its ambitious target. The need of geothermal manpower was urgent, whilst up to 2012, Pertamina only has 17 geoscientists to handle all the projects in Indonesia in which there were eleven (11) geothermal fields in total. Ideally, one geothermal field needs 5 to 7 geoscientists (Hanif, 2012). Younger (2017) added from his perspective as the practitioner in geothermal industry in Indonesia by saying that throughout his experiences, many proposed projects countrywide have lacked or still insufficient knowledge or a skill base within local governments to implement identified projects within their particular jurisdictions. According to him, this is a recognized serious issue that needs speedy action and there is a need for practical educational support⁷.

Second concern is related with financial issue since geothermal development is all about high investment which means costly and risky. The recent estimates of Indonesia's geothermal is 29 GW, comprises of 12 GW Resources and 17 GW

⁷ Interview. Scott Younger. International Chancellor of the President University; Director of Clean Coal Technologies Inc; President Director of Glendale Partners. Jakarta, 1 February 2017.

Possible Reserves, with only 5% have been exploited and used⁸ (Fauzi, 2005). The slow growth of development is caused by the expensive of developing cost though once found, geothermal energy can be used to generate competitively priced electricity with a renewable source of fuel which is clean and environmentally friendly. On average, the development of a geothermal project requires approximately five and half years, longer than what is required for alternative renewable and conventional energy options. Furthermore, the costly developing is not only for the exploratory drilling but also to set up the adequate infrastructure including the land acquisition⁹. Many of the geothermal sites in Indonesia are situated along the volcanic belt and in the conservation forest, stretching from Sumatra to Java, Bali and Maluku up to Sangihe Island. It is resulting a handful amount of financing to prepare the infrastructure such as the road to access the project landfill (Bailie, 2017).

Ideally, as been a common practice in the developed countries where the government responsible for the resource identification and the exploratory drilling which cost around 7 to 10 million US dollar or equivalent 135 billion rupiah per one well (IEA, 2015). This condition was barely happen in Indonesia so that very limited local businesses who were able to take a part in Indonesia's geothermal development. Not to mention that to date, National and Indonesian banks are not willing to support the debt financing due to its resource risk, combined with the long lead times from the start of exploration until the commissioning of the plant which contributes to the difficulties in attracting private capital finance. The Ministry of Energy Resources has tried to attract the attention of National Banks to get involved in the renewable energy development in Indonesia as the strategic

⁸ According to geothermal theory, the potency reserved of geothermal classified as five terms such as speculative, hypothetic, possible, probable, proven. Speculative Reserve is the least certain category of geothermal potential, whilst the Proven Reserve is the economically recoverable geothermal energy potential which have been proven by at least a drilled and tested well to confirm reservoir characteristic.

Amir Fauzi. "Revision of Geothermal Resource Classification in Indonesia Based on Type of Potential Power Generation". 2015 (Jakarta: Geo Power Indonesia)

⁹ Interview. Holly Bailie. Director of Climate Change; British Embassy Jakarta. Jakarta, 2 February 2017

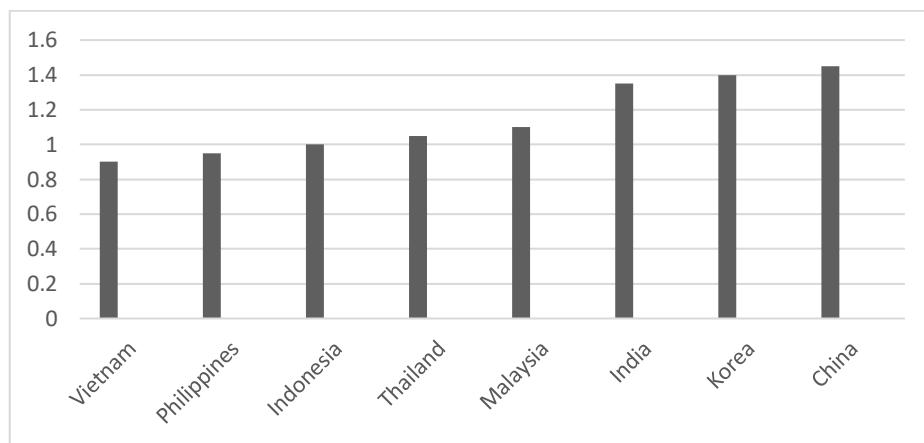
approach to achieve the Master Plan's target. Somehow this effort has not came to fruition¹⁰ (Abdurrahman, 2017).

Third concern is about technology issue that refers to advanced technologies to develop, deploy and foster clean energy technologies for both demand- side and supply-side technologies. Although the utilisation of geothermal in Indonesia has been started since 1982 when the first private development contract was signed between Pertamina and Chevron Ltd, but through out the history Indonesia never did the development alone (Mansoer and Idral, 2015). Indonesia was always be partnering with Foreign investments where the foreign investments who play the major roles. Furthermore, there is no Indonesia national company which can support with geothermal technologies. Thus, Indonesia heavily relies on foreign technologies such as General Electric, UNOCAL, Chevron from US, or Mitsubishi, Toshiba and Sumitomo from Japan.

Additionally, Indonesia has the lowest level of research and development expenditures amongst its region (World Bank, 2015). There was no geothermal research centre to support research and development output which can create use-inspired research and breakthrough engineering innovation. As the result, the total factor productivity of Indonesia was quite low.

¹⁰ Interview. Saleh Abdurrahman. Head Bureau of Crisis Mitigation and Energy Supervision. National Energy Council. Jakarta, 1 February 2017

Figure 1
 Estimated productivity gains from own R&D capital stocks normalized
 relative to those of Indonesia



Note: Current international spill over gains calculated on the R&D capital stock of Indonesia's trading partners, its exposures, and the economy's absorptive capabilities. (Source: World Bank, 2015)

As for another perspective, New Zealand is an ideal role model to be an advanced geothermal country as New Zealand is the pioneer in harnessing and developing geothermal resources. As known, Miraka is 100% Maori owned and the first company in the world to use geothermal steam to run milk powder processing operations. Furthermore, Nga Awa Purua is the world's largest single geothermal turbine at 140MW (Mizuno, 2013). Not to mention, Ngatamariki is the largest binary plant in the world at 82MW. All those achievement obtained because New Zealand continues to play a central role in building self-sufficiency through science, knowledge and experience by partnering with universities. For instance, Crown Research Institutes provide high quality technical expertise. And the Auckland-based Geothermal Institute that has trained more than 1500 geothermal professionals operating around the world (Carey, 2010).

With the lack of human capital and poor technologies, no doubt if Indonesia has faced the technological challenges. Specially to know that technology keeps evolving. The conventional geothermal technology is no longer effective to deal with the current situation. As stated by International Energy Agency (2010) that further

technology advances are expected in terms of better methods, for instance, methods for more accurate estimates of resource potential prior to drilling, better drilling methods and equipment, more reliable downhole pumps and logging tools, as well as better methods for creating or enhancing deep hot reservoirs, and better control/mitigation of induced seismicity.

2.3 Development Planning Over Weak Governance

Aside of tangible concerns such as financial, human capital and technology as mentioned above, the other concern sits on the principle force motor governing political economic activities in Indonesia in which development challenges and weak governance were noticed hindering Indonesia to reach its full potential. As planned, realization of the acceleration plan was expected to be generated from increased collaboration between the various stakeholders in development, namely central and local governments, state-owned enterprises, the private sector and the people at large. However, the outcomes were far from success due to a complex problems in Indonesian governance because weak governance institutions have kept the investors away and undermining service provision.

To begin with the decentralization of power from central to regional government which posed another weakness due to the quality of governance at the local level was considerably worse than at the central level. The decentralisation was reported has damaged the business climate by increasing the number of local levies and creating regulatory uncertainties (OECD 2010). Not to mention, the process of decentralization fact not only involved decentralization of power to the regions but also the decentralization of corruption. It happened since the local governments have made the business – licensing as a means of revenue collection in which the business-licensing were costly, lengthy and not accompanied by specific services. In many districts, solely a rent-seeking instrument was operated (KPPOD, 2008).

At one time, decentralization in Indonesia was assumed would be able to increase the efficiency and responsiveness of government. It was aimed to make government

performs better, especially in the level of regional government¹¹ (Bayhaqi, 2004). In fact, in the context of geothermal development in Indonesia, decentralisation has inhibited the acceleration plans of geothermal development. It is because the regional governments to license geothermal working areas have limited capacity to lead the tendering process. They did not have a skilled-base knowledge on how to prepare the project digest to be offered to the investors and have made them doing unprofessional conducts. More to add, regional governments have created a notion of competition amongst regional governments in order to attract investors by lowering tax rates or giving subsidies. Although some competition may be desirable particularly if it encourages efficiency, but unhealthy competition may be destructive (Mariani, 2017).

Not to mention, the President has repeatedly complained about the poor performance of his ministers. With the decentralization problems, coupled with the numbers of corruption cases that caused the low level of investors' appetite to invest have influenced the macro-economy stability. Therefore, Yudhoyono decided to set up the new economic team of ministries by replacing Aburizal Bakrie with Budiono as Menko; Jusuf Anwar with Sri Mulyani as Minister of Finance; and appointed Paskah Suzetta as Minister of National Planning/BAPPENAS. Reasoning behind this decision because the President was keen to strengthen the macro-economy stability by removing the obstacles of financial flows to support trade and to restore confidence in the Indonesian economy (Shiraishi, 2006).

However, changing behaviour is not an easy task. The agenda to rid the country of entrenched corruption did not show a good progress. It was seen when his trusted ministers including Jero Wacik as the Minister of Energy and Mineral Resources were indicted by the Corruption Eradication Commission (Rastika, 2014). In addition, because the corruption activities have reached into the top levels of

¹¹ Regional decentralisation in Indonesia started in 1999 occurred in the background of political and economical instability as suggested by the IMF. To have a better understanding about decentralisation in Indonesia, see the Law no. 22/1999 and 25/1999.

Akmal Bayhaqi. "Decentralisation in Indonesia: The Possible Impact on Education (Schooling) and Human Resources Development in Local Regions". (Semarang, Diponegoro University, 2004)

regional and central government, and across ministries, its eradication is difficult. All in all, the weak governance was ubiquitous in Indonesian geothermal manifesting as confusing regulations, weak institutional capacity, corruption, and overlapping authority.

In regards to the confusing regulations, the Indonesian Parliament and MEMR were aware of the problematic labelled of the old geothermal law no. 27/2003 and considered insufficient to stimulating investment. Widely accepted that investors and lenders are looking for clarity and guidance from the Government as to the direction in which geothermal sector is heading (DPR RI, 2013). To emphasize, the clear policies and predictability in the legal and regulatory framework are necessary to reduce accommodated in this legislation. In addition, there was a gap in one geothermal regulation to each others that have hindered the acceleration of geothermal development.

