



Designing an Effective Carbon Tax Regime in Indonesia: Aligning Fiscal Strategy with Climate Commitment

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Abstract

Carbon tax policy reflects a strategic mechanism to align fiscal reform with climate goals. While previous research has extensively examined the political and economic implications of carbon pricing, limited attention has been paid to the strategic design of carbon tax policies towards balancing internal fiscal priorities with external environmental commitments, particularly in developing countries. This is particularly important in developing countries, where fiscal constraints and urgent development needs make the alignment with climate commitments extremely challenging. Therefore, this study addresses the research question: How do governments in developing countries navigate the strategic alignment between fiscal priorities and climate commitments in the design of carbon tax policy?. Using a qualitative case study approach, the research draws on in-depth interviews with 15 key informants involved in the design and implementation of the carbon tax policy in a developing country, Indonesia. Indonesia is a suitable case for this study because, despite having committed to reducing emissions through the Paris Agreement, implementation of carbon policy has experienced significant delays due to the slow policy design process. To address the research question, this study identifies a theoretical gap in the limited application of the Strategic Fit framework in fiscal–climate public policy in developing countries. Our findings show that fiscal alignment and climate commitments are hampered by short-term revenue interests, weak inter-ministerial coordination, and institutional capacity limitations, while international pressure and the push for fiscal reform are actually driving factors. Theoretically, this study extends Strategic Fit beyond corporate strategy to the public policy domain by incorporating fiscal-climate dynamics relevant to developing countries. Practically, it underscores the need for carbon tax designs that balance fiscal demands with climate commitments through stronger institutional coordination and credible instruments.

Keywords: carbon tax, strategic fit, fiscal strategy, climate policy, Indonesia

1. Introduction

Climate change has prompted many countries to adopt fiscal instruments capable of effectively reducing emissions, one of which is through carbon tax policies. Globally, carbon taxes are viewed as an efficient mechanism for internalizing external costs and encouraging the transition to clean energy (Caratini et al., 2017; Ewald et al., 2022). However, the implementation of carbon taxes in developing countries faces more complex dynamics than in developed countries, primarily due to pressing development needs, limited institutional capacity, and misalignment between national fiscal agendas and international commitments related to climate change (Strand, 2020; Yusuf & Resosudarmo, 2015).

Indonesia is a prominent example in this context. Despite having conveyed its emission reduction commitments in the Paris Agreement and establishing plans to implement a carbon tax since 2021, the design and implementation processes have experienced prolonged delays. This delay is influenced by the competing interests of short-term fiscal interests, the need to maintain economic stability, and weak inter-ministerial coordination (Dyarto & Setyawan, 2021; Hartono et al., 2023).

In the context of developing countries, this situation highlights an empirical gap, namely a lack of in-depth understanding of how governments navigate the strategic alignment between fiscal priorities and climate commitments when designing carbon taxes.

Furthermore, there is a significant theoretical gap. Previous studies on carbon taxes have focused more on economic aspects, the effectiveness of carbon pricing, or its distributional impacts (Aldy & Stavins, 2012; Yusuf & Resosudarmo, 2015). Meanwhile, the study of Strategic Fit commonly used in corporate strategy studies has not been widely applied in the context of public policy, particularly regarding the relationship between fiscal strategy and climate commitments in developing countries (Chorn, 1991; Miles & Van Clieaf, 2017). In fact, the Strategic Fit approach can provide a more precise analytical lens for assessing how alignment between fiscal and environmental objectives influences the carbon tax policy design process (Rweyendela, 2024; Williams & Lewis, 2008). The limited application of this framework indicates an underexplored theoretical space in the literature on climate policy in developing countries.

This study aims to address this gap by analyzing how the Indonesian government navigates strategic alignment between fiscal priorities and climate commitments in the carbon tax policy design process. Based on this context, this study seeks to answer the main research question:

How do governments in developing countries navigate the strategic alignment between fiscal priorities and climate commitments in the design of carbon tax policy?

This question aims to better understand the strategic dynamics that shape the carbon tax policy design process in developing countries, specifically how governments balance short-term fiscal needs with long-term climate commitments. To answer this question, this study analyzes how strategic dynamics influence the alignment between fiscal agendas and climate commitments in the carbon tax design process and examines the factors that encourage and hinder inter-ministerial coordination in policy formulation. Focusing on institutional coordination is crucial given that carbon tax policy involves multiple actors with differing mandates and interests, often creating tensions in the decision-making process. Furthermore, this study aims to broaden theoretical understanding by applying the Strategic Fit framework to the public policy domain, specifically to analyze the relationship between fiscal strategy and climate policy in the context of developing countries, which has received relatively little attention in the literature.

By combining empirical and theoretical analysis, this study not only provides an overview of the realities of carbon tax policy implementation and delays in developing countries but also offers theoretical contributions through the adaptation and expansion of the Strategic Fit approach in fiscal-climate policy analysis. At the same time, the study's findings provide relevant policy implications for strengthening the design of a more credible carbon tax, aligned with international climate commitments, while still considering domestic fiscal needs.

2. Literature Review

2.1. Carbon Tax

Carbon tax has become a key instrument in carbon pricing policies to reduce greenhouse gas emissions. Weisbach et al. (2009) define a carbon tax as a levy on the carbon content or CO₂ emissions from fossil fuel use, aimed at internalizing the external costs of environmental damage into energy prices. Similarly, Aldy & Stavins, (2012) emphasize that a carbon tax is a fiscal policy that imposes a per-unit tariff on emissions with the aim of encouraging economic actors to shift to lower-carbon technologies and practices. From a design perspective, a carbon tax is viewed not only as an environmental instrument but also as a fiscal instrument that can increase state revenue and provide space for broader tax reforms (Jason Bordoff & Larsen, 2018; Köppl & Schratzenstaller, 2023).

