

## Indonesia EITI 2024 Validation – International Secretariat response to MSG comments on draft Validation report (September 2024)

Dear Indonesia EITI Multi-Stakeholder Group (MSG),

Many thanks for your comments on the draft assessment for Indonesia's EITI Validation. We appreciate the thorough comments and the structured approach to the input on the draft Validation report.

Please find below the International Secretariat's response to the MSG's feedback on the draft assessment. The final Validation report has been communicated to you *for information*, we hope you will appreciate the way in which your comments have been addressed in the final assessment. In particular, you may note that your comments led to the upgrade in six requirements. We remain at your disposal to discuss this feedback as well as the final Validation report in more detail. Many thanks for your engagement throughout this Validation process.

Best regards,  
The International Secretariat Validation team

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- **General comments**

The International Secretariat has reflected the comments submitted by the MSG in the individual EITI Requirements.

- **Public debate (Requirement #7.1)**

The MSG's comments regarding government engagement are well noted and reflected in the final assessment. In particular, the MSG feedback on the draft Validation report highlights plans to enhance the EITI portal with thematic modules tailored to community needs, emphasising the importance of community involvement in extractive industry transparency efforts.

The assessment of Public debate (Requirement #7.1) has been maintained at 'mostly met' in the final Validation report.

- **Recommendations from EITI implementation (Requirement #7.3)**

The MSG's comments regarding government engagement are well noted and reflected in the final assessment. The MSG feedback on the draft Validation report indicates that while procedures for discussing and following up on EITI recommendations are not explicitly outlined in the Handbook and SOP, recommendations aligning with national objectives will be followed up through formal letters to relevant agencies to enhance transparency.

The assessment of Recommendations from EITI implementation (Requirement #7.3) has been maintained at 'mostly met' in the final Validation report.

- **Review the outcomes and impact of EITI implementation (Requirement #7.4)**

The MSG's comments regarding government engagement are well noted and reflected in the final assessment. The MSG's feedback on the draft Validation report confirms that monitoring and evaluation of EITI implementation are conducted during MSG meetings, with results shared publicly via the EITI portal. The feedback outlines plans for the MSG to coordinate with relevant government agencies, especially when aligned with national priority programs.

The assessment of Review the outcomes and impact of EITI implementation (Requirement #7.4) has been maintained at 'mostly met' in the final Validation report.

### **Requirement 1.1: Government engagement**

The MSG's comments regarding government engagement are well noted and reflected in the final assessment. In particular, the MSG response to the draft Validation report acknowledges that the limited involvement of senior officials is due to conflicting schedules and recent leadership changes but emphasises that the MEMR remains committed to supporting transparency in Indonesia's extractive sector. CSOs agree with the CMEA that government support should not be solely measured by physical attendance at meetings but also by the policies enacted to promote transparency. However, the CSOs also recognise that internal agency regulations and a focus on high-level discussions sometimes limit effective government involvement in addressing critical on-ground transparency issues.

The assessment of Requirement 1.1 on government engagement has been maintained at 'mostly met' in the final Validation report.

- **Requirement 1.2: Industry engagement**

The MSG's comments regarding government engagement are well noted and reflected in the final assessment. In particular, the MSG response to the draft Validation report emphasises efforts to ensure broad stakeholder participation in EITI, particularly from the industry. It also notes that while industry involvement in the MSG is stakeholder-driven, efforts to enhance participation has contributed to industry's engagement on work plan creation, data provision, strategic priorities and discussions on contract and beneficial ownership transparency. The response recognises Pertamina's recent involvement as a company member and establishment of a Sustainability Function further support EITI.

The assessment of Requirement 1.2 on industry engagement has been maintained at 'mostly met' in the final Validation report.

- **Requirement 1.3: Civil society engagement**

The MSG's comments regarding civil society engagement are well noted and reflected in the final assessment. In particular, the MSG proposed an upgrade on Requirement 1.3 from 'mostly met' (60) to 'mostly met with significant improvements' (75), citing active CSO involvement in enhancing extractive industry governance, particularly through the promotion of the EITI Data Portal and consistent engagement in MSG meetings. While challenges persist at the regional level, the MSG argues that the significant contributions of CSOs at the national level justify an increased score. In the light of the new evidence and considering the widely contextualised context of Indonesia, the secretariat's view is that the objective of this requirement has been fully met.

