

EITI INDONESIA

*2012-2013 Inception Report:  
Gaps and Decisions*



# Significance of the Inception Report

Scoping Study: recommendations of coverage for MSG consideration.

Inception Report: review MSG's scoping decisions to ensure all issues are covered + mutual understanding between MSG and IA. (Also covers division of labour.)

Once agreed, the Inception Report will be followed: this is where final decisions on what will be covered.

The full MSG must take informed decisions: now is when you define what will be achieved with the EITI Report.

## Cover key findings of the Inception Report:

- Highlight gaps in data and how the IA will seek to gather that information.
- Highlight and test assumptions made in the Inception Report with the full MSG.
- Confirm the revenue streams that are recommended for reconciliation (the government must unilaterally declare all payments).
- Confirm the companies, government agencies and SOEs that participate in reporting.
- Define the approach to recommended and encouraged elements in the EITI Standard.

Volumes, values and pricing for both production and exports (Req# 3.5.a)

- Average pricing rather than reference prices?
- Sources of estimated data on informal sector (– KPK? Any reports from IMF, Chambers of Commerce, etc.?)

Disaggregation - Disclosures disaggregated

- by PSC? (as in the 2010-2011 EITI Report)
- by mining license?

Cost recovery – unilateral, aggregated, by SKK Migas?

Information on major exploration underway  
(Req# 3.3)

MSG could also consider including  
projections for production (not required).

## Licensing (Req# 3.9; 3.10)

- Oil & Gas - Registers: some data from SKK Migas, but no coordinates or commodities mined
- Mining - Cadastral information only available for purchase from DG Minerals and Coal
- Licenses awarded in 2012 and 2013
- Sourcing licenses transferred (*N/A for mining?*)
- Process, technical and financial criteria used for license award/transfer. Bidders? Practical deviation?

Regulatory reform and implementation of past reforms (Req# 3.2)

Inception Report includes overview of regulations, but not of reforms and their implementation

Eg: transition from Contracts of Work (CoW) to Mining Business Permits (IUPs)

Transition from BP Migas to SKK Migas?  
Legal reform?

- Clearer definition of formula for defining subnational transfers, discrepancies between theory and practice (Req# 4.2.e)
- The MSG may consider including examples to illustrate how the determination of subnational transfers takes place in practice.
- Confirm materiality of direct payments of companies to local governments and that of direct subnational payments

State participation in extractive industries (Req# 3.6.a-c; 4.1.c; 4.2.c)

- Detail on structure of state participation, loans and guarantees to SOEs
- Sales of in-kind revenue: information on volumes, value, grade in as disaggregated as other disclosures (at least unilaterally).
- Are there any other transactions between extractives SOEs and government aside from extractives revenues?

## Mandatory social payments (Req# 4.1.e)

- Distinct from voluntary CSR payments?
- How will the voluntary be addressed?  
*(these are encouraged, not required)*
- Why obtain CSR information from relevant ministries and not companies? If both parties have it, why not reconcile it?

## Infrastructure provisions and barter (Req# 4.1.d)

- Methodology for review of infrastructure provision?
- What assurances of comprehensiveness of review?
- How will this review be treated in the EITI Report?

Transportation payments (Req# 4.1.f)

Only the following companies?

- PT Pertamina
- PT Bukit Asam
- PT Kereta Api Indonesia

Once data on revenues is collected, what process for agreeing materiality with MSG?

## Statement of Government policy on contract disclosure (Req# 3.12.b)

- Relevant legal provisions
- Actual disclosure practices
- Any reforms planned or underway
- If applicable, overview of contracts and licenses publicly available



# Revenue streams in oil and gas:

## proposals for payments to be reconciled

Revenue/Payment Stream	Reporting entity(ies)
Government share of total oil and gas lifting	DG Budget and SKK Migas
Domestic market obligation and fees	Operator and SKK Migas (volumes) and DG Budget (fees)
Signature bonus for contract <b>extension</b>	Operator and DG Migas
Production bonus (above certain level)	Operator and DG Budget
Total lifting of oil, condensate and gas	Operator and DG Migas
Over/under lifting of oil and gas	Operator and SKK Migas
Corporate income and dividend taxes (PPH)	Operator and DG Budget

Dividends from local gvt participating interests in PSCs?

Is there anything else that should be included in reconciliation?

# Revenue streams in oil and gas: proposals for unilateral disclosures

Revenue/Payment Stream	Reporting entity(ies)
Signature bonus for <b>new</b> contracts	DG Mlgas
Land and building taxes (PBB)	DG Tax
Value-added tax	DG Tax
Regional taxes and regional restitution (PDRD)	DG Tax
Social expenditures	Relevant Ministry or Company? <b>Or reconciled?</b>

Companies just awarded exploration licenses will only have their signature bonuses disclosed unilaterally by DG Budget

**Is there anything else that has not been covered?**

# Revenue streams in mining: proposals for payments to be reconciled

Revenue/Payment Stream	Reporting entity(ies)
Income tax (PPh) body	Company and DG Tax
Land tax	Company and DG Tax
Building tax	Company and DG Tax
Royalties	Company and DG Minerals and Coal
Mining production selling revenue (PHT)	Company and DG Minerals and Coal
Dividends	Company and DG Budget

How to address local taxes? Unilateral or reconciled?