In the context of developing countries, the literature shows that implementing a carbon tax faces more complex challenges than in developed countries. Appelbaum (2021) and Finon (2019) highlighted those fiscal constraints, pressing development needs, and dependence on fossil fuels often mean that carbon pricing efforts clash with short-term priorities of economic growth and social stability. Other studies show that weak institutional capacity, overlapping authority, and ineffective inter-ministerial coordination also hamper the design and implementation of credible carbon policies (Chen & Hu, 2020; Li, 2022; Nurdianto & Resosudarmo, 2016). Nevertheless, international pressure and commitments under global climate agreements such as the Paris Agreement continue to encourage developing countries to adopt carbon pricing instruments, including carbon taxes, albeit at varying rates and with varying policy designs.

Moreover, recent literature on carbon tax implementation in developing countries demonstrates a prevalent cautious and incremental approach (Strand, 2020; Timilsina et al., 2024). Analyses of carbon taxes in South Africa, Chile, and Mexico reveal that initial phases were typically marked by low tax rates, restricted sectoral coverage, and numerous exemptions or adjustments intended to preserve political feasibility and reduce the risk of economic disruption (Nong, 2020; O’Ryan et al., 2023; Renner, 2018). This trend indicates that carbon tax design in developing countries is shaped not only by considerations of economic efficiency but also by intricate political and fiscal negotiations (Barragán-Beaud et al., 2018; Dyarto & Setyawan, 2021; Ike, 2020). Furthermore, global reports since 2020 show that while the adoption of carbon pricing instruments in middle-income countries has increased, policy frameworks continue to reflect a cautious, incremental approach that is strongly shaped by domestic fiscal conditions (Hammerle et al., 2021; Khan & Johansson, 2022; Muzio & Wickert, 2025).

2.2 Climate Governance, MRV, and Coordination Challenges in Southeast Asia

Beyond fiscal challenges, existing literature underscores the significance of climate governance and institutional capacity in facilitating carbon tax policies. A robust measurement, reporting, and verification (MRV) system is essential for establishing the

credibility of emissions-based policies, such as carbon taxes and carbon trading (Mehling et al., 2018; Tvinnereim & Mehling, 2018). Nevertheless, in many developing countries, including those in Southeast Asia, MRV capacity is often fragmented across sectors and remains insufficiently integrated with fiscal systems (Ghosh et al., 2024; Jordan et al., 2018; Ylä-Anttila et al., 2018).

Research on climate governance in Southeast Asia demonstrates that institutional fragmentation and overlapping ministerial authority frequently impede the implementation of cross-sectoral policies, including carbon taxes (Fasting et al., 2021; Marquardt et al., 2023). In this context, the ministries of finance, environment, and relevant sectors typically pursue distinct policy objectives, such as fiscal stability, emission reduction targets, and industrial competitiveness (Dyarto & Setyawan, 2021; Sunanda et al., 2025). The absence of policy synchronization results in substantial coordination challenges when translating climate commitments into effective fiscal instruments.

The climate governance literature further emphasizes that the effectiveness of carbon policies relies not only on technical design but also on governmental capacity to align diverse policy domains with competing objectives and interests (Fasting et al., 2021; Jordan et al., 2018; McNaught, 2024). However, most studies address coordination and capacity issues without providing a systematic conceptual framework for the policy alignment process. Recent regional analyses and reports indicate that MRV readiness in Southeast Asia varies considerably across sectors and countries, which complicates the integration of carbon policies into national fiscal systems (UNFCCC, 2022).

2.3 Policy Sequencing and a Phased Approach in Carbon Tax Policy

Recent studies highlight the significance of policy sequencing in the implementation of carbon taxes, especially within developing countries. Policy sequencing involves a gradual approach to policy adoption, where governments postpone or restrict certain measures until institutional, economic, and political conditions are adequately established (Pahle et al., 2018).

A phased approach to carbon tax implementation is frequently employed to mitigate political resistance, strengthen administrative capacity, and improve public legitimacy. Nevertheless, the existing literature indicates that such an approach may result in extended policy delays and overly cautious policy design, thereby diminishing the effectiveness of emission-reduction efforts (Ewald et al., 2022; Hartono et al., 2023; Tvinnereim & Mehling, 2018). Although policy sequencing is frequently cited as a normative rationale for delaying policy action, limited empirical research has investigated how governments negotiate this phased process, especially regarding the balance between immediate fiscal priorities and long-term climate commitments.

2.4 Revenue Recycling and the Tension between Fiscal and Climate Goals

The literature on revenue recycling underscores that carbon tax revenue can be used for various purposes, such as reducing other distortive taxes, funding clean energy subsidies, or shielding vulnerable populations from energy price increases (Jagers et al., 2021; Macaluso et al., 2018). In practice, decisions regarding revenue allocation are strongly shaped by domestic fiscal and political circumstances.

In developing countries, the imperative to allocate carbon tax revenue for general budgetary support frequently supersedes the emphasis on emissions mitigation objectives (Fernández-López & Mardones, 2025; Renner, 2018; van Heerden et al., 2016). This indicates that carbon taxes operate as both environmental policy tools and components of broader fiscal

strategies. Nonetheless, existing literature primarily addresses revenue recycling from normative or distributional standpoints, often neglecting its connection to governmental strategies for reconciling fiscal and climate goals.

2.5. Strategic Fit in Fiscal-Climate Policy

The concept of Strategic Fit is rooted in the strategic management and organizational literature, which emphasizes the importance of alignment between strategy, the organization's internal characteristics, and the external environment. Venkatraman (1989) defines strategic fit as the degree of alignment between an organization's strategy, internal structure, resources, and environmental demands, where optimal performance is achieved when these elements are mutually supportive. Strategic fit is not a static condition, but rather a dynamic process in which organizations continuously adjust their strategies to respond to changes in the external environment (Miles & Van Clieaf, 2017; Rweyendela, 2024).

Despite its rapid development in corporate and business contexts, the application of the strategic fit framework to public policy remains relatively limited. Most strategic fit studies focus on the fit between business strategy and organizational structure, or between strategy and market environmental uncertainty (Chorn, 1991; Miles & Van Clieaf, 2017). In the public sector, this framework has the potential to be adapted to analyze the alignment between various policy domains with different objectives and logics, including fiscal policy and climate policy.