Under the Indonesian geothermal law no. 27/2003, the high risk of geothermal exploration is borne by the developer. Whilst in developed countries such as New Zealand, this cost is borne by the government. Furthermore, there was no regulatory framework for pricing geothermal renewable energy. The developers required to negotiate a power purchase agreement on a case-by-case basis with the state-owned utility PT.PLN. In the meantime, PT. PLN had no obligation to buy renewable electricity and no incentive to do so. This situation has led to sort of “beauty contest” common practice in which for those developers that could offer lower or cheaper price would win the tenders. To extent, under this common practice, the innovation and advanced technologies were not valued and appreciated¹² (Rizka, 2017). More importantly, the Law no. 27/ 2003 was sensed lack of synchronization since geothermal development was considered as mining concession. However, according to the Law no. 41/1999 about forestry, mining concession is not allowed to be done in the conservation forests. In fact, most of geothermal resources sit in

¹² Interview. Rizka Sari. Climate Change Adviser. British Embassy Jakarta. Jakarta, 2 February 2017

the areas of conservation forests. This gap of regulations have hindered the geothermal development (Pansus, 2013).

In short, the weak rule of law and lack of good governance have posed a major threat to social and economic development. The overlapping regulations and authorities as well as the reports of corrupt authorities have eroded investor confidence. Furthermore, the widespread lack of transparency in regional administrative offices that hampered public monitoring initiatives and inadequate enforcement have hindered in attaining the target of acceleration development and become years of wasted opportunities.

CHAPTER 3

THE WORLD BANK'S ENGAGEMENTS: APPROACH AND STRATEGY

This chapter examines how the World Bank perceives the promising opportunities on Indonesia's geothermal even though major weaknesses remain. Instead of seeing the weaknesses as an obstacle, the World Bank managed to lead the weaknesses as opportunities through the World Bank programme loans in which they were able to influence Indonesia as the recipient economies via the loan conditionality. Alltogether, this chapter explaines how the World Bank instilled its influence on Indonesia's geothermal industry through the liberal agendas by engaging with various stakeholders such as politicians, government officials, and parliamentarians.

3.1 Indonesian Weaknesses Mean Global Opportunities

Indonesia is the leading growth market for geothermal since the GoI has recently realized the potential of geothermal energy in the country. While Indonesia has 2.9 GW of potential capacity but just 1.3 GW which have been installed to serve the Indonesian population of 250 million. In addition, with the sustained economic growth and the growing population, the demand for energy specially renewable energy being increased too (World Bank, 2011). However, the agenda to implement energy diversification by intensifying the geothermal resources for power generation remains elusive due to some weaknesses facing by Indonesia. Through this research, it clearly shows that these weaknesses were seen as a promising opportunities by developed countries. The lagging behind this development was meant that Indonesia could not develop independently and need assistances. Further, the notion of this empty room has generated plenty of opportunities both from the developing process such as consultancy, engineer expertise, contractor, design, and technology, and after developing that will benefit for the power plant of geothermal industries.

The first weakness that the World Bank have recognized was the insufficient of human capital in Indonesia to manage the development of geothermal, as stated in its project information document report no.AB3847 (World Bank, 2008). To cope with human capital concern, the World Bank encouraged the GoI to step up a collaborative efforts between the relevant education institution or the state – owned enterprises that play in Indonesia’s geothermal development and industry, and with the developed countries that advance in geothermal development, for example New Zealand. The aim of this agenda is to make long – term investments in human capital. In the bigger picture, the demand for human capital also comes from the investors of geothermal industry that need to make sure their investments and business will run smoothly as being managed by well trained manpower.

The implementation of this suggestion can be seen from the World Bank’s project named Geothermal Clean Energy Investment Fund implemented by Pertamina Geothermal Energy (PGE) with the assistance from New Zealand Government to which the New Zealand’s expertise enhanced PGE’s capacity through training, knowledge transfer and capacity building designed to strengthen Indonesia’s institutional capabilities (World Bank, 2009). The Government of New Zealand also assisted the broader industry through a Geothermal Industry Support. In the long run, it was also benefit for the developed countries to build the prospect for technology intensive products and services in Indonesia, with the GoI as a direct or indirect partner. For instance, Hawkins Construction from New Zealand that succeeded to secure two geothermal projects, Lumut Balai and Karaha geothermal power stations owned by PGE in which Hawkins has been appointed to design, procure and construct the civil and building services work to the power plants plus the installation of all Toshiba supplied power plant equipment. The contract also includes the commission of all above ground steamfield activities (Hawkins Construction, 2015).

The second weakness which comes along with the concern of insufficient human capital was the recognition of technology and science demand. Given the fact that weak domestic capacity in the areas of resource assessment, equipment

manufacturing, construction, operation and maintenance of geothermal energy facilities have inhibited the acceleration of Indonesian geothermal development, has consequently caused only a handful of existing geothermal fields in Indonesia have been expanded over the past decade with no new development of greenfield projects that are regarded to have greater risks (World Bank, 2009). Furthermore, International Energy Agency (2011) has given a recognition that the Indonesian geothermal roadmap was unclear. The essential of roadmap is to identify the primary actions and tasks that must be addresses to accelerate geothermal development globally. Roadmap also identified as a tool for collaborative strategic planning, that enable us to make strategies and take actions towards the desired future, with special emphasis on anticipating changes in technologies and new business opportunities (Kamtsiou et al. 2006). While for some advanced geothermal countries, these actions were already underway but not for countries that have just started to consider geothermal energy like Indonesia. For the same reason, the Indonesian geothermal roadmap was considered did not specify what policies are required, and who would implement of the policy option in order to make the geothermal target feasible in which there is a need to demonstrate the way to reach the target through various policy options, spanning political, economic, and social issues (Suwa, 2010).

Translating this demand, the World Bank has helped to set up a policy guidance which enables the developed countries that have advance technology in the contribution of this supply demand to highlight the role of technology in achieving an international standard of geothermal development. Through a project costs US\$ 508 namely Geothermal Clean Energy Investment, the World Bank succeeded to make policy reforms to enhance investment climate for geothermal. Further, the issuance of government policy has led to the economic integration through science technology trade and investment to support the globally goals of geothermal development with science and technology. Notable the result of this project, PGE has agreed to improve their technical capacity in line with the highest industrial standards through activities that could include (1) technical collaboration with a world class geothermal company, (2) information technology for realtime

connectivity between field offices and headquarters for enhance decision making, and (3) training programs to improve staff skills (World Bank, 2009).

The project has borne another fruition where global individual economies took the advantages. As many IR scholars revealed about the second face of aid. Aid is just the circle around the multibillion-dollar market wheedling for the larger piece of the pie through offering the products, technology and business models, or consultancy (Arruda 1999, Perkins 2004, Hiatt 2007, Springer 2010). This condition can be seen, once again, on one of the World Bank and PGE project named Geothermal Clean Energy Investment Project to develop geothermal resources in Ulubelu, which is located in the Lampung district in the southern part of the island of Sumatra, and Lahendong, located in Tompaso the northern part of the island of Sulawesi, worth US\$ 508 million of loan. Through this project, several big countries managed to lift the heavy harness of contracts awarded. Japan was benefitted from the Sumitomo Corporation contract awarded by PGE for the construction of the unit 1, 2, 3 and 4 at the Ulubelu geothermal power station. Other than that, the primary equipment such as the geothermal steam turbine and the power generators for all those projects have been manufactured by Japan company, Fuji Electric Co., Ltd. (Sumitomo Corporation, 2014). And previously, Toshiba has won a contract awarded by PLN's subsidiary company, PT. Geo Dipa Energy to supply the plant's essential equipment such as the steam turbine, generator and key auxiliary & management equipment for Patuha Geothermal Power Plant Project Unit 1 (Toshiba Corporation, 2011). Whilst the United Kingdom was benefitted from the Mott MacDonald contract awarded by PGE for the business consultancy including the feasibility studies of the whole series of Ulubelu and Lahendong geothermal development projects. This point shows that among the most important structures of the current world-system is a power hierarchy between core and periphery in which powerful and wealthy Core societies dominate and exploit weak and poor Peripheral societies through technology as a central factor in the positioning of a region in the Core or the Periphery (Dunn and Grimes, 1995).

The third weakness is financial concern. The geothermal energy business requires high initial capital investment on feasibility research and mining activities, as well as electricity production. The World Bank estimated that the momentous investment needs to achieve the GoI target as high as US\$12 billion (World Bank, 2009). Though the development of geothermal to support the energy diversification is essential, but the limited budget has been an issue. Therefore, the target achievement can be generated from increased collaboration between the various stakeholders in development namely central, local government, state-owned enterprises, the private sector and the people at large. However, to rely on national capacity was not that easy. First, it had been difficult to raise interest at local banks to support the development. The MEMR has tried to attract the appetite of local banks but it failed knowing the exploration of geothermal is high risk and uncertain. Second, local private sectors have the same limitation as government on financial issue. Third, the revenue of state-owned enterprises was insufficient to implement the agendas alone. So, the most sensible solution was only foreign aid either foreign loans or foreign direct investment (Abdurrahman, 2017).

In line with the root ideology of liberalization to minimize the state's role and maximize the roles of the private sector and foreign direct investment, the World Bank has suggested National Planning Agency or BAPPENAS to promote the Public- Private Partnership (PPP) which can contribute the bulk of financing. To support the implementation of this idea, the World Bank together with the Asian Development Bank (ADB) and the Inter-American Development Bank (IDB), and funded by the Public-Private Infrastructure Advisory Facility (PPIAF) have developed the PPP Reference Guide (World Bank 2012, Roesly 2015). On institutional level, however, the development of PPP was still in flux as Indonesia was still trying to experiment with the most suitable fit of PPP models. In addition, to implement this framework is required high commitment and capacity. More to add, there was no clear guidance on how to develop this idea so that the government officials both central and local/regional have lack of capacity to carry out this idea even though the main elements to support this idea, Indonesia Infrastructure

Guarantee Fund (IIGF) and PPP Directorate of Bappenas, as the PPP units in Indonesia have been established (OECD, 2010).

Furthermore, there was a big problem relates to the ability to have the budget dispersed and used properly, especially at provincial level, where there was a glaring lack of capacity at all administrative and technical level. Thus, it was considered vital that upgrading the administrative and technical skills of regional government are prioritized directly from government budget and as part of any multinational or bilateral project loans (Draugelis, 2017). This situation might be true for some reasons. Noting that land acquisition was very challenging mostly because of public resistance. The other reason was the reluctance of local governments to apply the national budget decision at some points since this might come back to haunt them one day. At some points, the inefficiency of public spending is because the allocation of responsibilities by different ministries and agencies without any clear hierarchical authority. It makes the low degree of coordination, leadership and expertise to plan, as well as to execute and roll out the projects in timely manner (OECD, 2010).