The assessment of Requirement 1.3 on civil society engagement has been upgraded to 'fully met' in the final Validation report.

- **Requirement 1.4: MSG oversight**

The MSG's comments regarding MSG oversight are well noted and reflected in the final assessment. In particular, the MSG acknowledges that EITI discussions are technical, often involving MSG members and high-ranking officials for strategic issues. Despite efforts to engage members outside the MSG, challenges remain in ensuring consistent information distribution and continuity due to frequent personnel changes. Gender balance is still lacking, though the Secretariat promotes inclusivity through seminars. The response notes that Pertamina supports gender equality and active MSG involvement. CSOs expressed concerns that their opinion to improve MSG governance (e.g., the involvement of the Public Information Center of the Ministry of Home Affairs and Central Information Commission) have not yet been realised.

The assessment of Requirement 1.4 on MSG oversight has been maintained at 'mostly met' in the final Validation report.

- **Requirement 6.3: Contribution to the national economy**

The MSG's comments regarding the contribution to the national economy are well noted and reflected in the final assessment. In particular, the MSG's response provides further information on various aspects of Requirement 6.3, highlight efforts related to gradual systematic disclosure of data on the contribution of the extractive sector to the economy and argue for increase of the score to "mostly met with considerable improvements". On the inclusion of the geothermal subsector data in the extractive sector contribution to GDP, the MSG notes that separating geothermal data would require changes to the business classification codes (KBLI). It also note that data on informal sector activities are available for agricultural and non-agricultural sectors on the BPS portal. The Secretariat's understanding is that estimates of informal sector activity for the extractive sector is not available for the period under review. While the MSG clarified the division between non-tax state revenues (PNBP) and taxes, no total figure for 2021 was provided, and there were inconsistencies in reporting across different revenue streams. The feedback suggest that total exports can be accessed on the BPS website. However, BPS data appear to provide totals for the whole economy and for some sectors, including the oil and gas sector, but total exports for the extractive sector, including the mining sector. The comments note that sectoral employment data can be accessed on the BPS website and provides number of workers in the "Mining and Quarrying" and "Electricity and Gas Supply" categories. It is still not clear if employment data are available for the oil sector and whether the "Electricity and Gas Supply" category includes production of oil. While the Secretariat acknowledges the highlighted efforts, certain technical aspects of Requirement 6.3 remain not addressed as detailed in the final Validation report. Thus, the Secretariat considers that the objective remains mostly met in the period under review.

The assessment of Requirement 6.3 on contribution to the national economy has been maintained at 'mostly met' in the final Validation report.

- **Requirement 2.4: Contracts**

The MSG's comments regarding contracts are well noted and reflected in the final assessment. In particular, the MSG's response further emphasises the opinion to keep contracts confidential due to their unique terms and investor privacy concerns. The feedback notes that while these contracts do not contain resource value information that could affect national energy security, they should be exempt from public disclosure in line with the principle of maintaining the sanity of contracts. The MSG plan to regularly update on the ESDM Geoportal with certain non-sensitive information to maintain transparency.

The assessment of Requirement 2.4 on contracts has been maintained at 'partly met' in the final Validation report.

- **Requirement 2.2: Contract and license allocations**

The MSG's comments regarding contract and license allocations are well noted and reflected in the final assessment. In particular, the MSG provided comments, clarifying the auction and licensing processes for mining awards and transfers. The comments also clarified that a weighting scheme is applied based on provisions in the MEMR Decree No 258 of 2023 (p.77). It also clarified the legal basis for license transfer, as stipulated in the MEMR Decree No. 221 of 2021. The MSG noted that while some deviations in license issuance still occur, increased transparency through established systems and enhanced supervision, including public

complaints, should help reduce these issues. There remain no documented method or results of an assessment of material deviations. The MSG plans to routinely request timely auction data and convey frequent inter-ministerial committee meetings on licensing.