However, the literature on climate policy and carbon taxes tends to use political economy, public choice, or distributional analysis of policy impacts (Barragán-Beaud et al., 2018; Dyarto & Setyawan, 2021) and relatively rarely examines how alignment or misalignment between fiscal priorities and climate commitments systematically influences policy design. While studies on climate governance emphasize the importance of inter-ministerial coordination and institutional capacity in cross-sectoral policies, these issues have not been explicitly linked to a strategic fit framework that assesses whether policy designs are truly aligned with fiscal and climate objectives simultaneously (Dapilah et al., 2021; Jordan et al., 2018; Wellstead et al., 2013).

Furthermore, the literature on carbon taxes in developing countries generally focuses on public revenues, distributional impacts on vulnerable groups, and fiscal performance (Hartono et al., 2023; Ramadhani & Koo, 2022; Strand, 2020). This approach has largely overlooked the carbon tax as the result of a strategic alignment process between short-term revenue interests, fiscal reform agendas, and long-term commitments to emissions reductions. As a result, the dynamics of policy design, including delays, prudence, and policy compromises are often not conceptually analyzed.

This study, therefore, addresses two theoretical gaps. First, we extend the implication of the strategic fit framework (Chorn, 1991; Rweyendela, 2024) by applying the framework to analyze the relationship between fiscal strategy and climate policy, particularly in developing countries. Second, the carbon tax literature has not systematically explained how governments navigate the alignment between domestic fiscal priorities and global climate commitments during the policy design stage. This study seeks to fill this gap by applying the Strategic Fit framework to analyze how the Indonesian government as a developing country with ambitious climate commitments but facing fiscal and institutional challenges, formulates and negotiates the design of a carbon tax amidst international pressures and domestic dynamics.

3. Methods

3.1. Research Design

This research uses a qualitative case study approach to answer the research question of how governments in developing countries navigate the strategic alignment between fiscal priorities and climate commitments in the process of designing carbon tax policies. The case study approach was chosen because it allows for in-depth exploration of complex and contextual policy processes, as advocated in public policy research and institutional dynamics (Yin, 2018).

The selection of Indonesia as a case study was based on a combination of empirical and theoretical factors. Empirically, Indonesia is a high-emissions country facing significant challenges in balancing economic development, fiscal reform, and climate commitments. Theoretically, the Indonesian case is relevant because it demonstrates a mismatch between short-term fiscal priorities and long-term emissions reduction targets an ideal context for applying and expanding the Strategic Fit framework in public policy (Chorn, 1991; Miles & Van Clieaf, 2017). Thus, this case study provides an opportunity to understand how developing country governments navigate the tension between domestic needs and international pressures in designing credible carbon taxes

3.2. Sampling Strategy and Distribution of Institutional Roles

Purposive sampling was utilized to select informants possessing strategic roles and substantive expertise in carbon tax policy design (Palinkas et al., 2015). The study focused on three principal ministries: the Ministry of Finance, the Ministry of Environment, and the Ministry of Industry, each of which holds distinct institutional mandates in the design of carbon tax policy.

The Ministry of Finance acts as the primary authority for designing tax instruments, setting tariffs, managing state revenues, and integrating the carbon tax into the national fiscal reform framework. The Ministry of Environment is responsible for establishing emission reduction targets, overseeing the measurement, reporting, and verification (MRV) system, and connecting the carbon tax to both national and international climate commitments. Meanwhile, the Ministry of Industry represents the interests of the industrial sector, addresses energy transition readiness, and assesses the sectoral impact of the carbon tax on manufacturing competitiveness.

A total of 15 informants were interviewed, with five representatives from each ministry. The informants comprised senior policy analysts, technical officials, and team leaders directly involved in the planning, coordination, and initial evaluation of the carbon tax policy. This distribution across sectors and roles enabled the study to capture and compare a range of fiscal, environmental, and sectoral perspectives in a balanced manner.

3.3. Interview Protocol and Primary Data Collection

Primary data collection involved in-depth semi-structured interviews conducted in 2024 and 2025. Using in-depth semi-structured interviewees enable us to ensure consistency across informants while enabling comprehensive exploration of experiences, perceptions, and the dynamics of inter-ministerial coordination (Kallio et al., 2016). To guide the interviewees, we developed an interview protocol using the climate and tax policy literature as well as the Strategic Fit framework (Rweyendela, 2024; Venkatraman, 1989). The guide was applied consistently across all informants, with contextual probing tailored to each participant's institutional role. The interview guide addressed four primary thematic clusters, first,

objectives and rationale for carbon tax policy, including the role of state revenue and behavior change; second, division of roles and dynamics of inter-ministerial coordination, third, Institutional capacity, including the readiness of emissions data, policy instruments, and derivative regulations; and four, external pressures, such as international commitments, fiscal reform, and policy legitimacy. Each interview lasted between 45 and 90 minutes, was recorded with the informant's consent, and transcribed verbatim for subsequent analysis.

3.4. Data Analysis

We conducted thematic analysis to identify recurring patterns of meaning in the interview data related to carbon tax policy design. The analysis was conducted using NVivo software version 14, following the thematic analysis procedures outlined (Braun & Clarke, 2006).

The analytical process was iterative and proceeded through several stages. First, the lead author conducted repeated readings of all interview transcripts to become familiar with the data and to identify initial units of meaning. Second, open coding was applied to systematically capture key issues emerging from the empirical material. Third, axial coding was undertaken to group conceptually related codes into broader analytical categories.

This analytical approach was chosen because it enables researchers to move beyond surface-level descriptions and to systematically examine how policy actors' perceptions and experiences are constructed into broader patterns that shape public policy design processes (Braun & Clarke, 2006).

Table 1 summarises the thematic analysis process and illustrates how interview quotations were coded and aggregated into four overarching themes.