Related with corruption, Indonesia Corruption Index¹³ was not in a good move although year by year was improved. Corruption has reduced significantly the funds that should be used. The findings of Anti Foreign Debt Commision/Komisi Anti Utang (KAU) in 2012 found several zero-realization of programs implementation that supposed to be funded by foreign loans (Rrd, 2012). The condition getting worse since the weak of administration and management which caused the national budget being wasted paying unclear external debts. In 2011, the Audit Board of Republic Indonesia/Badan Pemeriksa Keuangan's audit (BPK) found that 500 out of 2000 documents of Indonesia's foreign debt were gone. As the result, there were

¹³ Perception of corruption which also means to lack of transparency is one of three variables to define the global standard of the success of economic development that have outlined by the World Bank. <http://www1.worldbank.org/publicsector/anticorrupt/corruptn/cor02.htm> accessed on 6 April 2017

ministries that kept paying the debts over and over without knowing clearly what they paid for as they did it just like a regular task (Juanto, 2017).

Figure 2
Indonesia Corruption Index

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Indonesia	2.2	2.4	2.3	2.6	2.8	2.8	3.0	3.2	3.2	3.4

Note: the table shows the trend of Indonesia Corruption Index under Yudhoyono administration based on the Transparency International standard which assesses the degree to which corruption is perceived to exist among public officials and politicians in all countries around the world. It uses a scale from one to ten. The higher the outcomes, the less (perceived) corruption is. (Source: Transparency International)

All things considered, some major weaknesses were hindering the acceleration of Indonesian geothermal development, at some points have been benefited for individual economies of developed countries. Indonesia's incapability to rely on its own strengths because of insufficient funding and human resources capacity to handle the development of geothermal, including the lack of availability technology to tackle the maintenance of the existing network using international standard technique and equipment, have generated high value of opportunities for developed countries, with the help from the World Bank as a subsidiary agent whose influence is subject to the donor countries's will.

3.2 The World Bank's Strategy for Economics and Political Integration

Recognizing the need to face the challenge of accelerating Indonesian geothermal potencies as a competitive, inclusive and sustainable, the World Bank needs to explore innovative mechanism that address non-economic and economic barriers. Noting the non-economic barriers come from the weak institutional capacity, shortage of human capital and corruption. While for the economic barriers refers to science and technology as well as finance concern. The next step is for the World

Bank to build co-operation platform on policy reform, financing mechanisms, human resource development and technology. All together is packed into the World Bank's global solution framework that is translated through comprehensive analysis and actions.

First and foremost, the crucial part is to provide an analysis on governance and political economy to enhance the effectiveness of development in which a problem driven approach to Governance Political Economy (GPE) analysis comprises working through three layers. Across the World Bank, there is a widely shared perception that the World Bank needs to gain a better understanding of the environments in which Bank operations are taking place and seek to promote progressive change (Fritz et al, 2009). The first layer is addressing the problem, opportunity and vulnerability to be addressed. Second layer is mapping out the institutional and governance arrangements and weaknesses. How these are related to poor outcomes. This analysis is essential to identify what reforms are feasible from an institutional perspective. Third layer is drilling down to the political economy drivers, both to identify obstacles and to understand where a drive for positive change could emerge from. This step is to understand why the identified problems has not been addressed successfully and what the relative likelihood is of stakeholders support for various change options. All the steps unified and none is more influential above others (Datta et al, 2011).

In geothermal development context, the Governance and Political Economy (GPE) analysis done by the World Bank has helped the GoI in the making of a Fast-Track Program which was designed to rapidly develop 10,000 MW of generation capacity equivalent to about one third of PLN's then total existing system capacity (World Bank, 2012). Also the launch of the MP3EI or the Master Plan for the Acceleration and Expansion of Indonesia's Economic Development which becomes a cornerstone¹⁴. In the MP3EI, an interesting point is given in the area of renewable

¹⁴ The MP3EI is an ambitious six-corridor plan of the government to try to accelerate the building of infrastructure and thus economic development in key targeted growth areas of Java, Sumatra, Kalimantan, Sulawesi, Bali – Nusa Tenggara and Papua – Maluku.

energy of which will need to feature more in planning of use of resources in the decades ahead. Under renewable energy sector, geothermal, hydro and solar are introduced and the indication is given that the financial conditions for application of these renewable sources would be more attractive to investment in the foreseeable future. The proposed terms of the MP3EI said that all existing regulatory frameworks must be evaluated, and strategic steps taken to revise and change regulations in order to attract the high level of support needed from investors (Tuwo, 2012).

Secondly, after making the analysis is translating analysis into action by using the problem-driven GPE analysis to enhance bank strategies and operations. The analysis outlined in those master plans and programs have required a second-reform agenda which targeting on economic context and political context. The first reform was the reform generation on 1998 (Fritz et al, 2009). On the economic context, the Bank recommended that Indonesia needed to be more effective and accountable institutions and could translate available resources into better development outcomes (Diop, 2017). It was then referred to scaling-up the development of geothermal in order to seize the opportunities such as capacity building opportunity to deal with the shortage of human capital and technology science opportunities to achieve the international standard of geothermal development. It also aimed to meet with agenda of energy diversification and climate change mitigation. Further, on the political context, to go beyond strong economic performance and consolidation of political system, the Bank concluded that Indonesia needed to accelerate growth and job creation while ensuring that it is inclusive and sustainable. Indonesia also needed to improve the investment climate mainly by reducing regulatory/legal uncertainty and provide fiscal and financial incentives (ESMAP, 2013).

Then, the team engaged with the strategic planning by preparing a Country Assistance Strategy (CAS) to support the reforms agendas through capital flows of

See Lukito Dinarsyah Tuwo, "Indonesia's Plan For Connectivity: MP3EI Project, A Good Practices Showcase World Export Development Forum 2012". (Jakarta, National Development Planning Agency, 2012)

Multilateral Banks loans under the programs names Country Partnership Framework. The strategic planning through foreign loans is considered the best most strategic since it comes with conditionalities in which the Bank leveraged the projects they finance with analytical work, policy advice, technical assistance, strategic partnerships and capacity building to systematically increase standards of governance at each level of government the Bank engages (Munadi, 2017).

Table 1
Country Partnership Framework

Project Title	Project ID	Commitment Amonunt (US\$ million)	Status	Approval Date
Institutional, Tax Administration, Social and Investment (INSTANSI) DPL 2	P144775	400.0	Closed	Nov 19, 2013
First Connectivity Development Policy Loan	P124006	100.0	Closed	Nov 20, 2012
Institutional, Tax Administration, Social and Investment (INSTANSI) DPL	P126162	300.0	Closed	Nov 20, 2012
Indonesia Development Policy Loan 8	P122982	400.0	Closed	Nov 22, 2011
Geothermal Clean Energy Investment Project	P113078	175.0	Active	July 26, 2011
Indonesia Seventh Development Policy Loan	P117874	600.0	Closed	Nov 18, 2010

Indonesia Climate Change Development Policy Project	P120313	200.0	Closed	May 25, 2010
Geothermal Clean Energy Investment Project	P113078	208.0	Closed	Oct 26, 2009
Fifth Development Policy Loan	P110191	750.0	Closed	Dec 9, 2008
Second Infrastructure Development Policy Loan	P111905	200.0	Closed	Dec 9, 2008
Second Development Policy Loan	P096594	400.0	Closed	Dec 15, 2005

Note: the table shows all programs related to geothermal development for Indonesia from 2004 – 2014 funded by the World Bank. The aims of those programs were mainly on policy economic reforms and geothermal explorations to support the acceleration of Indonesia's geothermal development. For instance, the projects named INSTANSI and DPL have led to fiscal and incentives policy as well as the pricing policy (Source: The World Bank, 2017).

A massive development loans above have proved the effectiveness of foreign loans to reach the reforms agendas and at the same time could lead to the best of business wins because foreign loans always come with certain conditionality which require Indonesia to change its policy and regulations as suggested by the Bank. It even consistently flows since according to the World Bank there remains room for corrective actions that might be negatively impacted in the process of integration into the world economy. The success of reforms agenda, for instance, can be seen from the Development Policy Loans programs in which the objectives under energy sector mitigation was keen to improve policy framework to promote renewable energy development and investment. And the real achievement is the issuance of Presidential Decree No. 4/2010 which assigns to PT Perusahaan Listrik Negara (PLN) the acceleration of power plant development using renewable energy, coal, and gas and mandates PLN to develop and purchase power from renewable energy

resources; (2) issuing MEMR Ministerial Regulation No. 32/2009 on purchase standard price of electricity power by PLN from geothermal electricity power station; (3) issuing MEMR Ministerial Regulation No. 31/2009 on the purchase price of electricity from renewable energy; and (4) issuing MOF Ministerial Regulation No. 24/2010 on tax incentives for renewable energy development. In addition, the GoI also has improved the policy framework to promote energy efficiency development and investment by: (1) issuing Government Regulation No. 70 /2009 on energy conservation; and by (2) MEMR having developed and implemented a national system of energy audits for major firms in key sectors as stated in the loan number 7915-ID year 2010 (World Bank, 2010).

Another fruitful result gained from the Development Policy Loans is the issuance of Pricing Policy or Feed-In tariff. In the end of 2012, the sensible levels of feed-in tariff was being tabled to encourage investment in geothermal projects. In the past, the government has been slow in legalizing the new rates and the market was wondering why there was a hold-up. Until finally the feed in tariff for geothermal launched under the Ministerial Decree no 17 year 2014 which was greatly appreciated by the private sectors (Sari, 2017). This point clearly shows that outside the Bank, surveillance and consensus might be not so easy to maintain. But with the flow of large capital loans from the Bank, Indonesia has led the flow of ideas and the institutional support to adopt new neoliberal ideas, techniques, disciplines, and behaviors. That was, as all Bank loans have stringent pre-conditions for borrowing countries in which the world of knowledge producers is being structurally adjusted to work more closely with the World Bank. In this way, ideas of the environment, sustainability, markets, poverty, and personal conduct, are being studied, assessed, classified, and quantified in terms that reflect the transnationalized ideology of neoliberalism.

