

Board decision on the Validation of Indonesia

Decision reference: Decision 2019-74/BC-283

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The Board's decision

The Board came to the following decision:

Following the conclusion of Indonesia's Validation, the Board agrees that Indonesia has made meaningful progress in implementing the 2016 EITI Standard.

The Board commends the government and stakeholders in Indonesia for making progress in improving transparency in the country's extensive and complex extractive sector. Despite Indonesia's decentralised and diverse context, the EITI has served as a platform for coordination between various government agencies. In particular, there is high-level political support for beneficial ownership transparency. The government has enacted reforms such as the launch of the land-use database 'One Map Indonesia' that strengthens extractives transparency, particularly in licensing.

Nonetheless, challenges remain. The Board encourages Indonesia to move beyond viewing the EITI as an annual reporting exercise to using implementation as a means of improving the governance of natural resources for the ultimate benefit of its citizens. Indonesia is also encouraged to ensure that all constituencies are well represented and adequately engaged in the EITI process. The MSG is urged to use the opportunity of Validation to assess the results of ten years of implementation. Stakeholders may wish to reconsider the way the EITI is implemented to ensure that goals are aligned with national reform priorities and implementation is fit for purpose, taking into account the country's specific circumstances, diverse extractive sector and unique challenges.

The Board has determined that Indonesia will have 18 months, i.e. until 24 June 2021, before a second Validation to carry out corrective actions regarding the requirements relating to government engagement (#1.1), industry engagement (#1.2), civil society engagement (#1.3), MSG governance (#1.4), work plan (#1.5), license allocations (#2.2), license register (#2.3), policy on contract disclosure (#2.4), state participation (#2.6), production data (#3.2), export data (#3.3), comprehensiveness (#4.1), in-kind revenues (#4.2), SOE transactions (#4.5), disaggregation (#4.7), data quality (#4.9), subnational transfers (#5.2), mandatory social expenditures (#6.1), SOE quasi-fiscal expenditures (#6.2), public debate (#7.1), follow up on recommendations (#7.3) and outcomes and impact of implementation (#7.4).

The Board's decision followed a Validation that commenced on 1 September 2018. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed by an Independent Validator, who submitted a draft Validation report to the MSG for comment. The MSG's comments on the report were taken into consideration by the independent Validator in finalising the Validation report and the independent Validator responded to the MSG's comments. The final decision was taken by the EITI Board.

Background

Indonesia was accepted as an EITI country in October 2010. On 25 October 2016, the Board agreed that Indonesia's Validation under the 2016 EITI Standard would commence on 1 September 2018. In accordance with the Validation procedures, an initial assessment [[English](#) | [Bahasa](#)] was prepared by the International Secretariat. The draft Validation report [[English](#) | [Bahasa](#) | [French](#)] was then completed and submitted to the MSG for comments. Comments from the MSG [[English](#)] were taken

into consideration by the independent Validator in finalising the Validation report [[English](#) | [Bahasa](#) | [French](#)]. The independent Validator responded to the MSG's comments [[English](#) | [Bahasa](#)].

On 7 October, the Indonesia MSG, through its Chair Montty Girianna, sent a letter [[English](#) | [French](#)] to the Committee expressing its objection to the assessment of inadequate progress on Requirement 1.2 and Indonesia's possible suspension. The letter cited examples of company participation in the EITI process such as contributions to discussions on critical issues during MSG meetings, the government's effort to make EITI reporting mandatory for oil and gas companies through written communications, the companies' efforts to engage with their wider constituency through regular updates on EITI implementation, and the absence of legal barriers to company participation through the execution of tax confidentiality waivers. The letter proposes that direct consultations be made by the independent Validator with stakeholders in Indonesia.

