

Validation of Indonesia
Draft Validation Report
CowaterSogema Independent Validator
16th May 2019

1. EXECUTIVE SUMMARY

The government of Indonesia committed to implementing the EITI in December 2005 and enacted Presidential Regulation 26 in April 2010, institutionalising the EITI in Indonesia. An interim Multi-Stakeholder Group (MSG) was formed in 2009 and a permanent MSG was appointed in April 2010. The country was accepted as an EITI Candidate in October 2010 at the EITI Board's 13th meeting in Dar-es-Salaam.

On 25 October 2016, the Board agreed that Indonesia's Validation under the 2016 EITI Standard would commence on 1 September 2018. This report presents the findings and initial assessment of the International Secretariat's data gathering and stakeholder consultations. The International Secretariat has followed the Validation Procedures and applied the Validation Guide in assessing Indonesia's progress with the EITI Standard.

While the assessment has not yet been reviewed by the MSG, the Validator's preliminary assessment is - in line with the Initial Assessment - that 22 of the requirements of the EITI Standard have not been fully addressed in Indonesia. Nine of these are unmet with inadequate progress. The recommendations and suggested corrective actions identified through this process relate in particular 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), follow up on recommendations (#7.3) and outcomes and impact of implementation (#7.4).

2. BACKGROUND

Indonesia is a resource-rich country both in hydrocarbons and minerals. Its oil and gas sector has been characterised in recent years by decreased production and rapid increase in domestic consumption. The mining sector, on the other hand, has been expanding rapidly and has seen major reforms in the last five years with respect to requirements on national ownership and expansion of the upstream sector. Public debates about the extractive industries have centred on contract negotiation, appropriate production and revenue sharing mechanisms between contractors and government, efficient licensing procedures, environmental impacts of mining, cost recovery in oil and gas production-sharing contracts (PSCs), commodity trading, subnational transfers and social expenditures.

With extractives (mining, oil and gas) accounting for 24.1% of exports, 15% of government revenues and 8% of GDP in 2015¹, Indonesia's economy has traditionally been dependent on the extractive industries. Having discovered oil and gas as early as 1885 in North Sumatra², Indonesia has an established sector dominated by mining and natural gas, with declining oil production. The country is a major global exporter of (particularly thermal) coal, copper, gold, tin, bauxite, nickel and natural gas.³ Indonesia used its early windfall from oil production in the 1970-1980s to invest in economic diversification, including in natural gas.⁴ Spread over 17,508 islands and more than 5000km, Indonesia's volcanic archipelago boasts extensive deposits of oil, natural gas, gold, bauxite, nickel, copper, iron, manganese, zinc, tin, xenotime and silver, among others. An estimated 80% of the country's volcanic areas are reported to contain mineral deposits.⁵ While Indonesia's extractives exports have traditionally been relatively low value-added⁶, a series of regulatory reforms have strongly encouraged downstream processing of minerals since 2014.

Ranked as the world's fifth-largest coal producer⁷ and its largest thermal coal exporter⁸, Indonesia exports around 80% of its production.⁹ Most coal mining is centred on the islands of Sumatra and Kalimantan, although the International Energy Agency (IEA) estimates that only 40% of coal deposits are accessible through existing mines.¹⁰ Coal production tripled in the decade to 2013, remaining high since.¹¹ There has been some interest in developing the country's coal-bed methane reserves¹², considered as the world's sixth-largest.¹³ The world's largest until 2014¹⁴, Indonesia's nickel production grew exponentially from an average of 5m-10m in the 1996-2006 period to a record 71m in 2013.¹⁵ However, new regulations banning exports of unprocessed ore from 2014 impacted the nickel sector in particular.¹⁶ Although its gold production declined by around 60% in the decade to 2013¹⁷, Indonesia still accounts for around 4% of

¹ According to the 2015 EITI Report. See Indonesia EITI (December 2017), '2016 EITI Report – Volume 2: Contextual Report', accessed [here](#) in October 2018, pp.80-81.

² PwC (May 2018), 'Oil and Gas in Indonesia: Investment and Taxation Guide 2018', accessed [here](#) in October 2018, p.14.