The comments also clarified the financial and technical criteria used in evaluating the oil and gas bids. These criteria are provided for in detail in the MEMR Regulation No. 35/2021 in Articles 46 (for regular auction of work areas) and 47 (direct offer auctions of work areas). However, the MSG did not clarify whether a weighting scheme is applied in the oil and gas sector. The feedback also clarified the procedure for transfers as per the MEMR Regulation No. 48/2017 (for change of participation interest). However, there remain no documented method or results of an assessment of potential material deviations in the award of oil and gas licenses. The MSG plans to routinely request timely auction data and convey frequent inter-ministerial committee meetings on licensing. The information also includes procedures and grounds for suspending or revoking a contract or license. The MSG agreed to update IEITI disclosures with new information to clarify the auction announcement dates, and coordinate with other working groups for any questions during report preparation. The MSG argue for increase of the score to from 'partly met' to 'mostly met'. In the light of this new information, the Secretariat's view is that the current disclosures mostly meets the requirement.

The assessment of Requirement 2.2 on contract and license allocations has been upgraded to 'mostly met' in the final Validation report.

- **Requirement 2.3: Register of licenses**

The MSG's comments regarding Register of licenses are well noted and reflected in the final assessment. In particular, the MSG clarified that the registration dates of mining, oil and gas auctions is interpreted as the date of license application, because new licenses in both sectors can only be obtained through an auction process. The clarification included links to the MEMR oil and gas and mining working area e-auctions platforms which provide information about the recent e-tendering schedules, including the auction start date. The IEITI data portal includes the start date for the 2nd oil and gas auction round in 2021 (29/11/21) but not for the 1st oil and gas auction round. Also, there is no information on the mining and coal auction rounds on the IEITI data portal, based on which the start date can be induced. Given that auction rounds are publicly announced, this assessment does not consider the limited disclosures on the IEITI portal a material gap. The MSG argue for increase of the score to from 'mostly met' to 'fully met'. In the light of this new information, the Secretariat's view is that the current disclosures fully meets the objective of requirement 2.3. on license register.

The assessment of Requirement 2.2 on Register of licenses has been upgraded to 'fully met' in the final Validation report.

- **Requirement 2.6: State participation**

The MSG's comments regarding State participation are well noted and reflected in the final assessment. In particular emphasised efforts to improve transparency around SOEs in Indonesia's extractive sector. The feedback noted that the obligation to publish AFS lies with publicly listed companies. As such, PT Freeport Indonesia is not obligated to publish its AFS. The feedback further points to the financial report of MIND ID which is already documented in the Validation report. The feedback highlighted the need for collaboration between the Ministry of Energy and Mineral Resources and the Ministry of State-Owned Enterprises to ensure necessary data is disclosed.

The assessment of Requirement 2.6 on State participation has been maintained at 'mostly met' in the final Validation report.

## **Requirement 4.2: Sale of the state's in-kind revenues**

The MSG's comments regarding the Sale of the state's in-kind revenues are well noted and reflected in the final assessment. In particular, the MSG provided new evidence of disaggregated oil and gas value data, with detailed information on FTP, equity oil and government sections (including DMO). The data, as published on the IEITI data portal, is provided per company from 2018 -2022. The published data continue to lack comprehensive information on volumes received and sold. The information remains not disaggregated by individual buying company and to fully disaggregated to the levels commensurate with the reporting of other payments and revenue streams. The MSG argue for increase of the score to from 'partly met' to 'mostly met'. While the Secretariat acknowledges the feedback, the technical aspects and objective of Requirement 4.2 remain not addressed as detailed in the final Validation report. Thus, the Secretariat considers that the requirement remains partly met in the period under review.

The assessment of Requirement 4.2 on the Sale of the state's in-kind revenues has been maintained at 'partly met' in the final Validation report.