The Validation Committee reviewed the case on 17 October 2019 and discussed whether Requirement 1.2 could be upgraded to meaningful progress considering some improvements in company participation since the Validation report was finalised. The Committee also discussed whether the overall assessment for Indonesia should be "meaningful progress" or "inadequate progress". The Validation Committee considered the number of corrective actions and other factors such as recent developments in company engagement and EITI reporting, as well as the complexity of the extractive sector in Indonesia. The Committee tasked the International Secretariat to gather further information based on stakeholder consultations during the Secretariat's mission in Jakarta on 5-12 November 2019. On 27 November 2019 [[English](#)], the MSG sent a second letter to the Validation Committee highlighting progress in addressing the outstanding gaps highlighted in the final Validation report, since the commencement of Validation. The International Secretariat reported that Indonesia had made progress on the following aspects since the commencement of Validation:

1. **Company engagement.**

Indonesia's Validation was based on the 2015 EITI Report where one of the findings that led to the assessment of inadequate progress on Requirement 1.2 was the high percentage of companies (17% of material companies, or 49 of 275 companies) that did not submit tax confidentiality waivers. This number has decreased by more than half in the 2016 EITI Report where only 8% (24 of 286) of material companies did not submit tax waivers. In addition, the company representatives consulted informed the International Secretariat of their plans to discuss with the new Minister of Energy and Mining whether a permanent solution could be adopted to exempt EITI-participating companies from the application of tax confidentiality provisions.

MSG members including civil society representatives attested that company participation in outreach activities has improved. Proof of this is the companies' engagement in beneficial ownership workshops led by the EITI, as well as its involvement in focus group discussions coordinated by the EITI on oil and gas domestic market obligations and revenue sharing mechanisms at the subnational level. The industry constituency explained that the Validation process enabled them to gain a better understanding of the expectations from them as a constituency. Consequently, they have adopted measures to improve their liaison with their wider constituency by giving regular updates on the EITI process through company or association meetings and by routinely disseminating communications related to the EITI to their association members. A representative from one of the largest mining companies mentioned that they had intensified their efforts to provide updates on EITI during meetings with government, local communities and universities. They further pointed out

that the context of Indonesia was challenging in that thousands of companies are not members of industry associations and are beyond their reach because of distance and lack of technology use by smaller companies. Only 100 out of 700 companies are members of the Indonesia Mining Association, while in the coal sector only 94 out of 1,163 companies are members of the Coal Mining Association. This explains why outreach to all extractive companies has been limited. To illustrate the difficulty of liaising with their wider constituency, the coal mining association explained that, due to practical reasons, they had to close their branches in Kalimantan and Sumatra. They confirmed, however, that the most material companies by payments to government are members of the association and are engaged in the EITI process. The company constituency has finalised an action plan outlining steps to improve their EITI engagement, which the MSG has submitted in annex to its second letter to the Validation Committee. On the basis of these developments, it is recommended that the assessment on Requirement 1.2 be upgraded from inadequate to meaningful progress.

1. Disclosure-related requirements.

A month after the Validation mission was concluded in November 2018, the MSG published the 2016 EITI Report, which suffers many of the same gaps that were identified in the 2015 EITI Report. Efforts have been made by the MSG to address the technical gaps in the 2017 EITI Report, which will be published in December 2019. Towards this end, the MSG has undertaken the following measures:

- **Requirement 4.1 (Comprehensiveness).** Validation found that the Independent Administrator's assessment of comprehensiveness of revenues was merely based on tax payments of material companies that executed tax waivers, not on total extractive companies' payments to government. The MSG has since reached out to the Directorate General of Tax to source the aggregate amount of taxes paid by material and non-material companies, including those that did not execute tax waivers. In annex to its second letter to the Validation Committee, the MSG included the IA's explanation of measures adopted to address gaps in the comprehensiveness of disclosures in the 2017 EITI Report.
- **Requirement 4.7 (Level of disaggregation).** Validation found that Indonesia's EITI Report failed to disaggregate between three types of oil and gas revenue streams that were reported in aggregate as Government Lifting, namely, First Tranche Petroleum, Equity Oil and Domestic Market Obligation. SKK Migas, the regulator of the upstream oil and gas sector, explained that as a matter of policy and practice, they do not calculate these revenue streams separately but that they could disclose the calculation of FTP and equity oil for tax purposes, which could be used as proxy data for disaggregated revenues. This information was submitted in annex to the MSG's second letter to the Validation Committee on 27 November 2019, although it has not yet been published on the EITI Indonesia website. It is expected that this disaggregated data will be published in future EITI Reports. In annex to its second letter to the Validation Committee, the MSG included the IA's explanation of measures adopted to ensure sufficient disaggregation of reconciled financial data in the 2017 EITI Report.
- **Requirement 4.9 (Data quality).** Validation concluded that the Independent Administrator failed to include in the 2016 EITI Report a categorical assessment of data quality. The MSG has investigated this issue further and has explained to the new Independent Administrator the need for a clear and categorical assessment of data quality in the final EITI Report. There is no evidence that there are further concerns about the quality of data from government and companies consulted. It is expected that the Independent Administrator's clear statement on the reliability of reconciled financial data will be included in the 2017 EITI Report.