Table 2
Geothermal Regulation Feed-In Tariff based on the Ministerial Decree no. 17 year
2014

Year of Commercial Operation Date (COD)	The Highest Plafon of Feed-In Tariff (sen/kwh)		
	Area 1	Area 2	Area 3
2015	11.8	17.0	25.4
2016	12.2	17.5	25.8
2017	12.6	18.2	26.2
2018	13.0	18.8	26.6
2019	13.4	19.4	27.0
2020	13.8	20.0	27.4
2021	14.2	20.6	27.8
2022	14.6	21.3	28.3
2023	15.0	21.9	28.7
2024	15.5	22.6	29.2
2025	15.9	23.3	29.6

Note: The above table outlining the newest feed-in tariff for geothermal by dividing into three areas in which each area has different tariff. In details, area 1 is covering Sumatra, Java and Bali. The coverage of area 2 is Sulawesi, Nusa Tenggara Barat, Nusa Tenggara Timur, Halmahera, Maluku, Irian Jaya and Kalimantan. Lastly, area 3 is all isolated areas which are heavily rely in fossil fuels, those which have not mentioned in the area 1 and 2. (Source: Ministry of Energy and Mineral Resources)

Finally, the highest appreciation given for the GoI by the private sectors when the most significant of geothermal regulation was issued (Sari 2017, Younger 2017, Mariyani 2017). It was the new geothermal law no. 21/2014 which was issued just before the end of Yudhoyono's second term to replace the Indonesian Law of geothermal no. 27/2003. The main changes include geothermal activities are no longer considered as mining activities so that exploration and exploitation can be done in conservation forest areas as well as distinction between direct and indirect

utilization, and centralization of the tender process for indirect utilization projects (International Energy Agency, 2010).

3.3 The World Bank's Approach and Diplomacy

Although the analysis has managed to identify all the bottlenecks as well as opportunities for economic integration, and the actions taken have led to the significant achievement but more importantly is to get a strong commitment from the GoI. Therefore, the World Bank has to make sure and find a way on how to set up a coherent objective and agenda to be align with Indonesia's strategies and priorities. By and large, the agenda of acceleration commitment and policy reforms to set up neoliberalism on geothermal energy sector can be very challenging due to Indonesia's ideology as a welfare state. It means with the view that politics is a series of collective action dilemmas, there is a bigger room here to influence into a fundamental regulators and policies. Therefore, the strategic interaction plays a significant role in the determination of political outcomes to gain credibel commitments (Munadi, 2017). In short, a positive change in Indonesia could emerge from on going political dialog and existing reports.

Setting up a transformative moment is essential to make a coherent objective and agenda to be align with Indonesia's strategies and priorities (Bailie, 2017). When it comes to prepare an innovative mechanism to deliver the message about the need to accelerate the development of geothermal, the World Bank has used two major reasons which have been effective to raise the awareness. They are energy diversification and climate change mitigation. The World Bank was intesively doing campaign either alone or through colloborative efforts with relevant parties. In addition, the World Bank was also approaching BAPPENAS as the entry point to lead to real momentum in policy improvements. Further, the World Bank did a stakeholder mapping to give a clear understanding about the authority and operation of each stakeholders and how this shapes their interest and incentives. Though the World Bank team mostly do their business in an open manners, but it often happens when some stakeholders do not engage with. As a result, the Bank has to expand

relationships and networks for dialogue and for promoting change and here is the point why the stakeholder mapping is important (Fritz et al, 2009). A broader set of stakeholders may include such as policy-focused think tanks, policy thinkers within political parties, NGO representatives, and also private sectors.

Throughout their efforts, the World Bank has succeeded to gain a credible commitment from the GoI. The launch of Fast Track programs of 10.000MW electricity phase one and two as well the MP3EI are the ocular proof in which these master plan and programs indicated that the GoI was keen to benefit from access to international experience and advice on how to tackle the difficult policy challenges (Younger, 2017). However, at the same time, there has been an element of distrust, as the World Bank was perceived as having been a key supporter of neoliberal agenda. To note, the promotion of economic integration can be acvieved through building trust and understanding at a personal level, and by laying the foundations for long – term relationships based on common goals (Munadi, 2017).

To deal with this problem, the World Bank made a coalition building to build the ownership of reforms agenda (Wiyono, 2017). Those stakeholders who were pro-reform have been brought together in various forums to develop concrete proposals for reform, to agree on positions and to coordinate actions. In the process to reach Feed-In tariff policy for example, consensus gained through various workshops, seminars and steering committee meeting which were funded as part of Development Policy Loans project. Notable stakeholders who were pro-reform mostly private sectors such as Association of Indonesian Geothermal or Asosiasi Panas Bumi Indonesia (API); foreign geothermal players, for instance Chevron, Star Energy; Ministry of Energy and Mineral Resources particularly Directorate of Geothermal. However, the final result of Feed-In tariff policy was seen did not represent a comprehensive voices as several stakeholders either were unclear with the calculation to draw the Feed-In tariff, whilst some others felt left behind (Mariani, 2017). It shows that the research effort that feeds into government policy is difuse, uncoordinated and dominate by the vested interesrt of the various agencies and powerful individuals between them (McCarthy and Ibrahim, 2005). So, even

though the Bank has limited interaction with Parliaments, but the coalition building has played an important role to stand at the front lines.

The process of legal drafting to establish the newest geothermal legislation, for example. In line with the Act no. 10/2004 on the Establishment of Legislation, the Ministry of Energy and Mineral Resources (MEMR) was the leading ministry to draft the regulation. But MEMR was not working alone. Other related government agencies and stakeholders such as utility, academic institutions, and publics were involved. Moreover, international publications and other country regulations also can be used as references. Here it was, when the World Bank with US\$4 million in funding from the Global Environment Facility (GEF) supporting the implementation of the geothermal law by assisting the Government to develop rules, regulations and a policy framework (Polycarp et al, 2013).

The first stage of legislative process of geothermal liberalisation regulations as an initial preparation was the MEMR established an internal team to make an academic concepts and a draft of the Government Regulation, and then sent them to the relevant Ministries and Institutions to ask for the member of interdepartment team. Next, the interdepartment team discussed and reviewed the draft before issuing the final draft which will be sent to the Parliament for their approval (Fadila, 2017). At this stage, the team agreed to list the main substance of the geothermal legislation draft as follows: (1) Elimination of mining terms in the goethermal business/industry activities, (2) Regulation of the utilization of geothermal development both the direct use and the non-direct use, (3) Regulation of the utilization of geothermal which sits in the protected, production and conservation forests, (4) Regulation concerning the transfer of ownership of shares in geothermal business activities, (5) Assign the State-Owned Entreprises to contribute in the process of geothermal development both exploitation, exploration and utilization, (6) The Ministry of MEMR will be given authority to give temporary suspension, revocation and cancellation of goethermal permits which issued by the Governor or Regent/Mayor, (7) Obligation of Participating Interests for the State-Owned

Entreprise, (8) Regulation of transitional provisions related to the contract and the extension of the permit (MEMR Central Java, 2013).

The second stage was the form of discussion between the relevant Parliament commissions and the government representatives to present the general views of each party caucus¹⁵ (Datta et al 2011, Fadila 2017). This was followed by the government's formal response to the positions of the caucuses. The form of special committees (panitia khusus or pansus) was then agreed by the head of Parliament on the plenary meeting dated 17 September 2013. This special committees, later known as Pansus RUU Panas Bumi, conducted probes into the government or research on Indonesia's geothermal in order to make the compilation of problem inventory list or DIM (Daftar Inventarisasi Masalah) to identify controversial clauses of the bill. The total numbers of Pansus RUU Panas Bumi was 30 members, comprises of 5 members from Indonesian Democratic Party – Struggle (PDI-P); 6 members from Party of the Functional Group (Golkar); 8 members from Democratic Party; 3 members from Prosperous Justice Party (PKS); 2 members from each party of National Mandate Party (PAN), United Development Party (PPP), National Awekening Party (PKB); and 1 member from each party of Great Indonesia Movement Party (Gerindra) and People's Conscience Party (Hanura) (Indonesian Parliament, 2013).

The follow up actions to compile the problem inventory list was the formulation and discussion of a DIM which took place in a working committee, which was

¹⁵ The Indonesian parliament consists of 17 commissions and committees, 11 of which refer to legislative issue areas and 6 to internal administration. Parliamentary factions distribute commission leadership posts on a proportional basis in accordance with party size. Those that are particularly influential are Komisi I (defence, foreign affairs and information), Komisi II (internal affairs and regional autonomy), Komisi III (law, human rights and internal security) and Komisi XI (finance and development planning). The Budget Committee is composed of selected members of 11 of the 17 sectoral commissions. In addition to deliberating legislation, the commissions also serve as venues in which parliamentarians can express their views on topical issues, particularly with regard to the performance of the executive branch. Executive branch representatives make public presentations before parliamentary commissions on a regular basis. As for non-legislative commissions, these include committees governing ethics, budgeting, protocol, planning and legislative drafting.

See Datta et.al," The Political Economy of Policy - Making in Indonesia. Opportunities for Improving The Demand For And Use of Knowledge". 2011 (London, Overseas Development Institute).

essentially a subcommittee of the commission appointed to deal with the bill. For this purpose, the working committee was holding open discussions with relevant geothermal players in Indonesia such as Association of Indonesian Geothermal / Asosiasi Panas Bumi Indonesia (API), academics, reviewing the relevant analysis about Indonesian geothermal and its development which done by National actors or International actors, and doing some visitations (Fadilla, 2017). Notable, the Pansus Panas Bumi visited Chevron Geothermal Garut on 29 November 2013 to gain input and insights from them as geothermal player in Indonesia. Furthermore, the Pansus also did an official trip to New Zealand on 11 to 16 May 2014 as the final step to draft the legislation. This visit aimed to learn on how to manage and regulate geothermal energy effectively. More to add, on recess session year 2013 – 2014, 26 October to 17 November 2013, the Pansus did several socialization of the Geothermal Bill (Ita, 2014).

The third stage of the legislative process featured the formal acceptance and passage of the final draft of the bill through a plenary session. The agreement of this final draft was reached when all issues in the DIM have been resolved and then send it back to the commission. This was a hearing session about the result of the deliberations in the previous stages, presentations of the final views of the caucuses and the GoI response which was presented by Nazaruddin Kiemas from Komisi VII. The bill was finally passed to the President to be signed (Helmizar, 2014). During this legislative process, the World Bank has intensively monitored and gave guidance by holding regular meeting internally and cross-stakeholders since the Bank was unclear how to engage directly with the Parliament and reluctant to appear overly political. Therefore, the Bank has brought in a consultant to help in taking part its analytical function by hiring Mott MacDonald from United Kingdom to help on providing feasibility studies for the whole projects of Ulubelu and Lahendong. The feasibility studies were under part of global industry standard and aimed to meet with good industry practice (Mott MacDonald, 2011). Aside of feasibility studies provided by high calibre consultant, a team up of the Bank's internal from the Infrastructure team, Technical Specialists, and Energy Lead sector supported by a strong coalition from the Government and business elements, have

made them as a credible source for policy advice. They have assisted the government with key policy and institutional reforms to enhance the investment climate in geothermal sector in which the ongoing Geothermal Power Generation Development Project approved in 2008 and funded by Global Environment Facility has been supporting the MEMR undertake key policy and regulatory improvements (World Bank 2011, Datta et al 2011, Munadi 2017).