- **Requirement 4.5: Transactions related to SOEs**

The MSG's comments regarding transactions related to SOEs are well noted and reflected in the final assessment. In particular, the MSG provided additional context, explaining that government transfers to SOEs in the mining sector were not observed in 2021, potentially due to government policy priorities and economic conditions following the COVID-19 pandemic. It also highlighted that payments from companies to SOEs, such as taxes and dividends, are detailed on the IEITI data portal. However, the available is an aggregated of revenue streams transfers from three SOEs to the government. The Secretariat therefore finds that on balance, the objective of this requirement is mostly fulfilled considering that publicly available AFS of material SOEs shed light on transfers between government and SOEs, thus bridging some of the gaps found in EITI reports.

The assessment of Requirement 4.5 on transactions related to SOEs has been maintained at 'mostly met' in the final Validation report.

- **Requirement 6.2: Quasi-fiscal expenditures**

The MSG's comments regarding quasi-fiscal expenditures are well noted and reflected in the final assessment. In particular, the MSG's feedback sought to clarify its definition of quasi-fiscal expenditures and recent policy changes relevant to understanding such expenditures. Nonetheless, no actual disclosures were provided to address the gaps highlighted in the draft Validation report. The comments noted that the quasi-fiscal calculation for gas cannot yet be calculated due to data availability limitations on market gas reference prices. Regarding coal, EITI disclosures note that since September 2019, the market price has been lower than the DMO price, leading the MSG to argue that there were no QFEs in the mineral and coal sector during the review year. However, the same data seems to suggest that in the year under review (between 2020 and 2021, the market price was actually higher than the DMO price, which suggests a contrary conclusion. The MSG argue for increase of the score to from 'partly met' to 'mostly met'. Given the lack of clarity on the existence of QFEs for coal, couple with the lack of actual disclosures, this assessment concludes that the objective of the requirement is not fulfilled. As noted in the MSG's feedback, there is the need for further analysis and transparency regarding the financial impact of these expenditures on SOEs such as Pertamina. The assessment of Requirement 6.2 on quasi-fiscal expenditures has been maintained at 'partly met' in the final Validation report.

- **Requirement 3.2: Production**

The MSG's comments regarding Production are well noted and reflected in the final assessment. In particular, the MSG provides further clarification on the production data and argue for increase of the score to 'mostly met with considerable improvements'. The comments also highlight corruption risks related to disclosing production values, justifying the disclosure and use of sales value. The MSG's comments also noted the discrepancies in production data between export-import figures from BPS and other Technical Ministries/Agencies. They emphasised that the production data reported by MEMR is considered more reliable due to its basis in company reports and its authority over the oil, gas, and mining sectors. The MSG expressed hope that with the implementation of Simbara, these data discrepancies will be resolved, allowing for a unified and authoritative source of production data in the future. In the light of the clarifications, the Secretariat considers that the objective to be fully met in the period under review.

The assessment of Requirement 3.2 on Production has been upgraded to 'most met' in the final Validation report.

- **Requirement 3.3: Export**

The MSG's comments regarding Export are well noted and reflected in the final assessment. In particular, the MSG provides confirm that export data on the BPS website cover all exported mining, oil and gas commodities and explains the data collection process. Given that the comments confirm the comprehensiveness of systematically disclosed export data, the Secretariat considers that the objective is fully met in the period under review.

The assessment of Requirement 3.3 on Export has been upgraded to 'fully met' in the final Validation report.

- **Requirement 4.1: Comprehensive disclosure of taxes and revenues**

The MSG's comments regarding Comprehensive disclosure of taxes and revenues are well noted and reflected in the final assessment. In particular, the MSG provides provide comprehensive information on tax and non-tax revenue streams. The Secretariat acknowledges these clarifications; however, considers that the objective is not met in the period under review, due to lack of clarity on comprehensiveness of disclosures in 2021.

The assessment of Requirement 4.1 on Comprehensive disclosure of taxes and revenues has been maintained at 'partly met' in the final Validation report.

- **Requirement 4.4: Transportation revenue**

The MSG's comments regarding Transportation revenue are well noted and reflected in the final assessment. In particular, the MSG provides further information on transport revenues for the oil and gas sector on its IEITI data portal. In addition to context information, the new disclosures include revenues collected by Pertamina and PGN in relation to oil and gas transport. However, the figures are inconsistent. For example, while the chart in the IEITI data portal suggest that that PGN received USD 198 m for gas transmission, the text on the same page suggests a substantially lower revenue of USD 6 m. As noted above, given that Pertamina, PGN and Pertagas annual statements are publicly disclosed, disaggregated and quality assured, this assessment does not consider the discrepancies to be a material gap. The MSG argue for the assessment to be upgraded from 'mostly met' to 'fully met'. Considering the MSG's coverage of transport revenue in both oil, gas and mining sectors, the secretariat's view is that the objective of this requirement has been fully met.