- **Requirement 5.2 (Subnational transfers).** Validation found that while the 2015 EITI Report disclosed the executed subnational transfers, it did not assess whether there were discrepancies between the executed subnational transfers and those calculated according to the revenue-sharing formula. In annex to its second letter to the Validation Committee, the MSG included publicly-accessible documents from the Ministry of Finance’s website regarding allocated and executed subnational transfers. It is expected that the MSG’s assessment of discrepancies between executed subnational transfers and calculations according to the revenue-sharing formula will be included in the 2017 EITI Report. The International Secretariat finds that the improved level of disclosures related to Requirement 5.2 would be sufficient to warrant an upgrade of the assessment to “meaningful progress”.
- **Requirement 6.1 (Social expenditures).** The Indonesia [EITI website](#) disclosed additional information regarding social expenditures in the mining, oil and gas sectors in November 2019, which now includes a description of whether the social expenditures were provided in cash or in kind, the value of the expenditures, whether these are voluntary or mandatory, and the corresponding beneficiaries. The description of the nature of the projects were previously disclosed in the 2015 EITI Report. However, while the 2015 EITI Report includes data for 71 oil and gas companies, the newly disclosed data refers to only 69 oil and gas companies. Moreover, all social expenditures disclosed on the Indonesia EITI website are described as voluntary, although it is clear that the laws of Indonesia mandate social expenditures in the mining, oil and gas sectors. Nonetheless, the International Secretariat finds that the improved level of disclosures related to Requirement 6.1 would be sufficient to warrant an upgrade of the assessment to “meaningful progress”.
- **Requirement 6.2 (Quasi-fiscal expenditures).** The 2015 EITI Report only considered SOE social expenditures in the disclosure of quasi-fiscal expenditures. The Validation assessment thus concluded that this narrow definition raised doubts on the comprehensiveness of information disclosed on quasi-fiscal expenditures. The MSG has since discussed and investigated the possible existence of other quasi-fiscal expenditures, specifically subsidies related to domestic coal sales. In annex to its second letter to the Validation Committee, the MSG included documentation of its discussions on quasi-fiscal expenditures. It is expected that the MSG’s comprehensive assessment of quasi-fiscal expenditures will be included in the 2017 EITI Report.

1. Mainstreaming.

The MSG has started a mainstreaming feasibility study with the objective of submitting an application for partial mainstreaming in 2020. The MSG considers mainstreaming as a way of addressing some of the gaps in their previous EITI Reports, given that the MSG estimates that more than 50% of their extractives data are already being disclosed by government. In particular, plans are underway for the Ministry of Energy and Ministry to use its existing online platforms to adhere to EITI Requirements on license allocation and license registers. Subnational revenue data could also be disclosed in a timelier manner by the Ministry of Finance.

1. Complex extractive industries and governance framework.

During consultations in November 2019, Indonesian stakeholders further highlighted the importance