³ PwC (May 2018), 'Mining in Indonesia: Investment and Taxation Guide 10th Edition', accessed [here](#) in October 2018, p.12.

⁴ World Trade Organisation (2014), 'Value chains governance in Indonesia's extractive and natural resources export commodities: Policy notes on its upgrading and diversification endeavors', accessed [here](#) in September 2018, p.1.

⁵ US Geological Survey (October 2017), 'Indonesia 2014 Minerals Yearbook', accessed [here](#) in October 2018.

⁶ World Trade Organisation (2014), op.cit., p.1.

⁷ Vol.2,p.77.

⁸ Risco Energy (March 2017), 'The Indonesian Upstream Oil and Gas Business', accessed [here](#) in October 2018.

⁹ Stockholm Environment Institute (May 2018), 'Contemporary coal dynamics in Indonesia', accessed [here](#) in October 2018, p.8.

¹⁰ Asian Development Bank (July 2016), 'Indonesia: Energy sector assessment, strategy and roadmap', accessed [here](#) in October 2018, p.17.

¹¹ Stockholm Environment Institute (May 2018), op.cit., p.9.

¹² PwC (May 2018), op.cit., p.20.

¹³ McKinsey (September 2014), 'Ten ideas to reshape Indonesia's energy sector', accessed [here](#) in October 2018, p.2.

¹⁴ See Reuters (February 2018), 'Nickel flies on supply hits; Indonesia could ground it', accessed [here](#) in October 2018.

¹⁵ UNCTAD (August 2017), 'Using trade policy to drive value addition: Lessons from Indonesia's ban on nickel exports', accessed [here](#) in October 2018, p.2.

¹⁶ Lowy Institute (April 2017), 'Resource nationalism in post-boom Indonesia: the new normal?', accessed [here](#) in October 2018. And Chatham House (November 2013), 'Conflict and Coexistence in the Extractive Industries', accessed [here](#) in October 2018, p.46.

¹⁷ Tigers Realm Group (October 2014), 'Indonesian Mining Sector: Opportunity Knocks', accessed [here](#) in October 2018.

global gold output, of which half comes from the Grasberg mine operated by Freeport McMoran¹⁸, and holds the fifth-largest proven deposits.¹⁹ There is also widespread artisanal gold production, with reportedly more than 1m oz mined informally annually.²⁰ Despite a decline of around 50% in production volumes in the decade to 2013, Indonesia ranks as the world's 13th largest copper producer.²¹ Indonesia holds the world's second rank in both tin reserves and production.²²

Although smaller relative to its importance to global minerals markets, Indonesia is nevertheless a large and established producer of oil and gas. The country holds the world's 27th- and 14th-largest proven oil and gas reserves respectively in 2015.²³ Although new discoveries of oil and gas reserves have been declining, proven natural gas reserves are around five times larger than crude oil.²⁴ Whereas western Indonesia (Sumatra, Java) are relatively well explored oil and gas provinces with 36 sedimentary basins, less-explored eastern Indonesia (Sulawesi, Papua) holds a reported 39 basins with promising signs of hydrocarbons.²⁵ Ranking as the world's 23rd-largest oil producer in 2015²⁶, an estimated 75% of the country's oil production is located in western Indonesia.²⁷ Indonesia's crude oil output has declined over the past two decades to around 0.8m barrels per day in 2017²⁸, with ten of the 57 producing blocks accounting for 85% of production.²⁹ Oil companies operating in Indonesia include oil majors and foreign state-owned companies.³⁰ The national oil company, Pertamina, expanded its participation in the industry in the two decades from 1997, restructuring its corporate governance and expanding its share of production from 5% to 20% by 2017.³¹ Having become a net oil importer in 2004, the government has focused on incentivising brownfield investments and reforming its petroleum products subsidy.³² Despite relying on imports for around half of its oil and gas consumption³³, Indonesia re-joined the Organization of the Petroleum Exporting Countries (OPEC) in 2015 after having suspended its membership in 2008.³⁴

¹⁸ Petra Commodities (December 2016), 'Indonesia's savviest claim gold as their next big investment', accessed [here](#) in October 2018.