In conclusion, the World Bank's data, reports, analysis, and including strategy using of capital loans have become very dominant in governing and influencing the GoI. With the basis of repeat-play, issue-linkage, and the World Bank's reputation, this kind of integration by the World Bank was considered succeed. Indonesian political leaders have been willing to accomodate the demands for deeper integration at each step of the integration process which then can be drawn that at least there are two factors determine the outcomes of the Bank's bargaining such as the more desired the benefits of cooperation, the more support for the Bank; and the level of in-dept relationship with leaders will help to get privilaged information, to step in easier and help to converge the agreement. However, from these two factors, the first factor that is the interest or desired of cooperation plays the most significant role. It shows that the World Bank is able to gain a collective support from significant numbers of stakeholders. The support from government leaders will come to follow easily.

CHAPTER 4

CAUSAL CONTEXT ANALYSIS

Indonesia is a member of G20, indicates that Indonesia is seen as part of the biggest countries in the world. Supported with supposedly two strong economic pillars that are abundant natural resources and massive human resources, Indonesia should have strong basic capitals. Yet, the facts speak that Indonesia still relies very much on foreign debt. Nonetheless, unlike China that used to enjoy the World Bank's loans without following its prescription, Indonesia was dictated heavily on how to run this country. China has a better bargaining power since China's approach to economic reform differs from the approach prescribed by the IMF/World Bank, but China's reform has produced better outcomes than outcomes of reform in countries, which have followed the IMF/World Bank prescription (Robison and Hewison, 2013). Moreover, China's government took a very active planning role by regulating imports, limiting the capital flows, regulating interest rates and directing capital into preferred areas of development (Augustine, 2007). To find out in what the reasons behind, this chapter analyzes the causal relationships between liberal agendas, the need for foreign aid and weak governance which caused the decision of Yudhoyono government to liberalize Indonesia's geothermal industry.

4.1 Political Context: Demand For Political Economic Integration

When Yudhoyono came to power, his Presidency was under pressure because even though the economic stability was achieved since the Asian crisis end, but the Indonesian economy would have yet to achieve its potential growth rate (Shiraishi, 2006). Under such a tough situation as mentioned, Yudhoyono has an ambition to showcase Indonesia as a great country since widely known that Indonesia has a massive territorial, big population and abundant natural resources. He was keen to rebuild the country and gradually restore its leadership role in the region and the world (Parameswaran, 2014). In doing so, he had to work closely with the Vice President as well as with the Parliament, political parties, and local government in accordance with the decentralized democratic system.

To take the position to achieve Indonesia's potential growth rate, the World Bank advised that the policy orientation thus aimed at accelerating economic growth, poverty reduction and job creation through proactive fiscal policies, government expenditures on national welfare such as education and health, and promotion of investment through infrastructural development (World Bank, 2005). Investment was important to deal with limited government budget, however to invite and attract foreign investments required the macro-economy stability. That was why the President insisted on macro-economic stability as his first policy priority because clearly, without foreign helps the development planning would be stalled (Yudhoyono, 2006). This meant the Indonesian policies have to remove the obstacles flows to support trade and to restore confidence in the Indonesia economy were included into the National Long-Term Development Plan 2005-2025 and the Indonesia's Medium-Term Development Plan (RPJMN) 2010-2014. With the target of increasing economic growth to 7 percent and reducing the poverty rate to 8-10% by 2014, the RPJMN highlighted the need for growth with equity and a range of cross-cutting policies to ensure that development is both sustainable and inclusive. More to add, the RPJMN gave a special emphasis to increasing investments in infrastructure and strengthening the poverty agenda (BAPPENAS, 2010). However, Indonesia couldn't do this alone, the GoI needed the technical expertise to formulate and manage macro economic policies and to communicate with their counterparts in other countries using the technical lingua franca employed by foreign governments such as the U.S., Japan, and West European nations, as well as international agencies such as the World Bank and the Asian Development Bank to meet with global international standards (Shiraishi, 2006).

Given the fact that there was a demand of policy reforms in Indonesia to accelerate economic growth, the World Bank as an intellectual actor behind the policy and regulation making has to work closely with relevant stakeholders particularly since the Indonesian political system is decentralized democratic. This condition was the World Bank's success story to lead Indonesia to a world-economy system. Yet, the World Bank understood even though there were several layers and various stakeholders in policy making, but the President's commitments as a driver for

important reforms in key sectors, strong ownership and interest among the central planning (Datta et al, 2011). Luckily, Yudhoyono has shown the strong commitments to the new economic policy which has made the World Bank jobs became easier. For this, he was rewarded by the World Bank for his strong talk in increasing economic growth, creating the right investment environment and fighting corruption on two months after he was sworn in, specially for his eagerness to take the first Development Policy Loan in December 2004 (World Bank, 2004). In short, his presidency has been seen some rebuilding in Bank supports when Yudhoyono came to power.

Worth to note that basically the World Bank's mandates explicitly precludes it from engaging in politic. The institution needs to understand the political economy context of reforms from a diagnostic perspective, in order to be able to assist countries effectively in designing and implementing development strategies and policies. The diagnostics must be rigid and offer a transformational solution and agenda for a long term development planning (Fritz et al, 2009). With its research and diagnostic perspective, the Bank has successfully managed to be the largest development research organisation in the world and perhaps the largest development training organisations in the world.. However, when it comes to the level of acceptance, it is really depend on the interest of Government leaders and local actors. Thus, to enter the domestic policy domain is subject to negotiation, conflict and contestation in which the World Bank has to be able to draw on its financial and knowledge power to engage with prominent local actors (Datta et al, 2011).

Through the World Bank Institute, it trains around 47,000 people per year with the main targets are developing country government officials as well as staff from NGOs, journalists, academics and other development specialist, even parliamentarians, secondary school teachers and children (Engel, 2007). No wonder, the Bank's research capacity is very influential and it makes good senses of hegemony, with its short-term benefits to elite interests. In addition, the voting power over the World Bank's policy and priority is proportionated by a country's

capital subscription in which belong to those developed countries that are able to give a large enough contribution. Given this point, Indonesia has to think twice to raise a strong objection of the World Bank's intention of economic integrations due to the concern of the credible threat of exclusion might be generated an even more powerful pressure (Engel 2007, Datta et al 2011, Suryadarma 2011).

By the same token, policy-makers in Indonesia have often turn to international actors including the Bank for analysis, advice and knowledge input since they lack the capacity to undertake such analysis and regulatory constraints. There are financial incentives too which benefit for Indonesia, as the World Bank can pay for its own research. The Trade Unit within the World Bank, for instance, typically responds to requests from the Ministry of Trade that has the limited funding for research and is hence happy to receive "free" research findings from the Bank (Datta et al 2011, Suryadarma et al 2011). Nevertheless, even though the role of the World Bank is very significant but the whole process in policy making is a complicated process involving many actors in which some of them have more role to play while others are only marginally involved. The relationship between these actors in policy making arena largely depend on the institutional setting, their interests and efforts in which they use this arena to persuade, bargain and pursuit their interests.

Holding the President's commitment has led to gain the hierarchy commitments from the President's cabinet. Most compelling evidence shows that special relationship and the openness mind play major role in making the programs running well (Munadi 2017, Diop 2017). For instance, on 2006 when the GoI and the World Bank were implementing the project of Development Project Loans in order to accelerate economic growth and promoting inclusive development. Together with Ministry of Finance, they choose the very strategic projects and selected sectors which have multiplayer impacts such as energy and infrastructure including geothermal. Through this project, the World Bank was helping to set up tariff measures and create National Team who will review all the draft regulations before officially launch and at the end the World Bank will ask the GoI to implement the

target of this project in which one of them was a specific regulation that has to be issued by the Ministry of Trade, at that time the Minister was Marie Pangestu. The process to achieve this specific regulation target was very challenging and underwent through long process negotiation with the all relevant parties involved. Finally, it could be issued in very last minutes after the closed-door meeting between the leader of the World Bank and the Minister of Trade (Munadi, 2017). This real example has shown another fact how powerful the World Bank is.

In addition, Yudhoyono also was ambitious to make an image of Indonesia as a great country at least in Asian level as well as to be seen as an influential figure in the world. His foreign policy to promote soft power instead of hard power has stolen massive attention. For example, his commitment to reduce 26% emmission by 2020 to mitigate climate change was hugely appreciated by global and international elements though implementation was far from success. The overall sense highlighted from his foreign policy that he tends to play safe and was keen to set up bilateral, regional or multilateral partnerships. Building international and global images seemed very important for Sby not only for his goodwill but also to make Indonesia seen as a great country after hitting by economic crisis (Parasmewaran 2014, Fitriani 2014). No wonder, he was awarded by plenty of international awards such as honoris causa doctoral for his strong leadership from Ristumeikan University, Japan; the World Statement Award from Appeal of Conscience 2004 – 2014, and many others.

However, his foreign policy also received a lot of critics. One of the critics reffers to the long term master plan for Indonesian economic development named MP3EI which was looked like a shopping list for the world class or global industries to get involved in this acceleration agenda. This master plan was basically a product of the World Bank to lure Indonesia for a grandious projects to make transformational agenda and at the end it was used to promote the trade and investment openness. To sum up, the partnership between Indonesia and the World Bank Group under Yudhoyono's admistration has evolved over six decades to become one of our most significant in terms of lending, knowledge services and implementation support.

With a portfolio of 44 operations, US\$1.4 billion in trust funds commitments and a strong analytical and advisory program for the World Bank, as well as committed portfolio of US\$1.2 billion, added by an innovative advisory services program totaling US\$23-25 million of annual expenditure for IFC, has made the Bank Group remains the largest provider of development finance and advice for Indonesia (World Bank, 2012).

Unfortunately, a sense of gap strongly occurred since Diop (2017) revealed that the World Bank does not want to invest its valuable time to read between the lines a bunch of reports which are supposed to be the deliverable of monitoring and evaluation, with the reason that it is all about national moral hazard as the loans taken has to be paid through the Country's expenditures. That is, no doubt, the Global report on Corruption 2004 by Transparency International estimated embezzlement at 15 to 35 billion dollars. The World Bank itself nurtured the corruption since one of its own reports mentioned that 20 to 30% of the budgets related to development funds were misappropriated (Toussaint, 2014). Somehow, the Bank continued its loans while knowing perfectly that they were likely to be diverted.