of considering their context in assessing their overall progress in Validation. The vital role played by both the central and local governments in governing the mining sector has led to fragmented regulations and highly bureaucratic procedures that could sometimes affect the availability of data in a timely manner. For example, the computation of subnational transfers involves the discussion and sign-off of several agencies namely, the Ministry of Energy and Mining, SKK Migas, Directorate General for Tax, the Ministry of Home Affairs, Ministry of Finance, Ministry of Budget and the subnational region concerned. Computing and adjusting subnational revenues therefore require extensive coordination, not to mention adherence to several audit procedures. In addition, national and local governments have shared - and sometimes overlapping - responsibilities when it comes to issuing licenses. While the national government determines the area for mining, regional governments have the authority to issue business licenses within these pre-determined areas (subject to some exceptions). This poses challenges with respect to ascertaining the comprehensiveness of mining licenses in the Ministry of Mines' database, which in 2016 was estimated to include around 8,000 mining licenses. As one company representative pointed out, while the recent "clean and clear" certification (CNC) process adopted by the government to classify legitimate mining operations found that about 1,163 coal companies passed the "clean and clear" test, the exact number of existing mining companies still could not be fully ascertained. The protracted CNC process, which took five years to complete, is an illustration of the challenging nature of gathering information about company payments, their adherence to licensing processes and social obligations, even for government. Government databases are not entirely inter-operable and it is only recently that the government is attempting to link its numerous platforms. The MSG's mainstreaming feasibility study shows that extractive sector data are collected and disclosed by the Ministry of Energy and Mineral Resources (MEMR) through five different platforms (MOMI, MODI, SIMPONI, E-PNBP, MOMS) that have not yet been fully integrated. The MEMR is working on an ESDM Data Enterprise system that aims to integrate the different platforms.

It was highlighted by one government representative that, while Indonesia adopted a license-based regime in 2009, there are several "contracts of work" issued before 2009 that are still in effect. These consist of seven different generations of contracts with varying fiscal terms. Computing tax and non-tax liabilities under these agreements require a detailed analysis which could be tedious, and could be constrained by contract confidentiality clauses. This could limit the extent of analysis done by the Independent Administrator, specifically on contractually mandated social expenditures and subnational payments. With respect to the oil and gas sector, complex regulations, particularly with respect to Indonesia's cost-recovery scheme, contribute to difficulties in the EITI reporting process in terms of understanding the fiscal obligations of companies. As explained by one stakeholder during Validation, some companies are entitled to cost recovery for direct payments made to subnational governments. It is however unclear how these are considered in the final revenue-sharing mechanism. These complicated processes illustrate why some technical gaps in EITI reporting could not be addressed in the short term.

Lastly, the fact that some mining regions are remote and have limited access to technology contribute to the absence of information on licenses, subnational payments and social expenditures. The 2015 EITI Report lists 34 provinces entitled to subnational transfers from mining, oil and gas, with some of these provinces further subdivided into 20 or more subnational units covering a total of 17,000 islands. With limited capacity and technology and highly decentralised authority, the transfer of information from these units to the national government is not always straightforward and has posed challenges to EITI reporting.

1. Other developments.

The MSG's second letter to the Validation Committee included the draft 2020 EITI Indonesia work plan and the MSG's approved updated ToR, expected to be published on the EITI Indonesia website shortly. The MSG has met to develop an action plan to improve MSG governance, noting the lack of coordination within the different constituencies and the need for participation of more senior government officials in the MSG. The MSG is also in the process of finalising its annual impact evaluation, including a documentation of actions on recommendations. In its second letter to the Validation Committee, the MSG submitted an overview of follow-up on past EITI recommendations on beneficial ownership. The MSG's second letter also included a list of outreach and dissemination activities since the commencement of Validation (September 2018).

These recent developments fulfil the criteria set by the Board for considering information subsequent to the commencement of Validation ([BD 2019-15](#)) namely that the representation to consider these developments is supported by the MSG, the new information is specific and verifiable, of material significance for assessment of the related requirements, and was provided in a timely manner ahead of the Validation Committee's deliberations. If the Validation Committee agrees to exercise its discretion to consider this additional information, the assessment of Requirement 1.2 could be upgraded to meaningful progress. There is also reasonable justification for an overall assessment of meaningful progress. By way of comparison, other countries that had received an overall assessment of meaningful progress but with less complex sectors such as Papua New Guinea had a similar number requirements assessed as "inadequate progress".

Based on the findings above, the Validation Committee agreed to recommend the assessment card and corrective actions outlined below.

The Committee agreed to recommend an overall assessment of "meaningful progress" in implementing the 2016 EITI Standard. Requirement 8.3.c of the EITI Standard states that:
















ii. Overall assessments. Pursuant to the Validation Process, the EITI Board will make an assessment of overall compliance with all requirements in the EITI Standard.








iv. **Meaningful progress.** The country will be considered an EITI candidate and requested to undertake corrective actions until the second Validation.