Table 1: Thematic Analysis Process

Statements / Quotations	Keywords	Codes	Themes
“We don’t want this carbon tax to be solely for revenue. The goal is to change behavior.”	revenue; behavior change; dual purpose	Fiscal tension	Fiscal Dominance
“If we impose a carbon tax, it’s like left pocket–right pocket... the government gets revenue but also pays higher energy subsidies.”	subsidies; revenue recycling; distortion	Revenue logic	
“Politically, carbon tax is a sensitive issue. Parliament sees it as a burden to society.”	political sensitivity; burden; public concern	Political pressure	
“The delay also occurs due to poor coordination among ministries. Each has a different view.”	poor coordination; differing views	Siloed mandates	Coordination Gaps
“The biggest problem is lack of trust... KLHK often does not attend coordination meetings.”	trust deficit; absence	Weak engagement	
“Formally data sharing exists, but in practice it is difficult. Emission data are sensitive.”	data sharing; MRV; sensitivity	Data fragmentation	Capacity Constraints
“We are cautious whether to apply carbon tax or focus first on carbon trading.”	cautious approach; sequencing	Instrument readiness	
“Actually the legal basis already exists,	legal basis; roadmap;	Institutional	

Statements / Quotations	Keywords	Codes	Themes
but we still need a roadmap and implementing regulations.”	implementation	maturity	
“International commitments push us to move forward, but domestically it is not easy.”	Paris Agreement; global pressure	Credibility concerns	External Pressure
“Carbon tax is also discussed in the context of broader fiscal reform.”	fiscal reform; policy alignment	Reform agenda	

The analysis commenced with the identification of key statements from the interview transcripts, as summarized in Table 1. Each statement served as an initial unit of analysis, reflecting policy actors' empirical perspectives on the design and implementation of the carbon tax. At this stage, keywords were extracted to capture the main issues in each statement, including state revenue, energy subsidies, inter-ministerial coordination, emissions data readiness, political sensitivity, and international pressure.

The subsequent stage involved open coding, where groups of keywords were consolidated into a single main code representing the dominant meaning of each statement. Employing a single code for each statement ensured analytical consistency and minimized overlapping meanings during theme development. Through axial coding, conceptually related codes were then grouped into broader themes.

This process produced four main themes: Fiscal Dominance, Coordination Gaps, Capacity Constraints, and External Pressure. The final stage of analysis entailed reviewing and consolidating these themes by comparing them with the complete set of excerpts to ensure internal coherence and clear conceptual distinctions. Table 1 thus provides methodological transparency by demonstrating that the analytical interpretations in this study are grounded in empirical data rather than theoretical assumptions alone (Braun & Clarke, 2006).

3.5. Data Saturation and Analytical Reliability

Data collection concluded upon achieving thematic saturation, defined as the point at which further interviews did not generate substantive new themes or codes. Saturation was determined when narrative patterns and key themes consistently emerged across ministries and informant roles, especially during the final stages of data collection (Guest et al., 2006).

Analytical triangulation and peer debriefing enhanced the reliability of the analysis. The initial coding and interpretation by the lead author were periodically discussed with two co-authors to challenge interpretations, identify potential biases, and increase analytical rigor. This approach did not rely on quantitative measures of inter-coder reliability, which are less suitable for qualitative policy studies (Bowen, 2009).

3.6. Secondary Data and Triangulation

To enhance the credibility of the findings, the study employed data source triangulation by integrating in-depth interviews with 25 relevant policy documents and publications as secondary data. These documents comprised tax laws, implementing regulations, policy roadmaps, ministerial reports, official government statements, and reports from international institutions.

Secondary documents were not analyzed as fully coded primary data but were used analytically for triangulation. These documents verified the chronology and direction of carbon tax policy development, identified the legal basis and division of authority between

ministries, and contextualized and confirmed key themes from the interview data. This approach enabled assessment of the consistency between policy actors' perceptions and the formal policy framework, thereby strengthening the credibility and analytical rigor of the research findings.

As summarized in Table 2 (Secondary Data Triangulation and Analytical Contribution), fiscal documents and tax regulations reinforced the Fiscal Dominance theme by demonstrating the carbon tax's role within the national fiscal reform regime. Documents concerning MRV, instrument readiness, and derivative regulations informed the Capacity Constraints theme, while cross-ministerial statements and coordination policies highlighted Coordination Gaps. International reports and commitments contributed to the External Pressure theme by situating Indonesia's carbon tax policy within the context of global expectations and commitments (Bowen, 2009; Weisbach et al., 2009).

Table 2. Secondary Data Triangulation and Analytical Contribution

No	Source Type	Source	Policy Focus	Analytical Theme Supported	Role in Triangulation	Key Analytical Insight
1	Government Statement	Ministry of Finance	Carbon tax delay	Fiscal Dominance	Confirms interview narratives	Carbon tax delay is framed as a matter of fiscal readiness rather than emission urgency
2	Government Statement	Ministry of ESDM	Carbon tax postponement	External Pressure / Fiscal Dominance	Collaborates interview data	Global economic uncertainty is used to justify postponement
3	International Report	OECD	Carbon tax evaluation	Coordination Gaps	External validation	Consumer burden concerns reinforce cautious government stance
4	Law / Regulation	Law No. 7/2021 (HPP Law)	Legal framework	Fiscal Dominance	Institutional grounding	Carbon tax is embedded within fiscal reform priorities
5	Policy Report	INDEF	Carbon tax design principles	Fiscal Dominance	Contextualises sectoral concerns	Justice and affordability narratives constrain ambitious pricing
6	Government Statement	Ministry of Industry	Implementation timeline	Coordination Gaps	Confirms delay rationale	Readiness framing masks unresolved coordination issues

