Validation of Indonesia
Response to MSG Feedback
CowaterSogema Independent Validator
22nd July 2019

The Validator wishes to thank the MSG for their helpful feedback. What follows is the Validator's response to the feedback from the MSG.

Requirement 1.1: Government Engagement

The points raised by the MSG oversight were all considered in the initial assessment. The issue is the quality and depth of the engagement of the constituencies. The assessment remains the same.

Requirement 1.2: Industry Engagement

The Validator is grateful for the MSG comments and the expressed commitment to strengthen industry participation. However, there was no additional evidence provided to warrant a change in the assessment in the draft report.

Requirement 1.3: Civil Society Engagement

The Validator notes the MSG comments, however, no additional evidence was provided that would be good grounds to elevate the assessment in the draft report.

Requirement 1.4: MSG Governance

The Validator is grateful for the MSG comments regarding delegated authority. However, the substantive issues regarding lack of a linkage between EITI reports as a means to faciliate reform still stand, as does the lack of consultation within industry, as well as the three constituency groups liaising with their wider community. The assessment of the draft report therefore still stands.

Requirement 1.5: Work Plan

The MSG does not offer, throught its feedback, any substantive points to alter the findings of the initial assessment.

Requirement 2.2: Licence Allocations

The Validator is grateful for the comments provided by the MSG and the link provided regarding the award/transfer of licences for the requisite reporting period. However, there is no a description of the award procedures, including specific technical and financial criteria assessed, nor was there any highlighting of non-trivial deviations in practice noted for the year in question. The assessment of the draft report therefore still stands.

Requirement 2.3: Licence Register

The Validator checked the map portal again, and it appears the same issue stands: the dates of application are not available for each licence area, as well as partner participating interest. The assessment of the draft report therefore still stands.

Requirement 2.4: Contract Disclosure

The Validator notes the comments by the MSG and welcomes the recent comments by the Inspector General to pursue a contract disclosure policy. The assessment remains the same.

Requirement 2.6: State Participation

The Validator notes the comment from the MSG that the information required by the recommendation is in fact included in the annual audited financial reports from the SOEs in question. However, the detailed disclosure requirements of 2.6 are not found in the annual reports referred to in the MSG comments. For this reason, the assessment remains the same.

Requirement 3.2: Production Data

The link provided only has production data for lead, nickel, gold, silver and copper. On the basis of this incomplete data, the assessment remains the same.

Requirement 3.3: Export Data

Its not clear if export data for the "other minerals exported" is available via the statistics agency. On the basis of this incomplete data, the assessment remains the same.

Requirement 4.1: Comprehensive disclosure of taxes and revenues

The Validator notes the response from MSG about comprehensive of disclosure of taxes and revenues and its willingness to implement the recommendations in its future work plan.

The main factors which raised the concern of comprehensiveness included non-disaggregation of tax and non-tax revenue by company and sector, lack of disaggregation of 3 revenue streams, non-justification of exclusion of certain revenue streams or selection of material revenue streams, not naming 10 non-complying material reporting mining companies, non-coverage of all active extractive industries, non-reconciliation of tax payments by 20 companies to Government and concerns of stakeholders on above and other issues

The initial assessment of inadequate progress was assigned to this requirement due to above points impacting comprehensiveness of disclosure of taxes and revenues. Providing list of oil and gas companies doesn't address this concern and initial assessment of inadequate progress is retained.

Requirement 4.2: In-kind revenue

Response from MSG acknowledges that revenue disaggregation by buyer is not available. In addition there was no reporting of volumes collected and sold of oil and gas revenue in kind.

In view of the above, there is no change in assessment of meaningful progress.

Requirement 4.7: Level of disaggregation

The aggregate value of tax and non-tax revenues on an annual basis was not disaggregated by company or by sector, the information on payments to government is disaggregated by company, but not by revenue stream, not all revenue streams were reconciled.

In light of this, the findings of the Initial assessment is retained.

Requirement 4.9: Data Quality

The initial assessment of inadequate progress was made for this provision mainly for following reasons:

The MSG approved TOR for IA but this TOR deviated from the standard TOR for IA, There was no evidence of the MSG's considering options for revenue streams to be covered in TOR, the minutes of MSG didn't record if reporting templates were agreed upon, the reporting template didn't record basis of accounting, the EITI report didn't confirm if all the material companies had their financial statements audited, no information on the number of reporting companies and government entities that provided the requested quality assurance, nor an assessment of the materiality, eight of the 85 reporting mining companies and five of the 64 reporting oil and gas companies did not comply with the agreed quality assurances, no IA's clear assessment of the comprehensiveness and reliability of the reconciled financial data.

The response of MSG doesn't provide additional relevant information to warrant review of initial assessment of inadequate progress under this assessment.

Requirement 5.2: Sub-national Transfers

The Validator has noted the points from the MSG that EITI should continue to hold workshop and calculation of revenue sharing calculations and corresponding deducting factor with various stakeholders including sub-national government.

In view of above, the initial assessment of inadequate progress is retained.

Requirement 6.1: Social Expenditures

The MSG has provided explanations for this provision but unfortunately these don't address the issues which prompted the initial assessment to be set at inadequate progress.

Mainly the issues included disclosures of social expenditures did not tend to disaggregate between voluntary and mandatory social expenditures, nor by project or between cash and in-kind social expenditures. The identity of non-government beneficiaries is not consistently disclosed.

In oil and gas and mining companies, data on social expenditure is presented without a clear segregation between mandatory and voluntary social expenditures, between expenditures provided in cash and in-kind, nor highlighting the identity if any non-government beneficiaries.

The reporting template of material reported companies only asked to state aggregate social expenditures without the above stated information. There was uncertainty over the reasons for the low number (11) of companies reporting such payments.

Considering above points and taking response of MSG into account, the initial assessment of inadequate progress is retained.

Requirement 6.2: SOE Quasi Fiscal Expenditures

Under this requirement, the Validator is expected to document reporting process and disclosure of SOE Quasi fiscal expenditures.

The EITI report does not provide any reference to quasi-fiscal expenditures, it categorizes the expenditures as social expenditure rather than Quasi Fiscal expenditures, it is unclear whether the list of expenditures provided is comprehensive of all Pertamina activities that could be considered quasi-fiscal, there is no evidence of the MSG having considered the existence of quasi-fiscal expenditures in any depth.

The above points determined the initial assessment as inadequate progress under this provision and is retained at that level after considering the response of the MSG.

Requirement 7.1: Public debate

The comment from the MSG is noted, with the news of the formation of sub-national EITI welcome. However, there is no new evidence supplied by the MSG to warrant reconsideration of the assessment for the requirement.

Requirement 7.3: Discrepancies/Recommendations from EITI reports

The MSG's comment regarding the beneficial ownership regulation and the National Anti-Corruption Action Plan are noted and the Validator is heartened by news that the MSG will place more effort in strengthening the outcome and impact of EITI implementation. There is however, no new evidence provided to adjust the assessment of the requirement.

Requirement 7.4: Review the outcomes and impact of EITI implementation

The Validator welcomes the news that the annual progress reports will be more inclusive. However, there is no update to the assessment, given the main finding in the initial progress report that the annual progress reports do not currently review the outcomes and impact of the EITI on natural resource governance.