

Indonesia



The Resource Governance Index (RGI) measures the quality of governance in the oil, gas and mining sector of 58 countries. Learn more and explore findings at www.revenuewatch.org/rgi.

Background

Indonesia has significant natural gas reserves and is a major producer of liquefied natural gas, but declining production and rising domestic consumption have made it a net importer of oil. At the same time, the country's mining industry has expanded. Indonesia supplies 20 percent of the world's tin and has considerable copper, nickel, gold, and coal resources. Petroleum

Indonesia	2000	2005	2011
Population (million)	213.40	227.30	242.33
GDP (constant 2011 international \$ billion)	210.6	323.7	846.8
GDP per capita, PPP (constant 2005 international \$)	2,623	3,102	4,094
Oil and gas revenue (% total government revenue)	...	22%	18%
Extractive exports (% total exports)	30%	36%	42%

SOURCES: Oil and gas revenue as share of total government revenue from the Economist Intelligence Unit and the International Monetary Fund. All other data from the World Bank. Oil and gas revenues 2005 data from 2007.

and minerals together made up 42 percent of exports in 2011. The petroleum sector, which is measured in this assessment, accounted for 18 percent of government revenues in 2011.

Indonesia's Performance on the RGI

Indonesia received a "partial" score of 66, ranking 14th out of 58 countries. Relatively high scores on the Institutional & Legal Setting and Safeguards & Quality Controls components were offset by a low Enabling Environment score.

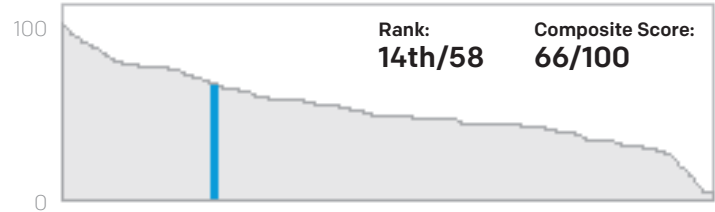
Institutional and Legal Setting

(Rank: 16th/58, Score: 76/100)

Indonesia's "satisfactory" score of 76 is due to comprehensive legislation and a competitive licensing process.

Most oil and gas companies sign production-sharing contracts; mining companies receive licenses in exchange for royalties and taxes. The 2009 Mining Law requires open bidding for mining licenses, but has yet to be implemented.

The Finance Ministry collects payments from oil companies and deposits the funds in the national treasury. The director



general of mining collects most non-tax mining payments; the director general of taxation collects mining taxes.

Government agencies publish all legislation related to natural resource extraction online. However, these laws do not include detailed regulations on fiscal terms. Indonesia requires environmental impact assessments, but only makes them public for a brief comment period after licenses are granted. Indonesia is an Extractive Industries Transparency Initiative candidate; its first report is due in 2013.

Reporting Practices

(Rank: 15th/58, Score: 66/100)

Indonesia's "partial" score of 66 reflects comprehensive reporting on a number of indicators, but a lack of contract transparency and insufficient disclosure of subnational transfers of resource revenues.

Some information on petroleum auction rounds is published, but contract terms are not. The 2009 Mining Law reduced transparency in the mining sector; only contracts that predate the law are available, and only by request.

The Finance Ministry publishes some information on oil companies' operations and disaggregated revenue streams. The Energy and Mineral Resources Ministry provides data on reserves, production volumes, and prices, but does not include information on extractive revenues. The annual report of BP-MIGAS, the former regulator, contains information on reserves, production, and social initiatives, but only limited data on company payments.

Safeguards and Quality Controls

(Rank: 11th/58, Score: 75/100)

With significant audit requirements and government monitoring, but uneven quality of government reports, Indonesia earned a "satisfactory" score of 75.

While government regulators have been reluctant to comply with freedom of information laws, Indonesia's parliament actively oversees the extractive sector. The legislature has passed a number of laws aimed at limiting corruption, but there is no specific requirement that officials responsible for overseeing petroleum and mining companies disclose their financial interests in the sector. National law limits the discretion of licensing agencies, but there is no mechanism to appeal their decisions. An independent auditor conducts a semiannual audit of state

accounts; its findings are reported to parliament and published online. An internal auditing agency reviews petroleum and mining company payments but does not make its reports public.

Enabling Environment

(Rank: 21st/58, Score: 46/100)

Indonesia received a “weak” score of 66, the product of especially low rankings for the rule of law and corruption control.

State-Owned Companies

(Rank: 9th/45, Score: 86/100)

PT Pertamina, an entirely state-owned company, is involved in the upstream and downstream oil and gas sectors. There are also three partially privatized state mining companies: PT

Aneka Tambang, PT Timah, and PT Bukit Asam. The government subsidizes some of the companies’ activities; expenditures are not included in the national budget despite legal requirements to do so. All four companies publish somewhat technical audited annual reports that include information on production and revenue generation.

Subnational Transfers

(Rank: 13th/30, Score: 64/100)

The central government transfers revenue to local authorities based on regional petroleum extraction. The Finance Ministry publishes information on these allocations, but the reports are very technical and lack narrative explanations. Local authorities rarely disclose information about the transfers. Rules for transfers are defined by law and followed in practice.

Indonesia’s Composite, Component and Indicator Scores

Rank (out of 58)		Score (out of 100)
14	COMPOSITE SCORE	66
16	Institutional and Legal Setting	76
	Freedom of information law	67
	Comprehensive sector legislation	100
	EITI participation	33
	Independent licensing process	100
	Environmental and social impact assessments required	50
	Clarity in revenue collection	83
	Comprehensive public sector balance	50
	SOC financial reports required	100
	Fund rules defined in law	..
	Subnational transfer rules defined in law	100
15	Reporting Practices	66
	Licensing process	50
	Contracts	0
	Environmental and social impact assessments	33
	Exploration data	100
	Production volumes	50
	Production value	100
	Primary sources of revenue	100
	Secondary sources of revenue	33
	Subsidies	100
	Operating company names	100
	Comprehensive SOC reports	100
	SOC production data	76
	SOC revenue data	93
	SOC quasi fiscal activities	..
	SOC board of directors	50
	Fund rules	..

Rank (out of 58)		Score (out of 100)
	Comprehensive fund reports	..
	Subnational transfer rules	100
	Comprehensive subnational transfer reports	33
	Subnational reporting of transfers	0
11	Safeguards and Quality Controls	75
	Checks on licensing process	100
	Checks on budgetary process	100
	Quality of government reports	50
	Government disclosure of conflicts of interest	0
	Quality of SOC reports	50
	SOC reports audited	100
	SOC use of international accounting standards	100
	SOC disclosure of conflicts of interest	100
	Quality of fund reports	..
	Fund reports audited	..
	Government follows fund rules	..
	Checks on fund spending	..
	Fund disclosure of conflicts of interest	..
	Quality of subnational transfer reports	50
	Government follows subnational transfer rules	100
21	Enabling Environment	46
	Corruption (TI Corruption Perceptions Index & WGI control of corruption)	37
	Open Budget (IBP Index)	59
	Accountability & democracy (EIU Democracy Index & WGI voice and accountability)	57
	Government effectiveness (WGI)	48
	Rule of law (WGI)	31

■ Satisfactory ■ Weak
■ Partial ■ Failing