No	Source Type	Source	Policy Focus	Analytical Theme Supported	Role in Triangulation	Key Analytical Insight
7	Government Statement	Ministry of Finance	Timing justification	External Pressure	Reinforces interview themes	Domestic and global conditions jointly shape delay decisions
8	Government Statement	Fiscal Policy Agency	Regulatory readiness	Capacity Constraints	Explains institutional process	Delay linked to incomplete derivative regulations
9	Government Statement	Ministry of ESDM	Economic uncertainty	External Pressure	Confirms macro context	Global shocks justify conservative policy sequencing
10	Media Analysis	CNBC Indonesia	Market readiness	Capacity Constraints	Contextualises implementation	Infrastructure and market mechanisms remain underdeveloped
11	Policy Commentary	Expert Tax Indonesia	Carbon tax mechanism	Capacity Constraints	Technical clarification	Hybrid cap-trade-tax reflects institutional caution
12	Media Commentary	Detik News	Carbon economy potential	Fiscal Dominance	Expands fiscal narrative	Carbon economy reframed as new revenue source
13	Government Portal	Pajak.go.id	State budget financing	Fiscal Dominance	Confirms fiscal logic	Carbon tax legitimised as APBN financing tool
14	Legal Commentary	Kontrak Hukum	Implementation plan	Coordination Gaps	Legal contextualisation	Formal commitment contrasts delayed execution
15	Tax Platform	Pajak.io	Carbon tax scope	Fiscal Dominance	Sectoral interpretation	Behavioural incentives framed through fiscal lens
16	Media Analysis	Bisnis.com	Technical readiness	Coordination Gaps	Confirms interview findings	Weak coordination hampers operationalisation
17	Media Analysis	Detik	Implementation	Capacity	Reinforces	Infrastructure

No	Source Type	Source	Policy Focus	Analytical Theme Supported	Role in Triangulation	Key Analytical Insight
		Finance	delay	Constraints	readiness issue	gaps delay rollout
18	Policy Commentary	DDTC News	Energy transition signal	External Pressure	Normative framing	Carbon tax positioned as international credibility signal
19	Media Analysis	Katadata	Ministerial coordination	Coordination Gaps	Explains institutional tension	Alignment between ministries remains incomplete
20	International Report	World Bank CCDR (2023)	Fiscal–climate alignment	External Pressure	External benchmarking	Carbon pricing urged to align development and climate goals
21	International Commitment	Enhanced NDC (2022)	Emission targets	External Pressure	Normative anchor	NDC commitments justify carbon pricing urgency
22	International Report	World Bank (2022)	Carbon tax design	Capacity Constraints	Technical validation	Initial focus on power sector reflects feasibility concerns
23	International Report	World Bank CCDR (2023)	Economic impact	Fiscal Dominance	Counter-narrative	Carbon pricing compatible with growth
24	Government Policy	Coordinating Ministry for Economic Affairs	Cap-trade-tax scheme	Coordination Gaps	Institutional mapping	Hybrid instruments reflect inter-ministerial compromise
25	Government Regulation	Fiscal Policy Agency (BKF)	Fiscal instrument	Coordination Gaps / Capacity Constraints	Institutional confirmation	Carbon tax firmly placed under fiscal authority

Table 2 provides an overview of the secondary data triangulation process and details the analytical contribution of each document to the research findings. The table demonstrates how 25 policy documents, regulations, government statements, media reports, and international publications were utilized to corroborate, contextualize, and explain the key themes identified from the interview data.

Secondary documents served as triangulation sources to assess the consistency between policy actors' perceptions and the formal policy framework underlying the design of the

carbon tax in Indonesia. The Analytical Theme Supported column specifies the direct connection between each document and the research's main themes, while the Role in Triangulation column identifies each document's specific function, such as confirming interview narratives, providing external validation, or explaining the institutional and regulatory context.

Fiscal documents and tax regulations primarily reinforce the Fiscal Dominance theme by illustrating how the carbon tax is integrated into fiscal reform and state revenue agendas. Cross-ministerial statements and coordination policies underscore Coordination Gaps, while technical documents and instrument readiness reports inform the Capacity Constraints theme. International reports and global climate commitments contribute to the External Pressure theme by situating Indonesia's carbon tax policy within the broader context of international expectations. Therefore, Table 2 demonstrates that triangulation in this study functions as an analytical mechanism to enhance the robustness and credibility of the findings, rather than serving a merely descriptive purpose (Bowen, 2009).

3.7. Research Ethics and Reflexivity

Ethics approval for this research was granted by the University of Queensland Human Research Ethics Committee (ethics number 2024/HE000329). All participants were fully informed about the research and provided informed consent prior to the interviews.

The lead author, a doctoral student at the University of Queensland, conducted data collection and analysis. This position provides analytical proximity to the empirical context but may also influence data interpretation. To address this, the researcher maintained reflexivity through the use of analytical memos, inter-author discussions, and iterative rereading of the data to ensure that the findings are grounded in empirical evidence rather than the researcher's normative assumptions.

4. Results

This study reveals four key findings that explain how developing country governments navigate the strategic alignment of fiscal priorities and climate commitments in the carbon tax policy design process. These findings reflect the dynamics of institutional coordination, short-term fiscal interests, international pressures, and limited institutional capacity that influence policy direction in Indonesia, the case study country.

4.1. Dominance of Short-Term Fiscal Interests over Climate Commitments (Fiscal Dominance)

The findings indicate that in the carbon tax policy design process, short-term fiscal interests and economic prudence were the government's primary considerations. The carbon tax was not positioned as the primary instrument for climate change mitigation, but rather as a policy that must be adjusted to macroeconomic conditions, state revenue stability, and public purchasing power. This perspective was strongly reflected in the statements of informants from the Ministry of Finance, who emphasized that the crisis context, particularly during the COVID-19 pandemic, was the primary reason for the delay in carbon tax implementation.

A Ministry of Finance official explained that implementing a new tax when the economy has not yet fully recovered is seen as risky and could have a distorting impact on the national economy. He stated:

“When the HPP Law was launched in 2021, the COVID-19 pandemic was still in full swing. If we impose a new tax, it will be distortive and could disrupt the economy,

purchasing power, and the public. So, the leadership felt that it was not the right time to implement a carbon tax.” (Gov-4)

In addition to timing and economic factors, the informant also emphasized that the primary objective of the carbon tax is not to increase state revenue. The carbon tax is understood more as a supporting instrument, used only when other policy instruments are unable to achieve emission reduction targets. This is evident in the following statement:

“The primary objective of the carbon tax is not state revenue. The objective is to help achieve the NDC target. But currently, with existing policy instruments, Indonesia's NDC achievement is still on track, even without the carbon tax.” (Gov -1)

Fiscal considerations also become more complex when linked to energy subsidy policies. The informant explained that implementing a carbon tax in the electricity sector has the potential to create a double fiscal burden, where the state receives revenue from the carbon tax but also must bear a larger subsidy because electricity prices cannot be fully passed on to the public. One informant stated:

“If we impose a carbon tax on electricity, the basic cost of electricity supply will increase. The government may receive revenue from the carbon tax, but on the other hand, the government will also have to pay a larger subsidy because the electricity price cannot be directly passed on to the public.”(Gov-5)

This finding suggests that the dominance of short-term fiscal interests forms the primary framework in carbon tax policy design, requiring climate commitments to be negotiated and aligned with economic and fiscal stability priorities.