All in all, clearly that the World Bank plays a major role as an intellectual actor to govern Indonesia. With its strong institutional research and the power to approach a holistic stakeholders such as politician, government official, parliament, academia including private sectors has significantly helped to instill its values and norms. Above everything, it is essential to gain a strong commitment from the highest leader in Indonesia, that is the President since the President's support acts as an entry point to instill its influence of policy reforms agenda in order to maximize the economic political integration.

4.2 Economic Context: The Emergence of New Economic Driving in Indonesia

With the new political economic climate as mentioned above, the private sector has emerged as the driving force behind Indonesia's economic growth, where there was a general surge in foreign direct investment as the result of liberalisation and integration of the world economy. This condition has led to an explosion of international trade and movement of capital in which many countries that were involved in economic relationship with Indonesia have made a deal for trade goods and services with each other and engage in the direct transfer of production between one another in the form of foreign direct investment. The current situation of full liberalization in which foreign may own the shared up to 95%, has underwent through a long and challenging in many levels. However, the power of global agent like the World Bank has succeed to live up this agenda to its expectations.

Worth noting the history of momentous investment of geothermal industry when Indonesia under Yudhoyono's administration was experiencing a turning corner, from economic crisis 1998 towards growth. The overall GDP grew by 5.9% in the first half of 2005 in which the non-oil economy was grew an even more robust 7.0%. And the economic growth kept growing at around 6% each year. In the midst of enjoying economic growth, Indonesia has to face power demand challenge which was experiencing low reserves with some shortages accross the country in which roughly 90 million Indonesian people have no electricity connection, the vast majority of whom were the poor (World Bank 2004, Hiratsuka 2006). Since the poor infrastructure including electrification means the low quality of life and the environment so, based on this fact the World Bank's analysis has put Indonesia in unwell positioned and stated that Indonesia has lost competitiveness, even ranks near the bottom among its neighbors.

Further, the World Bank indicated that the poor performances of Indonesia public management and infrastructures were caused by weak management and development by public sectors. They then suggested the GoI to improve public sectors' performances by (1) commercializing and corporatizing delivery and

management of key public infrastructure by transforming infrastructure department agencies into state-owned corporations; (2) launching an ambitious decentralization program that will transfer many responsibilities relating to infrastructure provision to sub-national entities; (3) rethinking how to coordinate policy and strategic planning. In addition, the Bank also advised the GoI to set up an energy mix policy to move away from fossil fuels dependency and scale up the development of renewables energy particularly geothermal, recognizing geothermal as a significant power generation. Roughly, an annual investment of US\$ 2-3 billion were needed to meet even modest growth in electricity demand (World Bank, 2009). It was such a big amount of financing that not easy for Indonesia to mobilize. Aside of financial concern, there was a pressing to use advance and innovative technology in order to minimize the exploration and exploitation risks.

Indonesia has limited capacity to deal with the above matters. Thus, the Bank encouraged Indonesia to mobilize private investment to help financing needs were significant to adequately maintain existing assets and to increase capacity and finally would be able to improve service coverage, maintain international competitiveness, and support the expanding economy since private participation will not only bring financial resources but also expertise. As largely known that the World Bank as a global intellectual actor has been influential to deliver a powerful research and analysis, particularly in the field of economics development, so did Indonesia that not easy to resist. Albeit the World Bank actually uses the selected research and analysis to promote a particular view of development and the flowing of lending operation remains at the forefront of investment decisions guiding the priorities of private investors.

However, the 1945 Constitution might hinder the process of economic integration. This Constitution is a deep-rooted institutional and regulatory problems which requires productive activities that impact the lives of the public to be controlled by the State. This is long interpreted that infrastructure services must be provided exclusively by the public sector. Recognizing the hinder end of economic integration, the World Bank's strategy was to use the state-owned enterprises

involved in this sector, PLN and PGE, as the entry points of foreign investments in which its efforts through lending operation, giving technical assistance, research and policy dialogue have led to the most of fruition, the Foreign investments may own the share up to 95% above national or local investment (World Bank and ADB, 2015)

In addition, maximizing competition is significant to maximizing the economic integration in order to provide a wider room to play with. Therefore, the Bank was unpleasant when they knew Indonesian Power and PLN continued to operate as partners rather than head to head competitors. Again, the Bank has used its lending operations and asked PLN and PGE as the implementers to improve their performances in public and help to scale up the geothermal development and at the end the notion of competition occurred among these two SOEs (ESMAP, 2013). The World Bank's efforts to foster economic integration through its various stages during the Yudhoyono administration paid off. For instance, the World Bank and PGE project named Geothermal Clean Energy Investment Project to develop geothermal resources in Ulubelu and Lahendong which was worth US\$ 508 million of loan. Through this project, several big countries managed to lift the heavy harness of contracts awarded. Japan was benefitted from the Sumitomo Corporation contract awarded by PGE for the construction of the unit 1, 2, 3 and 4 at the Ulubelu geothermal power station. Other than that, the primary equipment such as the geothermal steam turbine and the power generators for all those projects have been manufactured by Japan company, Fuji Electric Co., Ltd. (Sumitomo Corporation, 2014). And previously, Toshiba has won a contract awarded by PLN's subsidiary company, PT. Geo Dipa Energy to supply the plant's essential equipment such as the steam turbine, generator and key auxiliary & management equipment for Patuha Geothermal Power Plant Project Unit 1 (Toshiba Corporation, 2011). Whilst the United Kingdom was benefitted from the Mott MacDonald contract awarded by PGE for the business consultancy including the feasibility studies of the whole series of Ulubelu and Lahendong geothermal development projects.

In the broader context, the question is whether economic integration has led to better economic performance, analysis of the effects of the economic integration have been found through some cases. For example, a sharp rise in lending to Pertamina as the parent company of PGE has made them with crippling debt payments over the past and next decades. On the fiscal year ended on 31 December 2014, Pertamina's net revenue was US\$ 1.57 billion, down 50% year-over -year¹⁶ (Indonesian Parliament Commission VII, 2015). The significant decrease in revenue was primarily driven by the unfavourable foreign currency impact, the pressured costs and paying the debts. Furthermore, high tension also occurred concerning the conflicting jurisdictions between PLN and Pertamina of ownership over the steam power source (Younger, 2017). The new Indonesian geothermal law no. 21/2014 article 28 states about the direct appointment mechanism to award geothermal concessions to help accelerate the development of geothermal energy. With this new regulation, PLN was ambitious to be awarded with the government direct appointment to manage the geothermal power source from upstream to downstream. PLN argued it would be the only one solution to provide the most efficient tariff for public by cutting the supply chain sequence and pressing the developing cost (Gumelar, 2017). Nonetheless, this kind of movement posed a major threat to PGE because by the nature of the organisation, PGE has limited options in terms of developing an alternative electricity generation project. Recalling at its creation, PGE was specifically tasked with developing geothermal resources and would be unlikely to compete with PLN for other types of state-owned electricity generating plant.

Important to realize that the other reason to accelerate the geothermal industry development is to mitigate climate change. Particularly for Indonesia that committed to reduce 26% by 2025 and have been appreciated widely including by the World Bank. As seen in the project appraisal document of the Geothermal Clean Energy Investment Project, the World Bank is also assisting in expanding sales of Carbon Emission Reductions (CERs) from the geothermal projects to enhance their

¹⁶ The President Director of Pertamina, Dwi Soetjipto, reported the evaluation of Pertamina's performance on fiscal year 2014 in front of Indonesian Parliaments on the Hearing Meeting dated 20 January 2015

financial viability. Notwithstanding that it might be true, but like the others aid with strings attached, the continuing focus on the national interest is clear in the promotion of Sweden business within the aid program. On 12 August 2013, PGE signed an Official Development Assistance (ODA) Declaration with the South Pole Group, a Sweden company, in which South Pole agrees to upgrade the geothermal power plant turbines for Ulubelu and Lahendong projects to maximize the emissions reduction¹⁷. As for PGE, PGE understand that PGE on behalf of Indonesia will not be eligible to claim the carbon credits (CERs, ERUs, or VERs) generated from those geothermal projects since all the carbon credits will be transferred to the ODA donor country (the Gold Standard, 2013). It seems like the South Pole did an expensive step, but actually worth the money since the carbon credit can be sold by the South Pole Group to any company in developed countries that need an emission trading registry, and this business represents a lot of money. This is how the South Pole earns money from their environment services as said by Heuberger,

“ For emission reduction projects, once initiated, they yield fruits every year. Once we have our project’s emission reductions certified, we can virtually harvest the yearly emission certificates. Just like a farmer will harvest fruits. For every kilogram of avoided CO₂, we generate certificates from every kilogram of CO₂ that is avoided by the project, which is why we have a strong interest in a long run-time for the specific project “. (Heuberger, 2009).

Taken together, the World Bank’s strategies to bring the agenda of economic integration by offering foreign loans have led to fruition. Through its loans, the Bank has managed to drive policy reforms in which two basic and significant actions taken beforehand such as setting up the strategic momentum and mapping out the institutions. Setting up strategic momentum is essential to raise the awareness, while mapping out the institutions play a major role to build coalition and supports. More to add, the Bank’s objectives in Indonesia actually to promote

¹⁷ South Pole is PGE’s partner since 2009 for Gunung Salak Geothermal Power Plant to do a Carbon Business. They are searching for business opportunities in the field of climate protection all over the world. Indonesia, according to South Pole, has a lot of potential when it comes to climate protection since Indonesia economy is growing rapidly and need new and more efficient power plants to cover the demand of energy.

Youtube. Renat Heuberger. 2010. “Geothermal Power, Indonesia”. South Pole Group. [online]. <https://www.youtube.com/watch?v=DySdmzwsRTQ&t=1s> (accessed on 2 April 2017)

trade and investment as well as inclusion of big companies and at the same time ensuring equity rather than focusing on sustainable development. The continuing focus on the national interests of donor countries is clear in the promotion of donor countries' businesses within the aid program. And the results from a policy which allows aid contracts to go to only donor countries' contractors in most circumstances have caused a more expensive services for Indonesia as the loans recipient.

4.3 Indonesia and Aid Dependency

Indonesia known as one of the biggest aid-recipient countries and therefore lead to a question, can Indonesia do without aid? Particularly since aid always comes with certain conditionalities which mainly about policy reforms. Whilst, widely accepted that policy reforms needed when economic crises hit. It might be sensible when economic crises 1997 has made Indonesia to take capital aid which caused of massive economic reforms. But when the global crisis hit on 2010, the World Bank Indonesia revealed that it did not much influence Indonesia. Yudhoyono did nothing but Indonesia seemed fine (Diop, 2017). So why Indonesia still welcoming the flow of aid?