The assessment of Requirement 4.4 on Transportation revenue has been upgraded to ‘fully met’ in the final Validation report.

- **Requirement 4.7: Disaggregation**

The MSG’s comments regarding data disaggregation are well noted and reflected in the final assessment. In particular, the feedback notes that the MSG is expected to discuss project-level disclosures and ensure that financial data are disaggregated by each project in cases where payments are collected at the project level. The Secretariat welcomes these planned efforts but considers that the objective is not fulfilled in the period under review.

The assessment of Requirement 4.7 on data disaggregation has been maintained at ‘partly met’ in the final Validation report.

- **Requirement 4.9: Data quality and assurance**

The MSG’s comments regarding data quality and assurance are well noted and reflected in the final assessment. In particular, the MSG note that the data submitted by the government is audited by the Audit Board and included in government performance reports, with quarterly reconciliation mechanisms between the central and regional levels for relevant revenue streams. It is also noted that the data submitted by companies is audited by independent auditors. The MSG discussed these practices as part of the application for partial mainstreaming. The Secretariat recognises that Indonesia has robust audit practices for government entities and large extractives companies. The MSG’s comments also noted that the MSG is planning to discuss the audit mechanisms and quality assurance applied to the 2021 EITI reporting and provide an assessment of the reliability of the disclosed data. Therefore, the Secretariat considers that the objective of this requirement is mostly met, noting that there was no clear documentation of mechanisms applied to the 2021 EITI reporting and lack of information on the assessment of reliability of disclosed data.

The assessment of Requirement 4.9 on data quality and assurance has been maintained at ‘mostly met’ in the final Validation report.

- **Requirement 4.6: Subnational payments**

The MSG’s comments regarding Subnational payments are well noted and reflected in the final assessment. In particular, the comments note that the MSG has not established a threshold for PDRD yet. The comments confirm that in cases where oil and gas contracts were signed after the 2010 amendment was issued and where the “assume and discharge” approach does not apply, PDRD payments are paid directly to the local government entities and can be considered as a cost recovery component. It is also noted that PDRD data are not disaggregated by industry. While the Secretariat acknowledges this input, it considers that the objective of this requirement remains not met for the period under review, due to insufficient data on the materiality of subnational payments and opportunities to strengthen data disaggregation.

The assessment of Requirement 4.6 on Subnational payments has been maintained at ‘partly met’ in the final Validation report.

- **Requirement 5.2: Subnational transfers**

The MSG's comments regarding Subnational transfers are well noted and reflected in the final assessment. In particular, the MSG clarify that the DBH formula was regulated by the MoF Regulation (PMK) No. 139 of 2019 and PMK No. 121 of 2022. The MSG's comments also detail how reconciliation of data are conducted, including regular consultations with regions and discussions on over- and underpayments. The Secretariat acknowledges further information on DBH mechanism, however, considers that the objective of this requirement remains mostly met for the period under review, due to insufficient data on the full scope of subnational transfers and opportunities to strengthen disclosures on PDRD payments.

The assessment of Requirement 5.2 on Subnational transfers has been maintained at 'Mostly met with considerable improvements' in the final Validation report.

- **Requirement 6.1: Social and environmental expenditures**

The MSG's comments regarding social and environmental expenditures are well noted and reflected in the final assessment. In particular, the MSG provide additional context regarding applicable legislation and regulations. While the Secretariat notes this input, it considers that the objective of this requirement remains mostly met for the period under review, due to insufficient data on applicability and materiality of social expenditures and environmental payments, as well as opportunities for enhanced data disaggregation.

The assessment of Requirement 6.1 on social and environmental expenditures has been maintained at 'mostly met' in the final Validation report.