4.2. Weak Inter-Ministerial Coordination in the Design Process (Coordination Gaps)

The second finding indicates that the carbon tax policy design process was marked by weak inter-ministerial coordination, particularly between the Ministry of Finance, as the fiscal authority, and other technical ministries. From the perspective of the Ministry of Environment, the carbon tax is viewed as the Ministry's primary domain, thus its role in the policy design process is relatively limited.

A government informant explicitly stated that his ministry had not conducted a specific study on the carbon tax because the policy falls under the Ministry of Finance's authority:

“The carbon tax is the Ministry of Finance's domain. We haven't conducted a separate study on the carbon tax.”(Gov-6)

Although cross-ministerial discussion forums exist, the coordination that occurs is largely formal and has not yet addressed the substance of the policy design. The informant explained that the Ministry of Environment's involvement in discussions remains limited to initial forums without in-depth discussion of the roadmap or implementation mechanisms for the carbon tax

“We were invited to several focus group discussions by the Fiscal Policy Agency, but so far the discussions have not yet reached the substance of the carbon tax roadmap.”(Gov-8)

Furthermore, informants emphasized that final decision-making authority remains with the Minister of Finance, while other ministries only provide input. This situation reinforces the fragmentation of authority in the policy design process:

“The authority to set the carbon tax and its regulations rests with the Minister of Finance. Our role is more about providing input.”(Gov-9)

This finding suggests that despite the existence of formal coordination mechanisms, there is no strong and equal coordination space to substantially align fiscal objectives and climate commitments during the policy design stage.

4.3. Limited Institutional Capacity in Designing Climate Instruments (Capacity Constraints)

The third finding indicates that limited institutional capacity, particularly in the industrial sector, is a significant factor influencing the government's caution in designing carbon tax policy. From the perspective of the Ministry of Industry, the current primary focus of carbon policy is on developing a carbon trading scheme, while a carbon tax has not yet been prioritized.

An informant from the Ministry of Industry stated that his ministry is focusing its efforts on carbon trading because it is considered more appropriate to the conditions of the national industrial sector:

“Our main focus right now is carbon trading. Regarding the carbon tax itself, there haven't been many discussions initiated by our ministry” (Gov-11)

Limited technical capacity, industrial readiness, and concerns about the competitiveness of domestic industries are key considerations. The informant explained that many industries are not yet ready to face carbon tax obligations, especially in the context of competition with imported products from countries that have not yet implemented a carbon tax:

“Industry needs clarity and preparedness. Many industries are not yet ready, and there are concerns about competitiveness, especially with imported products from countries that have not yet implemented a carbon tax.”(Gov-12)

Furthermore, informants emphasized the importance of returning the benefits of the carbon tax to the industrial sector, whether in the form of incentives, capacity building, or support for low-carbon technology. Without such clarity, the carbon tax is perceived as merely an additional burden:

“If carbon tax revenues only go to the state budget, industry will wonder what the benefits are. Ideally, these revenues should be returned to industry, for example in the form of capacity building or technology support.”(Gov-15)

This finding suggests that limited institutional capacity and uncertainty about policy benefits drive a preference for a gradual approach and market instruments, rather than mandatory tax instruments.

4.4. International Pressure and Fiscal Reform as Policy Drivers (External Pressure)

The fourth finding shows that despite facing various domestic obstacles, international pressure and the fiscal reform agenda remain important drivers in keeping the carbon tax on the government's policy agenda. International commitments, such as the Paris Agreement, as well as global policy dynamics encourage the government to consider a carbon tax as part of its efforts to maintain international credibility.

A cross-ministerial informant explained that international pressure creates an impetus for progress, although it does not necessarily resolve coordination and capacity issues at the domestic level:

“International commitments do put pressure on us to move, but that pressure does not automatically resolve coordination and capacity issues domestically.”(Gov-4)

This finding suggests that external pressure serves as a driver for the policy agenda, but the design and implementation of the carbon tax remain heavily determined by domestic fiscal and institutional dynamics.

Overall, the research findings demonstrate that the alignment between fiscal priorities and climate commitments is complex and highly negotiated. Carbon tax policy is not formulated solely for environmental purposes but is the result of the interaction between fiscal interests, political dynamics, international pressure, and institutional capacity. These findings provide a strong empirical basis for explaining how developing country governments navigate Strategic Fit in the context of fiscal-climate policy.

5. Discussion

This discussion synthesizes the empirical findings by situating them within the Strategic Fit perspective and the broader literature on climate and fiscal policy governance in developing countries. The analysis demonstrates that delays and cautious design choices in Indonesia's carbon tax reflect persistent challenges in achieving strategic fit among fiscal priorities, climate objectives, and institutional arrangements, rather than indicating policy inaction or weak climate ambition. Building on this insight, the discussion is organized in four steps. First, it clarifies the analytical role of Figure 1 as a strategic fit framework that integrates external pressures, domestic institutional conditions, and competing policy goals. Second, it examines the key empirical mechanisms that generate and sustain strategic fit challenges in policy design. Third, it translates these mechanisms into concrete policy design implications, particularly regarding pricing paths, revenue earmarking, and coordination mechanisms. Finally, the discussion acknowledges the study's limitations and outlines directions for future research on strategic fit and climate policy design in developing country contexts.

5.1 The Strategic Fit Analytical Framework

Figure 1, provides the analytical framework for this study and illustrates how strategic fit challenges influence carbon tax policy design in Indonesia. The framework conceptualizes alignment between fiscal priorities and climate objectives as the outcome of a negotiated and frequently imperfect policy process within a fragmented institutional context, rather than as an inherent or optimal state. Within the Strategic Fit perspective, alignment is defined as the degree of consistency among policy strategies and objectives, internal institutional structures, and external environmental pressures in determining policy outcomes (Chorn, 1991; Rweyendela, 2024).