To begin with an ironic fact that Indonesia puts the foreign loan as one of the National funding resources under the umbrella of Government Decree no. 2 year 2006 and Ministerial Decree – Bappenas no. 5 year 2006. Notable, there are seven types of foreign loans outlining in the Government Decree no. 2/2006. First is Bilateral Loan meant as a foreign loan comes from single donor country through the appointed financial institution or non-financial institution. Second is Multilateral Loan which meant as foreign loan from multilateral institutions. Third is Soft Loan both Official Development Loan (ODA) and Concessional Loan, which comes from donor countries or multilateral institution aimed to improve the recipient country's economics development or social welfare, with the grant element component at least 35%. Fourth is Commercial Loan meant as foreign loan under market conditionalities and without any guarantee from export import

guarantor institution. Fifth, Mixed Loan defines as a combination of two or more elements comprises of grant, soft loan, credit export facility, and commercial loan. Sixth, Program Loan which is meant as foreign loan in the form of foreign exchange and used to fund the National Budget Plans. Seventh, Project Loan defines as foreign loan used to fund certain development activities (BAPPENAS, 2006).

In addition, the law of Bappenas or National Development Planing no 25/2004 mentions that Bappenas operational regulations and policies have put Indonesian development within the framework of integration with foreign aid. Furthermore, in the Medium Term Development Plan, which was designed with the help of the World Bank, the GoI published the Blue Book that clearly indicates such as a kind of shopping list for foreign donors. This means that the Medium Term Development Plan is designed to open up to foreign aid such as loans, grants, technical cooperation or foreign consultancy, whilst the law assigns high-level government officials to be responsible for its implementation. As seen in the Indonesia's commitment for climate change mitigation, it says in the PD no. 17/2014 about GHG Inventory that Indonesia commits to reduce 26% the emission of GHG with own efforts, plus 15% with International support. Many developing countries have been trying to secure the 15% opportunities through their aid programs, aiming to lead to the most of valuable opportunities to promote their companies and business models or consultancy (Sari, 2017). Furthermore, based on this commitment, the World Bank managed some projects such as Indonesia Climate Change Development Policy Project worth for US\$ 200 million, Geothermal Clean Energy Investment phase 1 worth for US\$ 208 million, Geothermal Clean Energy Investment phase 2 worth for US\$ 175 million which was associated with the Clean Technology Fund worth for US\$125 million, all in the form of foreign loans.

Following the point mentioned above, from time to time, foreign aid is a way and tool for the developed countries and international financial institutions to control the recipient countries. As Wallerstein revealed on the political side of the World-System about a few concepts deem highlighting that nation-states are variables, whilst element within the nation – states is the system. Therefore, states are used by

higher class's forces to pursue their interest (Wallerstein, 2010). It seems sensible considering Indonesia is a country with an abundance of natural resources and has a strategic position in terms of global geopolitics. Developed countries cannot just allow Indonesia to freely use up its resources. And aid is a soft way of controlling the policies of recipient countries. The more the aid flows, the greater the control the foreign power has.

Some empirical evidences have shown, for instance with the first Indonesian law of investment in 1970 when an American consultant has driven Widjoyo Nitisastro to draft the law. The draft was then sent to America through American embassy in Jakarta to get any input from business practitioners (Simpson, 2008). In addition, under Yudhoyono administration, The House of Representatives heard that there were 63 laws that had been drafted by foreign consultants. These works are part of foreign aid in the form of technical cooperation or program support, whether they are in the form of loans or grants. One of the findings found by the Parliaments was the Indonesian Law of Energy and Mineral no. 22/2001 for Oil and Gas was the result of US\$ 21,1 million of USAID's foreign debt (SUT, 2008). Pertamina also revealed that the Indonesia Law of Electricity was funded by the World Bank and ADB through the form of US\$ 450 million loans, as well as the Water Resources Law made from a US\$ 350 million of loan from the World Bank (Mulawarman, 2005).

Another important point, as for the government officials, foreign aid-supported projects have long been functioning as side jobs for raising additional income for government officials, even in significant amounts. A handful amount of cash as the compensation of travel or transport allowance, meals allowance, and professional fee become a common practice to invite various stakeholders or participants attending any training, workshop or seminar. Furthermore, almost all ministries are keen to form sort of project offices and implement foreign aid-supported projects since it provides high income, though the period is mainly short-term. Through this project, there are many rooms to play with, for instance the logistics budget to hold training, seminar or workshop in which the expenses can be manipulated. In short,

as long as foreign aid gives opportunities for the officials to raise additional and higher income, Indonesia will still depend on foreign aid (Wiyono and Farida, 2017).

Last but not the least, foreign aid which is known as a non-profit but it is actually a big business for the aid agencies itself that able to provide significant numbers of job. For instance, the World Bank in Indonesia has dozens of projects implemented throughout the countrywide with different types of projects. The project offices are so huge that the World Bank seems to have established a parallel government in Indonesia (INFID, 2011). Not to mention that foreign aid, specially in the form of loans, is very strategic to help the donor countries' companies profit from contracts funded by international aid which comes from taxpayer money intended to help end global poverty. This is what actually a side of aid that few have ever seen where the companies, the products and the business models that circle around this multibillion-dollars market are angling for the larger piece of the pie as Kennard and Provost said,

“ When governments pledge aid money, it is rarely handed directly over to poor countries in cash, despite the rhetoric from both the right and the left about how much money is given each year. Budget support — the technical term for aid that is in fact given to poor country governments directly, to manage and spend themselves — amounted to just US\$9.5 billion out of a total global aid spending of US\$165 billion in 2014, or less than six percent” (Kennard and Provost, 2016).

Unfortunately, Indonesia is not immune from such influences. And this is what Wallerstein called by unequal exchange, that the systematic transfer of surplus from semiproletarian sectors in the Periphery to the high-technology of industrialized Core. This leads to a process of capital accumulation at a global scale, and necessarily involves the appropriation and transformation of Peripheral surplus (Goldfrank, 2000).

In the final analysis, the given facts above proves that the world system theory is true. That the nature of productive specialization has changed over historical time. Nonetheless, whatever the products involved, the Core has always specialized in comparatively highly mechanized, high-profit, high-wage, highly skilled labor

activities against the Peripheral comparative opposite. It also shows how weak Indonesia including the government is and it makes the integration getting easier. The perspectives of donor agencies towards Indonesia has undermined the claims of the Indonesia's success stories in alleviating poverty, eradicating corruption and promoting peace in the country. As long as the government is still perceived as weak, corrupt and susceptible to conflict and government repressive measure, those who are active in the aid business will keep trapping Indonesia into dependence on foreign aid.

CHAPTER 5

CONCLUSION

The array of theory, construct and hypotheses put forward on this research have concluded that the World Bank has a particular pattern of integration to influence the Indonesian geothermal liberalization regulatory by using its foreign loans as the best strategy in which the weak governance of Indonesia has enabled them to instill its norm and values. Reasoning behind this agenda because Indonesia with its abundant of natural resources and rich population in which there is a potential opportunities in energy sector in Indonesia to supply the increasing demand, have made Indonesia seen as an emerging and leading growth market. In addition, research result proves that the President and the others leaders' commitment play a major role for important reforms, strong ownership and interest among the central planning. More to add, the changing of political economy policy and regulation has posed some political economic conflicts which may threaten the National political economy stability.

The politics of economic integration done by the World Bank has a special agenda to promote full liberalization which enables the International and Global markets to penetrate and do business in Indonesia without any barriers and may receive an equal treatment. Indonesia has been seen as a potential and leading market particularly on geothermal industry as Indonesia has a massive geothermal resources but less than 5% which have been developed to serve around 250 million populous, and supported by the increased demand of energy and electricity due to the sustained economic and population growth. The slow of development caused by some weaknesses such as human capital, financial resources, lack of technology and innovation, as well as the weak governance.

Through this research, the author can draw the pattern which used by the World Bank in the way to promote the liberal agenda through political and economic integration. The Bank used its foreign loans as the most strategic mean because it comes with some conditionalities. And to make sure its final objective of economic

reforms would be successfully implemented, the Bank has a step by step process that shown a quick-witted intelligence. Firstly, the Bank has to set up a momentum which can raise the awareness and show the urgency of the reforms. In this case, the Bank used its analysis as a basis to set up the strategic momentum of energy security and climate change, where together with its alliances, they have done a massive campaigns for change. Secondly, the Bank has to gain a strong commitment and support from the National leaders that have authorities in policy lead, especially from the President. Thirdly, the Bank must prepare the mapping institutions which is valuable to shape its interests by developing a detailed understanding of stakeholders with which the World Bank programs interact. Fourthly, the Bank needs to build a solid coalition which can generate the highest level of acceptance that help the process of integration getting easier and the reforms agenda will be approved. Lastly, the World Bank is essential to drive the key players of the reforms, as for this case is PLN and PGE, the two state-owned enterprises that have mandates to manage this sector. This part is important because under the 1945 Constitution, productive activities that impact the lives of the public must be controlled by the State and the infrastructure services must be provided exclusively by the public sector.

However, research result proves that the changing of political economy policy and regulation has posed some political economic conflicts which may threaten the National political economy stability. Notable a prolonged conflict between PLN and PGE in which the high tension occurred concerning the conflicting jurisdictions between PLN and PGE. Not to mention how Pertamina suffering from the crippling debt payments due to a sharp-line lending. Or the evidences where the Bank's loans have led to the inclusion of big companies belong to Developed Countries, and finally the results from the policy reforms have caused a more expensive services for Indonesia as the loans recipient. Henceforth, the direct impact upon Indonesian people's basic need such as electricity that is provided by foreign companies though it is purchased from the state-owned utility or PLN. As the final result, the electricity price may have to rise further. And through this matter, it might conclude that politics in policy making is not about designing an ideal scenario. It is about

making sense of the regularities in the highly complex and random where institutional analysis hardly exist due to focus of power balance and interplay.

Thus, these findings should lead the Indonesian government to have in a depth-thinking, while it is sensible that the World Bank has helped a lot in attaining development targets and how well will the new policy and regulation be designed to reduce carbon emissions as well as to fulfilling energy demand but, who are normally taken more benefits? Clearly with the fact puts on the table, the World Bank is managed by technocrats, driven by big companies, and supervised by high governmental officials. Therefore, if Indonesia wish to attract foreign investment and generate growth, Indonesia must follow the Bank's rules and guidelines which may be unfair for Indonesia. Under the current circumstances, Indonesia has to set a policy framework within the operation of geothermal and seek to boost the demand of geothermal energy. It can be done by taking into account into three major points below.