The Validation Committee agreed to recommend a period of **18 months** to undertake the corrective actions. This recommendation takes into consideration the number and scope of the corrective actions and seeks to align the Validation deadline with the timetable for Indonesia's 2017 and 2018 EITI Reports.

Scorecard

EITI Requirements		Level of Progress				
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond
MSG oversight	Government engagement (#1.1)					
	Industry engagement (#1.2)					
	Civil society engagement (#1.3)					
	MSG governance (#1.4)					
	Workplan (#1.5)					
Licenses and contracts	Legal framework (#2.1)					
	License allocations (#2.2)					
	License register (#2.3)					
	Policy on contract disclosure (#2.4)					
	Beneficial ownership (#2.5)					
	State participation (#2.6)					
Monitoring production	Exploration data (#3.1)					
	Production data (#3.2)					
	Export data (#3.3)					
Revenue collection	Comprehensiveness (#4.1)					
	In-kind revenues (#4.2)					
	Barter agreements (#4.3)					
	Transportation revenues (#4.4)					
	SOE transactions (#4.5)					
	Direct subnational payments (#4.6)					
	Disaggregation (#4.7)					
	Data timeliness (#4.8)					
	Data quality (#4.9)					
Revenue allocation	Distribution of revenues (#5.1)					
	Subnational transfers (#5.2)					
	Revenue management and expenditures (#5.3)					

EITI Requirements		Level of Progress				
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond
Socio-economic contribution	Mandatory social expenditures (#6.1) 					
	SOE quasi-fiscal expenditures (#6.2) 					
	Economic contribution (#6.3) 					
Outcomes and impact	Public debate (#7.1) 					
	Data accessibility (#7.2) 					
	Follow up on recommendations (#7.3) 					
	Outcomes and impact of implementation (#7.4) 					
Overall progress						

-  **No progress.** All or nearly all aspects of the requirement remain outstanding and the broader objective of the requirement is not fulfilled.
-  **Inadequate progress.** Significant aspects of the requirement have not been implemented and the broader objective of the requirement is far from fulfilled.
-  **Meaningful progress.** Significant aspects of the requirement have been implemented and the broader objective of the requirement is being fulfilled.
-  **Satisfactory progress.** All aspects of the requirement have been implemented and the broader objective of the requirement has been fulfilled.
-  **Outstanding progress (Beyond).** The country has gone beyond the requirements.
-  This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.
-  The MSG has demonstrated that this requirement is not applicable in the country.

Corrective actions

The EITI Board agreed the following corrective actions to be undertaken by Indonesia. Progress in addressing these corrective actions will be assessed in a second Validation commencing on 24 June 2021:

1. In accordance with Requirement 1.1, Indonesia is required to: i. issue a public statement indicating its continued support to EITI implementation; ii. appoint a senior individual who will effectively lead the EITI process; iii. ensure that senior individuals participate in the MSG; iv. take steps to ensure that government is fully, actively and effectively engaged in the EITI process by addressing administrative and legal barriers to implementation, including in the

submission of data by government agencies and companies required for EITI reporting, conducting outreach to other agencies, and using EITI data to promote public debate and formulate policies. The government is required to draft an action plan to address these corrective actions within three months from the Board decision, and should regularly monitor the progress of implementing the action plan by providing regular reports to the EITI secretariat.