Conceptually, Figure 1 illustrates that carbon tax design emerges from the dynamic interaction between external pressures, domestic institutional arrangements, and competing policy objectives. At the external level, international commitments such as the Paris Agreement, the pursuit of global credibility, and the fiscal reform agenda set the context for the policy environment. The global climate governance literature indicates that international commitments generate reputational incentives for countries to adopt emissions mitigation instruments (Fasting et al., 2021; McNaught, 2024). Nevertheless, the findings of this study indicate that external pressures do not necessarily lead to strategic alignment at the domestic level, supporting the view that the global climate regime primarily serves as a catalyst rather than a direct determinant of national policy outcomes.

At the domestic level, strategic fit challenges are primarily rooted in the tension between fiscal priorities and climate objectives. Fiscal priorities, including revenue stability, inflation control, and the protection of purchasing power, are typically short-term concerns, whereas the benefits of climate policy are long-term and less immediately apparent. This divergence

in time horizons results in a recurring temporal misfit in climate policy design within developing countries (Strand, 2020; Yusuf & Resosudarmo, 2015). Consequently, the observed pattern of delay and caution in carbon tax design reflects persistent strategic fit challenges in policy decision-making rather than representing an isolated policy outcome.

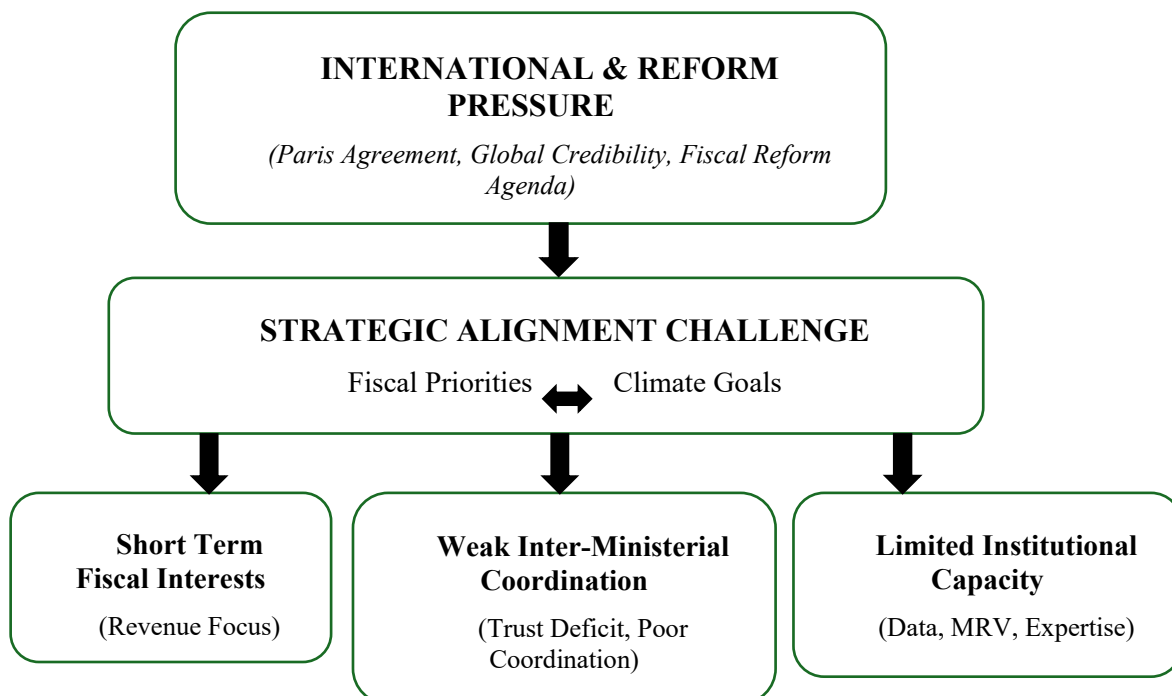


Figure 1. Strategic Fit Challenges in Carbon Tax Policy Design

5.2 Empirical Mechanisms Underlying Strategic Fit Challenges

Figure 1 identifies three principal mechanisms that explain the formation and persistence of strategic fit challenges in carbon tax policy design. First, the predominance of short-term fiscal interests exemplifies the revenue-first logic in the political economy of climate policy, in which carbon taxes are primarily seen as revenue-generating instruments rather than tools for emissions mitigation, thereby constraining alignment with climate objectives (Aldy & Pizer, 2015; Muzio & Wickert, 2025). Second, weak inter-ministerial coordination reflects a failure to align internally between policy objectives, allocation of authority, and institutional structures, ultimately deepening the strategic fit challenge in carbon tax policy design.

In line with the strategic fit perspective, bureaucratic fragmentation and sectoral silos not only hinder cross-sector collaboration but also result in inconsistencies between fiscal priorities, sectoral mandates, and climate mitigation objectives that should be integrated within a single policy framework (Calanni et al., 2015; Dyarto & Setyawan, 2021). This research demonstrates that misalignment of mandates and authority claims impedes policy implementation and fosters a preference for more cautious policy design. Third, limited institutional capacity, especially regarding emissions data, monitoring, reporting, and verification (MRV) systems, and industrial sector readiness, constitutes a structural constraint that restricts policy design options from the outset and heightens perceived policy risk (Baranzini & Carattini, 2017; Fernández-López & Mardones, 2025).

5.3 Policy Design Implications: Pricing Paths, Earmarking, and Coordination Mechanism

Drawing on empirical findings and the strategic fit framework, this analysis identifies several specific implications for policy design.