¹⁹ Vol.2,p.77.

²⁰ Tigers Realm Group (October 2014), op.cit..

²¹ Ibid.

²² Vol.2,p.77.

²³ Ibid.

²⁴ Risco Energy (March 2017), op.cit..

²⁵ PwC (May 2018), op.cit., p.17.

²⁶ Vol.2,p.77.

²⁷ PwC (May 2018), op.cit., p.17.

²⁸ Ibid.

²⁹ Risco Energy (March 2017), op.cit..

³⁰ Most notably Chevron, Total, ConocoPhillips, Exxon, BP, the China National Offshore Oil Corporation, and Korea National Oil Corporation. See Asian Development Bank (July 2016), 'Indonesia: Energy sector assessment, strategy and roadmap', accessed [here](#) in October 2018, p.16.

³¹ PwC (May 2018), op.cit., p.19.

³² Ibid.

³³ Boston Consulting Group (November 2017), 'Indonesia's \$120 billion oil and gas opportunity', accessed [here](#) in October 2018.

³⁴ PwC (May 2018), op.cit., p.14.

Indonesia is the world's tenth-largest producer of natural gas and its fifth-largest of liquefied natural gas (LNG).³⁵ The main gas-producing regions are East Kalimantan, South Sumatra and Natuna, with ten of 54 producing blocks responsible for 81% of total production.³⁶ Indonesia was overtaken by Qatar as the world's third-largest exporter of LNG in 2006, falling to fifth in 2016.³⁷ With around 60% of its gas production already going to the domestic market, Indonesia is forecast to become a net natural gas importer in the next decade at current trends and without new supplies.³⁸ It is unclear whether early enthusiasm for reportedly abundant shale gas reserves will lead to project developments.³⁹

Indonesia was ranked a satisfactory 68 of 100 points overall in NRGi's 2017 Resource Governance Index, ranking 11 of 89 countries assessed.⁴⁰ The key weakness documented is in licensing, assessed as 37 of 100 for lack of disclosure of financial interests, beneficial owners and contracts. While focusing on copper mining in particular, the assessment highlighted challenges to governance in the sector linked to value realization and the enabling environment.

In line with the Validation Guide, the International Secretariat carried out the first phase of validation—initial data collection, stakeholder consultations, and preparation of their initial evaluation of progress against the EITI requirements (the “Initial Assessment”). CowaterSogema was appointed as the independent Validator to evaluate whether the Secretariat's work was carried out in accordance with the Validation Guide. CowaterSogema's principal responsibilities as Validator are to review and amend the Initial Assessment, as needed, and to summarize its independent review in this Validation Report for submission to the Board through the Validation Committee.

1. Work Performed by the Independent Validator

The Secretariat's Initial Assessment was transmitted to CowaterSogema on 26th April 2019. Our Validation Team undertook this phase of the Validation process through: (1) In-depth review and marking up of the EITI Assessment by each team member; (2) Detailed review and comments by the Multi-Stakeholder Specialist of Requirements 1 and the Civil Society Protocol; (3) Detailed review and comments by the Financial Specialist of Requirements 4, 5 and 6; (4) Consolidation of reviews and the production of this draft Validation Report, sent to the International Secretariat on the 16th May.

2. Comments on the Limitations of the Validation

The Validator carefully reviewed the Secretariat's Initial Assessment and at this stage has no comments on the limitation of the validation process.

³⁵ Vol.2,p.77.

³⁶ Risco Energy (March 2017), op.cit..

³⁷ PwC (May 2018), op.cit., p.15.

³⁸ Risco Energy (March 2017), 'The Indonesian Upstream Oil and Gas Business', accessed [here](#) in October 2018.

³⁹ PwC (May 2018), op.cit., p.20.

⁴⁰ Natural Resource Governance Institute (2017), '2017 Resource Governance Index: Indonesia (mining)', accessed [here](#) in October 2018.