2. In accordance with Requirement 1.2, Indonesia is required to: i. take steps to ensure that industry is fully, actively and effectively engaged in the EITI process; ii) ensure that there is an enabling environment for company participation with regard to relevant laws, regulations, and administrative rules as well as actual practice in implementation of the EITI; and iii) ensure that there are no obstacles to company participation in the EITI process. Industry is required to draft an action plan to address these corrective actions within three months from the Board decision and should regularly monitor the progress of implementing the action plan by providing regular reports to the EITI Secretariat.
3. In accordance with Requirement 1.3, Indonesia is required to ensure that civil society is fully, actively and effectively engaged in the EITI process by maintaining a regular feedback mechanism to its broader constituency to ensure that the EITI process is substantive and addressing issues that are relevant to civil society. Civil society is required to draft an action plan to address these corrective actions within three months from the Board decision and should regularly monitor the progress of implementing the action plan by providing regular reports to the EITI Secretariat.
4. In accordance with Requirement 1.4, Indonesia is required to i. ensure that the constituencies are adequately represented, comprising appropriate stakeholders with sufficient capacity, willingness and availability to commit to the EITI process; ii. with respect to industry, ensure that the selection process is open and transparent; iii. ensure that the multi-stakeholder group undertakes effective outreach activities with civil society groups and companies, including through communication such as media, website and letters, informing stakeholders of the government's commitment to implement the EITI, and the central role of companies and civil society; iv. ensure that members of the multi-stakeholder group liaise with their constituency groups; v. ensure that internal rules of procedure are adopted, indicating that any member of the multi-stakeholder group has the right to table an issue for discussion and that there is sufficient advance notice of meetings and timely circulation of documents prior to their debate and proposed adoption; vi. agree on a clear Terms of Reference with provisions on ensuring that the members of the MSG have the capacity to carry out their duties.
5. In accordance with Requirement 1.5, Indonesia is required to draft a work plan that: a) sets EITI implementation objectives that are linked to the EITI Principles and reflect national priorities for the extractive industries. b) Reflect the results of consultations with key stakeholders; c) Include measurable and time bound activities to achieve the agreed objectives. The scope of EITI implementation should be tailored to contribute to the desired objectives that have been identified during the consultation process. The work plan must: i. Assess and outline plans to address any potential capacity constraints in government agencies, companies and civil society that may be an obstacle to effective EITI implementation. ii. Address the scope of EITI reporting, including plans for addressing technical aspects of reporting, such as comprehensiveness (4.1) and data reliability (4.9). iii. Identify and outline plans to address any potential legal or regulatory obstacles to EITI implementation, including, if applicable, any plans to incorporate the EITI Requirements within national legislation or regulation. iv. Outline the multi-stakeholder group's plans for implementing the recommendations from Validation and EITI reporting.
6. In accordance with Requirement 2.2, Indonesia is required to disclose information related to

the award or transfer of licenses pertaining to the companies covered in the EITI Report. This information should include the number of mining, oil and gas licenses awarded and transferred in the year covered by EITI reporting, a description of the award procedures, including specific technical and financial criteria assessed, and highlight any non-trivial deviations in practice. In addition, Indonesia may wish to comment on the efficiency of the current license allocation and transfer system as a means of clarifying procedures and curbing non-trivial deviations.

7. In accordance with Requirement 2.3, Indonesia is required to maintain a publicly available register or cadastre system(s), providing comprehensive information including dates of application and partner interests for licenses held by all oil, gas and mining companies. In the interim Indonesia should ensure that future EITI reporting provide the information set out under EITI Requirement 2.3.b, including dates of application and partner interests, for all oil and gas and mining companies covered in the EITI reporting cycle.
8. In accordance with Requirement 2.4, Indonesia should ensure that the government's policy on contract disclosure is clear and public, and that a review of actual practice of contract disclosure in the mining, oil and gas sectors be publicly accessible.
9. In accordance with Requirement 2.6, Indonesia's government and SOEs must disclose their level of ownership in mining, oil and gas companies operating within the country's oil, gas and mining sector, including those held by SOE subsidiaries and joint ventures, and any changes in the level of ownership during the reporting period. This information should include details regarding the terms attached to their equity stake, including their level of responsibility to cover expenses at various phases of the project cycle, e.g., full-paid equity, free equity, carried interest. Where there have been changes in the level of government and SOE(s) ownership during the EITI reporting period, the government and SOE(s) are expected to disclose the terms of the transaction, including details regarding valuation and revenues.
10. In accordance with Requirement 3.2, Indonesia should ensure that annual production volumes and values be publicly accessible for all minerals, oil and gas produced in the year under review.
11. In accordance with Requirement 3.3, Indonesia must ensure that annual export volumes and values be publicly accessible for all minerals, oil and gas produced in the year under review, disaggregated by commodity. In light of significant stakeholder concerns over the reliability of official government export data, Indonesia may wish to use EITI reporting to disclose information on the monitoring and valuation of extractives export, as well as include estimates of unrecorded or informal exports in future EITI reporting cycles.
12. In accordance with Requirement 4.1, Indonesia should ensure that the list of material companies included in the scope of reporting is clearly defined and should ensure that future EITI reporting includes the IA's assessment of the materiality of omissions as well as full unilateral government disclosure of material revenues from non-material companies.
13. In accordance with Requirement 4.2, Indonesia should ensure that future EITI reporting present information on the sale of the state's in-kind revenues, including volumes sold and the proceeds of sales, disaggregated by buyer.
14. In accordance with Requirement 4.5, Indonesia must ensure that the role of SOEs, including company and subsidiary payments to SOEs as well as transfers between SOEs and government agencies, is comprehensively and publicly addressed. Indonesia is encouraged to consider working with SOEs on ensuring their statutory annual reporting covers the information required by the EITI Standard in a sufficiently disaggregated manner.
15. In accordance with Requirement 4.7, Indonesia should present all reconciled financial data disaggregated by company, government entity and revenue stream. To further strengthen implementation, Indonesia may wish to make progress in implementing project-level EITI