First, with respect to pricing paths, the results indicate that low initial tariffs lacking a defined escalation trajectory increase policy uncertainty. Establishing a predictable pricing path through gradual, scheduled tariff increases is necessary to provide a credible policy signal to industry stakeholders and investors (Andersson, 2019; Wesseh et al., 2017). Second, in terms of revenue earmarking, prioritizing fiscal objectives may undermine the legitimacy of carbon policies if revenues are not transparently allocated to climate or social protection goals. The literature underscores the value of partial earmarking, such as allocating funds for the energy transition, enhancing monitoring, reporting, and verification (MRV), or supporting vulnerable groups, to balance fiscal and climate objectives while maintaining budgetary flexibility (Baranzini & Carattini, 2017; Criqui et al., 2019).

Third, concerning coordination mechanisms, the findings indicate a need for a formal and enduring cross-ministerial coordination structure. Creating an inter-ministerial steering committee with a defined mandate, implementing mechanisms for intersectoral data sharing (including emissions data), and integrating fiscal and climate planning can reduce fragmentation and enhance strategic fit in policy design.

5.4 Study Limitation

This study is subject to several limitations. First, the sample primarily comprised government actors, which limited the inclusion of private sector and civil society perspectives. Second, as a qualitative, interview-based study, the findings may be influenced by informant perception bias. To address this, document triangulation and analytical discussions among authors were employed to enhance trustworthiness. Future research should broaden the range of stakeholders and integrate qualitative and quantitative methods to assess the impact of strategic fit challenges on policy effectiveness over the medium and long term.

In summary, the analysis demonstrates that carbon tax design in developing countries constitutes a dynamic, negotiated, and frequently incomplete process of achieving strategic fit. Figure 1 illustrates that the principal challenge in policy design is not the lack of climate commitments, but the ongoing misalignment among fiscal priorities, institutional capacity, and interministerial governance within the decision-making process.

6 Conclusion

This study aims to understand how governments in developing countries navigate strategic fit between fiscal priorities and climate commitments in the design of carbon tax policy. Drawing on a case study of Indonesia, the findings demonstrate that carbon tax design is not merely a technical exercise in climate policy, but the outcome of a complex and contested policy process in which short-term fiscal objectives and long-term climate goals coexist in persistent tension.

The results show that while international pressure and global climate commitments shape the external environment in which carbon tax policy is formulated, achieving strategic fit at the domestic level is constrained by the dominance of fiscal interests, weak inter-ministerial coordination, and limited institutional capacity. Together, these conditions generate enduring strategic fit challenges, helping to explain why carbon tax policies in developing countries are

often delayed, designed incrementally, or positioned as complementary rather than central instruments of climate policy.

Accordingly, this study confirms that navigating carbon tax policy in developing countries cannot be understood solely through the lenses of economic efficiency or environmental ambition. Instead, carbon tax design should be understood as an ongoing and negotiated process of strategic fit, shaped by interacting fiscal, institutional, and political pressures (Dyarto & Setyawan, 2021; Renner, 2018; Rweyendela, 2024). By foregrounding strategic fit challenges, this study provides a more realistic account of climate policy design in developing countries and highlights the importance of governance approaches that explicitly address institutional misfit in the integration of fiscal and climate policy objectives.

6.1. Theoretical Contribution

This research makes a theoretical contribution by extending the application of the Strategic Fit theory (Miles & Van Clieaf, 2017; Rweyendela, 2024) to the analysis of carbon tax policy design in developing countries. While existing literature often treats carbon taxes as stand-alone economic or environmental instruments (Chorn, 1991; Miles & Van Clieaf, 2017; Rweyendela, 2024). This study demonstrates that carbon tax policy is embedded in a broader strategic context in which fiscal priorities and climate commitments constitute two interdependent but frequently competing strategic domains. These domains operate under different time horizons, policy logics, and configurations of authority, generating persistent challenges in achieving strategic fit within public policy design.

Drawing on the Strategic Fit theory from management and organisational studies (Chorn, 1991; Rweyendela, 2024). This research reconceptualises strategic fit in the public policy context as a contested and negotiated condition, rather than a technically optimised or managerially chosen outcome. The findings show that strategic misfit in carbon tax policy design arises not only from conflicting policy objectives, but also from institutional fragmentation, unequal authority across ministries, and limited state capacity, which together constrain the consistency between policy goals, institutional arrangements, and the external policy environment. In doing so, this study advances Strategic Fit theory by demonstrating that, in public policy settings, fit is shaped less by managerial choice and more by institutional power relations and governance structures.

Furthermore, this study contributes to the climate policy literature in developing countries by incorporating international pressures into a Strategic Fit perspective. The findings show that global climate commitments and reform agendas shape the external conditions under which governments seek strategic fit, but do not automatically translate into fit at the domestic level. This highlights the limits of global climate regimes in producing policy coherence when confronted with domestic fiscal constraints and institutional realities (Mehling et al., 2018; Pizer, 2002). By integrating international pressures, fiscal dominance, and institutional capacity constraints within a Strategic Fit framework, this study offers a more comprehensive theoretical lens for analysing carbon tax policy design in developing countries.

6.2. Practical Implications

The findings of this study have several practical implications for policymakers, particularly in developing countries considering or implementing carbon taxes. First, the results demonstrate the importance of explicitly recognizing the tension between fiscal and climate objectives from the early stages of policy design. Approaches that ignore fiscal realities risk generating institutional resistance and policy delays, while approaches that are too revenue-oriented can undermine the credibility of climate policy.

Second, this study emphasizes the need for stronger and more substantive inter-ministerial coordination mechanisms in carbon tax policy design. Coordination cannot simply be procedural or based on formal consultations; it needs to be institutionalized within a clear governance structure, including the division of roles, authorities, and responsibilities among ministries involved in fiscal and climate policy (Jordan et al., 2018).

Third, the institutional capacity limitations identified in this study suggest that investment in emissions data systems, MRV mechanisms, and capacity building of policy actors are essential prerequisites for credible and sustainable carbon tax design. Without an adequate capacity foundation, policies tend to be conservatively designed and struggle to evolve toward more ambitious instruments (Baranzini et al., 2017).

Finally, this research finding suggests that the utilization of carbon tax revenues needs to be strategically designed to build policy support, for example through benefit-return schemes for affected sectors or funding for low-carbon technology transitions. This approach has the potential to reduce political and industry resistance, while also helping to bridge fiscal and climate objectives within a more sustainable policy framework.

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