3. Comments on the International Secretariat's Initial Assessment

The initial data collection, stakeholder consultations, and drafting of the Initial Assessment were generally undertaken by the International Secretariat in accordance with the 2016 Validation Guide. The data collection took place across three phases. Firstly, a desk review of the available documentation relating to the country's compliance with the EITI Standard, including but not limited to:

- The EITI work plan and other planning documents such as budgets and communication plans;
- The multi-stakeholder group's Terms of Reference, and minutes from multi-stakeholder group meetings;
- EITI Reports, and supplementary information such as summary reports and scoping studies;
- Communication materials;
- Annual progress reports; and
- Any other information of relevance to Validation.

A country visit took place on 6-16 November 2018. All meetings took place in Jakarta. The secretariat met with the multi-stakeholder group and its members, the Independent Administrator and other key stakeholders, including stakeholder groups that are represented on, but not directly participating in, the multi-stakeholder group. In addition to meeting with the MSG as a group, the Secretariat met with its constituent parts (government, companies and civil society) either individually or in constituency groups, with appropriate protocols to ensure that stakeholders are able to freely express their views and that requests for confidentiality are respected.

2. GENERAL COMMENTS

• Progress in EITI Implementation

Indonesia presents a uniquely challenging case for EITI implementation. Almost all requirements of the EITI Standard are applicable to the country's extensive and diverse mining, oil and gas industries. The country's decentralized administrative powers and dispersed geography present key challenges for a participative process like the EITI. Within this decentralised and diverse context, the EITI's impact to date has been on general institutional coordination than on tangible reforms of government and company systems. While concurrent reforms such as the launch of public access to *One Map Indonesia* mark important steps forward for transparency in extractives governance, the EITI has tended to remain a standalone reporting process with limited linkages to broader reforms, rather than a key driver of changes in the extractives sector.

Beneficial ownership is likely the area where the EITI has had the greatest influence to date, mainly as a coordinating tool shoring up political momentum.

• Impact of EITI Implementation

EITI implementation has tended to remain pigeon-holed as an annual reporting exercise driven by the Coordinating Ministry for Economic Affairs. Its siloed approach has not tended to drive spill-over effects

for policy-making or supported broader reforms in the extractive industries. The tendency to describe statutory rules rather than provide a real annual diagnostic of governance in practice along the upstream extractives value chain has led to the EITI shying away from its potential to bring clarity to an often-contested sector. The EITI's consultation and reporting platform has tended to be under-utilised as a platform for civil society to influence debate and use data collection to drive research and advocacy. Low-hanging fruit that could yield tangible impacts on public debate and policy-making, from cost recovery disclosures to clarity on calculations of subnational transfers, have remained largely unaddressed.

Implementation of the EITI Standard has reached a watershed. No longer primarily supported by foreign donors and ahead of general elections in 2019, EITI Indonesia has the opportunity to assess the results of ten years of implementation and consider reforms to ensure EITI implementation is fit for purpose, with goals aligned with national reform priorities. Stakeholders may wish to reconsider the way the EITI is implemented to ensure that it takes the specific circumstances of the country, its diverse extractives sector and challenges into account.

The Independent Validator's Assessment of Compliance

Figure 1 – Validator's assessment

EITI Requirements		LEVEL OF PROGRESS				
		No progress	Inadequate	Meaningful	Satisfactory	Beyond
Categories	Requirements					
MSG oversight	Government engagement (#1.1)					
	Industry engagement (#1.2)					
	Civil society engagement (#1.3)					
	MSG governance (#1.4)					
	Work plan (#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)					
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)					

Legend to the assessment card

	The country has made no progress in addressing the requirement. The broader objective of the requirement is in no way fulfilled.
	The country has made inadequate progress in meeting the requirement. Significant elements of the requirement are outstanding and the broader objective of the requirement is far from being fulfilled.
	The country has made progress in meeting the requirement. Significant elements of the requirement are being implemented and the broader objective of the requirement is being fulfilled.
	The country is compliant with the EITI requirement.
	The country has gone beyond the requirement.
	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.

3. DETAILED FINDINGS

The Validator agrees with the findings of the Initial Assessment and therefore requires no further clarification.

4. RECOMMENDATIONS

While the following report includes recommendations for specific improvements Indonesia may wish to consider implementing, the following is a list of strategic corrective actions that could help Indonesia make even greater use of the EITI as an instrument to support reforms.

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 include 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.