reporting for all material companies ahead of the deadline for all EITI Reports covering fiscal periods ending on or after 31 December 2018, agreed by the EITI Board at its 36th meeting in Bogotá.

16. In accordance with Requirement 4.9, Indonesia should ensure that a review of actual auditing practices by reporting companies and government entities be conducted before agreeing procedures to ensure the reliability of EITI information. Indonesia should ensure that the ToR for the IA is in line with the standard ToR approved by the EITI Board and that its agreement on any deviations from the ToR in the final EITI Report be properly documented. Indonesia should also ensure that the IA includes an assessment of whether the payments and revenues disclosed in the EITI Reports were subject to credible, independent audit, applying international auditing standards.
17. In accordance with Requirement 5.2, Indonesia should assess the materiality of subnational transfers and ensure that future EITI reporting provide the specific formula for calculating subnational transfers linked to extractives revenues to individual governorates, disclose any material subnational transfers and any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount that was transferred between the central government and each relevant subnational entity.
18. In accordance with Requirement 6.1, Indonesia should ensure that a clear definition of any mandatory social expenditures is publicly provided and assess the materiality of such expenditures in the period under review. Public disclosure of mandatory social expenditures must be disaggregated by type of payment (distinguishing cash and in-kind) and beneficiary, clarifying the name and function of any non-government (third-party) beneficiaries of mandatory social expenditures. Indonesia is encouraged to pursue disclosure of voluntary social expenditures to a level of disaggregation commensurate with mandatory social expenditures, albeit clearly distinguishing the two forms of payments in the disclosures.
19. In accordance with Requirement 6.2, Indonesia should undertake a comprehensive review of all expenditures undertaken by extractives SOEs that could be considered quasi-fiscal. Indonesia should develop a reporting process for quasi-fiscal expenditures with a view to achieving a level of transparency commensurate with other payments and revenue streams.
20. In accordance with Requirement 7.1 Indonesia must ensure that the EITI Report and EITI data is adequately circulated and promoted, with a view to contributing to public debate by targeting key audiences such as parliamentarians, media, policy makers, local communities near extraction sites and wider civil society. The MSG may wish to consider establishing more formal mechanisms for subnational MSGs to provide input to national EITI discussions, to ensure discussions and priorities at the local level are reflected.
21. In accordance with Requirement 7.3, Indonesia is required to take steps to act upon lessons learnt; to identify, investigate and address the causes of any discrepancies; and to consider the recommendations resulting from EITI reporting with a view to strengthen the impact of EITI implementation on natural resource governance.
22. In accordance with Requirement 7.4, Indonesia must ensure that stakeholders should be able to participate in the production of the annual progress report and in reviewing the impact of EITI implementation which the MSG should do on a regular basis. Civil society groups and industry involved in the EITI, particularly, but not only those serving on the multi-stakeholder group, should be able to provide feedback on the EITI process and have their views reflected in the annual progress report. It is further recommended that the MSG considers the findings of the impact assessment that they commissioned.

The government and the MSG are encouraged to consider the other recommendations in the Validator's Report and the International Secretariat's initial assessment, and to document the MSG's

responses to these recommendations in the next annual progress report.