Is there anything else that should be included in reconciliation?

# Revenue streams in mining: proposals for unilateral disclosures

Revenue/Payment Stream	Reporting entity(ies)
Fixed fees (land rent)	Company
Forestry fees	Company
PBB	Company

How to address land rehabilitation tax to the  
Ministry of Forestry?

Is there anything else that has not been covered?



# Materiality threshold for companies?

Mining sector:

- Materiality threshold of IDR 25 billion
- 76 reporting companies in 2012 and 99 in 2013
- (and 3 government agencies)
- These reporting companies contribute 84.65% of the royalty revenue, 99% of the mining production selling revenue (PHT), and 80% of the tax revenue.

# Breakdown of the reporting companies from the minerals and

Kinds of commodities	KK		IUP		PKP2B		Total	
	2012	2013	2012	2013	2012	2013	2012	2013
Copper/silver/tin	3	4	1	1	-	-	4	5
Tin	-	-	6	6	-	-	6	6
Nickel	1	1	2	10	-	-	3	11
Coal	-	-	31	38	31	31	62	69
Bauxite/iron ore	-	-	1	8	-	-	1	8
Total	4	5	41	63	31	31	76	99

**Is the MSG in agreement with this scope?**



# Materiality threshold for companies?

Oil and gas sector:

- 67 operators in 2012, 72 operators in 2013
- 81 non-operators in 2012, 85 non-operators in 2013
- Total of 158 companies (and 3 government agencies)
- Coverage of 100% of companies
- Only unilateral disclosures of signature bonuses for companies that have just signed exploration?

**Is the MSG in agreement with this scope?**

## **Estimating value of the non-material revenues**

Include list of revenue streams that amount to less than 1% materiality threshold

Estimate the value of these non-material revenue streams as a share of total revenues from the extractive industries

Is the MSG satisfied with the review of prevailing auditing processes and the proposed quality assurance procedures?

But, there is also a need to address the following:

*Requirement 5.3.e: “It is required that the EITI Report documents whether the participating companies and government entities had their financial statements audited in the financial year(s) covered by the EITI Report. Any gaps or weaknesses must be disclosed. Where audited financial statements are publicly available, it is recommended that the EITI Report advises readers on how to access this information.”*

Details of mandatory social payments and agreement on approach to voluntary social expenditure

Clarification on infrastructure provision

Overview of key reforms and their implementation

Agreement on approach to data quality assurance

Confirmation no additional sector revenue streams not yet identified

Support to ensure full company participation in reconciliation process

Confirmation of assumptions made in the Inception Report

Define a clearer picture of state participation in the sector:  
structure of SOEs, financial support, in-kind revenues...

Further information on licensing: what licenses have been awarded/transferred in 2012-2013? What financial and technical criteria used? Discrepancies between regulations and practice?

Overview of key reforms and their implementation

Agreement on approach to data quality assurance



# Reporting templates and collection

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Is the MSG satisfied with the templates proposed?

Is the MSG satisfied with the confidentiality procedures proposed?

There is more detail on social payments for mining than for oil and gas companies in draft templates

Government production entitlement figures (oil and gas) have been reported on gross values in 2010-2011: to avoid double-counting of other non-reconciled values, it would be good to subtract deductible payments

## **Issues the MSG may wish to consider (not required)**

- Budget assumptions for commodity prices (Req# 3.8)
- Reconciliation of sales of SOEs' in-kind revenues with traders
- Including voluntary Beneficial Ownership disclosure in the template
- Voluntary social payments

No	Deliverables	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	Total	
P1	Kick off & Planning	■																						1	
	Inception Report	■	■	■																				3	
	Observation & Recommendation	■	■	■																				3	
	Draft of Reporting Template	■																						1	
	List of Analysis and mitigation plan	■		■		■		■		■		■		■		■		■		■		■		11	
	List of PIC	■	■	■																				3	
P2	Submission of Reporting Template				■																			1	
	List of control status	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■	22
	Workshop			■																				1	
	Progress Meeting							■							■									2	
	Procedures and approach	■	■	■																				3	
	Preparation of contextual report			■	■	■	■	■	■	■	■	■	■	■	■	■	■							14	
P3	Reconciliation Process				■	■	■	■	■	■	■	■	■	■	■	■	■							13	
P4	Investigation of Discrepancies				■	■	■	■	■	■	■	■	■	■	■	■	■	■	■					14	
P5	Submission Draft Report to Secretariat																		■					1	
	Submission Draft Report to MSG																			■				1	
	Final Contextual Report																		■	■	■	■	■	6	
	Observation & Recommendation																		■	■	■	■	■	6	
	Review on the report																		■	■	■	■	■	6	
	Final MSG approval																						■	1	

## Finalise Inception Report

- Address the current information gaps
- Confirm the assumptions made in the Inception Report

## Agree on the scope of the 2012-2013 EITI Report

- Reach consensus on universe of payments and companies
- Agree the reporting templates
- Reach agreement on contract disclosure, beneficial ownership, project-by-project reporting

## Data collection begins

## Impact assessment and MSG Strategic Retreat