First point of recommendation is reviewing the current policy and regulation. A more conservative approach to liberalization may limit immediate scope for deeper financial service cooperation. This is important since debt is a serious issue and a renewed push to tackle it is imminent. We might consider on what happened on China's economy on 2015 – 2016 when it was undergoing a difficult economic transition. Its GDP growth was below 7% after three decades in double digits. It was because debt levels were high and rising. The spending in infrastructure investment might rise the growth. But if the real growth of household income is slow, it means the sign of unbalancing and further risks are also rising. Indonesia may continue its commitment to economic openness and free-trade but with limitation. Limit the number of foreign companies that can hold value added services licenses and stop them from owning more than 45% of any joint venture. It will decrease dependence on capital investment to support a balancing growth between GDP growth and a real growth of household income.

To follow up the first recommendation, the second one is policies to support the availability of financial resources in order to be financial independent. The Government has to prepare a new measure to increase scrutiny on outbound investment by increasing capital controls and driven by concern over persistent capital outflows. This policy aims to strengthen the national economic stability by encouraging its people to consume national products, restoring confidence to do business in Indonesia instead of investing their capital abroad as well as saving their money nationally. With the availability of financial resources, Indonesia can do rebalancing the economy away from investment toward consumption and services through building low-cost, high-impact projects because this sector can create more jobs, for example start-up internet and information projects, financial services, cultural and education services, tourism, or creative industries. The shift to a consumption and services driven economy will not happen overnight, but it needs to happen.

With a stronger economic stability, then the Government should prepare a policy to support human capital readiness. This is essential to support the restructuring in the geothermal sector by placing State interventions to provide direct or indirect support for geothermal development. Indonesia may have aware of the urgency of human capital, therefore Indonesia has a capacity building and human resources management program through giving scholarships. Though the quota for scholarship recipients is significant but the coverage has limitation. Thus, in this globalization era, Indonesia should be able to maximize the coverage by setting up a digital platform with specific classification for each study aiming for a transfer of knowledge platform with those Indonesians who are based in Indonesia. Through this digital platform, it is mandatory for scholarship recipients to upload the teaching learning materials or any kind of knowledge they obtain to be shared widely. Furthermore, worth to note that innovation and productivity are central and it can be funded through tax revenue. So far, Indonesia that has the third biggest geothermal resources in the world but does not have sort of center of excellence to support the geothermal development though the demand unable to wait. Thus, the Government should provide grants for Research and Development (R&D) focus on

this sector which can be Indonesian comparative advantage. This R&D is beneficial to arouse the appetite of research and development for technology innovation.

To this end, there is a great recognition that the key role natural resources play in the Indonesian economy and are determined by its policies and programs which ensure their sustainable use for the benefit of this and future generations. Thus, the continuation of this research might be significant to make Indonesia reaches its full potential. Notable, at least two topics can be carried out for future researchs. First, research on comprehensive and holistic impact of geothermal development under fully liberalization. The researcher can focus on economy, politic, social and culture, until environment impacts. Second, research of comparison under two different administration, Yudhyono and Jokowi, in the way to governing Indonesian geothermal.

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<http://kemlu.go.id/en/pidato/presiden/Pages/Remarks-by-H.E.-Dr.-Susilo-Bambang-Yudhoyono-The-President-of-The-Republic-of-Indonesia-At-a-Dinner.aspx>

Appendix 1



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

1. Be interviewed by the researcher Yes No
2. Allow the interview to be audio taped Yes No
3. Make myself available for further interview if required Yes No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

4. Confidentially so that my identity is not revealed in the report Yes No
5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say Yes No

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name

NDIAM E Diop

Resercher:

W.

Email Address

ndiop@worldbank.org

Erlin Puspitasari

Phone Number

08121051668

Signature

Date

Feb 3, 2017

Appendix 2



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

1. Be interviewed by the researcher Yes No
2. Allow the interview to be audio taped Yes No
3. Make myself available for further interview if required Yes No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

4. Confidentially so that my identity is not revealed in the report Yes No
5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say Yes No

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name : HOLLY BAILE Researcher: Erin
Email Address : holly.baile@gmail.com Erlin Puspitasari
Phone Number : +62 8111 780536
Signature : Holly Baile
Date : 01/02/2017

Appendix 3



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

1. Be interviewed by the researcher Yes No
2. Allow the interview to be audio taped Yes No
3. Make myself available for further interview if required Yes No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

4. Confidentially so that my identity is not revealed in the report Yes No
5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say Yes No

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name	: Prof. J. Scott Younger	Resercher:	
Email Address	: scott.younger@glendalepartners.com		Erlin Puspitasari
Phone Number	: +62 8159008630		
Signature			
Date	21.1.17		

Appendix 4



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

1. Be interviewed by the researcher Yes No
2. Allow the interview to be audio taped Yes No
3. Make myself available for further interview if required Yes No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

4. Confidentially so that my identity is not revealed in the report Yes No
5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say Yes No

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name :
Email Address :
Phone Number :
Signature :
Date :

BRYAN HOLFORD, Researcher: Erlin Puspitasari
bryan.holford@apieg.or.id
+62 813 009 29277
BRYAN HOLFORD
23/11/17.

Appendix 5



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

1. Be interviewed by the researcher Yes No
2. Allow the interview to be audio taped Yes No
3. Make myself available for further interview if required Yes No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

4. Confidentially so that my identity is not revealed in the report Yes No
5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say Yes No

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name	: <u>Rizken Sari</u>	Resercher:	<u>Erlin</u>
Email Address	: <u>r.e.sari@gmail.com</u>	Erlin Puspitasari	
Phone Number	: <u>081510338357</u>		
Signature	<u>Rizken Sari</u>		
Date	<u>1 Feb 2017</u>		

Appendix 6



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

- | | | |
|--|---|-----------------------------|
| 1. Be interviewed by the researcher | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Allow the interview to be audio taped | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Make myself available for further interview if required | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

- | | | |
|--|---|-----------------------------|
| 4. Confidentially so that my identity is not revealed in the report | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | |

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name	:	Ibu Edy Wiyono	Resercher:	<u>Erlin</u>
Email Address	:	iwiyono@worldbank.org	Erlin Puspitasari	
Phone Number	:	021-5299 3067		
Signature	:	<u>Edy</u>		
Date	:			

Appendix 7



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

- | | | |
|--|---|-----------------------------|
| 1. Be interviewed by the researcher | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Allow the interview to be audio taped | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Make myself available for further interview if required | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

- | | | |
|--|---|--|
| 4. Confidentially so that my identity is not revealed in the report | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name	: Nofa Farida	Resercher:	
Email Address	: nofa.lestarie@co-gsi.gov.id	Erlin Puspitasari	
Phone Number	: 08211 448 1898		
Signature			
Date	:		

Appendix 8



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

1. Be interviewed by the researcher Yes No
2. Allow the interview to be audio taped Yes No
3. Make myself available for further interview if required Yes No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

4. Confidentially so that my identity is not revealed in the report Yes No
5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say Yes No

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name	: <u>Ernawati</u>	Resercher:	<u>Erlin Puspitasari</u>
Email Address	: <u>Bintan Jakarta</u>		
Phone Number	: <u>0845 49 200</u>		
Signature	: <u>[Signature]</u>		
Date	: <u>31/01/2017</u>		

Appendix 9



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

- | | | |
|--|---|-----------------------------|
| 1. Be interviewed by the researcher | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Allow the interview to be audio taped | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Make myself available for further interview if required | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

- | | | |
|--|---|--|
| 4. Confidentially so that my identity is not revealed in the report | <input type="checkbox"/> Yes | <input checked="" type="checkbox"/> No |
| 5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say | <input checked="" type="checkbox"/> Yes | |

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name	: Dr. SUREN PBDURRPMHAN MSc	Resercher	<u>Guw.</u>
Email Address	: arrmansa@gmail.com		
Phone Number	: 08129183047		
Signature	<u>Suren</u>		
Date	: 12/12/2017		

Erlin Puspitasari

Appendix 10



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

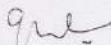
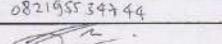
1. Be interviewed by the researcher Yes No
2. Allow the interview to be audio taped Yes No
3. Make myself available for further interview if required Yes No

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being panelised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

4. Confidentially so that my identity is not revealed in the report Yes No
5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say Yes No

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name	: JUANTO	Resercher:	
Email Address	: JUANTO@LPH.GOV.ID	Erlin Puspitasari	
Phone Number	: 082195534744		
Signature			
Date	: 3/2/2017		

Appendix 11



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Concern Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

- | | | |
|--|---|-----------------------------|
| 1. Be interviewed by the researcher | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Allow the interview to be audio taped | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Make myself available for further interview if required | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

- | | | |
|--|---|-----------------------------|
| 4. Confidentially so that my identity is not revealed in the report | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | |

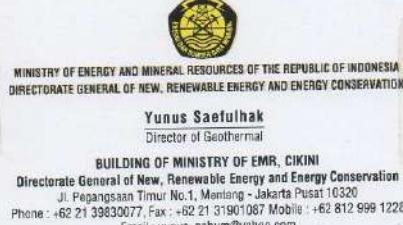
I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name : _____ Resercher: _____
Email Address _____ Erlin Puspitasari
Phone Number _____

Signature _____

Date _____



Appendix 12



Master of International Relations in International Political Economy
Airlangga University – Surabaya, Indonesia

Informed Consent Form

Research Title: The World Bank and Geothermal Liberalization in Indonesia Under The Yudhoyono Administration

I agree to take part in the research project and have had the project explained to me. I understand that agreeing to take part means that I am willing to:

- | | | |
|--|---|-----------------------------|
| 1. Be interviewed by the researcher | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 2. Allow the interview to be audio taped | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 3. Make myself available for further interview if required | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |

I understand that my participation is voluntary, that I can choose not to participate in part or all of the project, and that I can withdraw at any stage of the project without being penalised or disadvantaged in any way. I understand that the data I provide will be reported in academic media and I further agree that what I say may be quoted:

- | | | |
|--|---|-----------------------------|
| 4. Confidentially so that my identity is not revealed in the report | <input checked="" type="checkbox"/> Yes | <input type="checkbox"/> No |
| 5. I am prepared to waive confidentiality so that my name may be quoted to identify what I say | <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | |

I understand that I will be given a transcript of data concerning me for my approval before it is included in the write up of the essay.

I understand that data from the interview will be kept in a secure and accessible to the research team.

Participant Name : _____ Resercher: _____

Email Address

Erlin Puspitasari

Phone Number

Signature

Date

