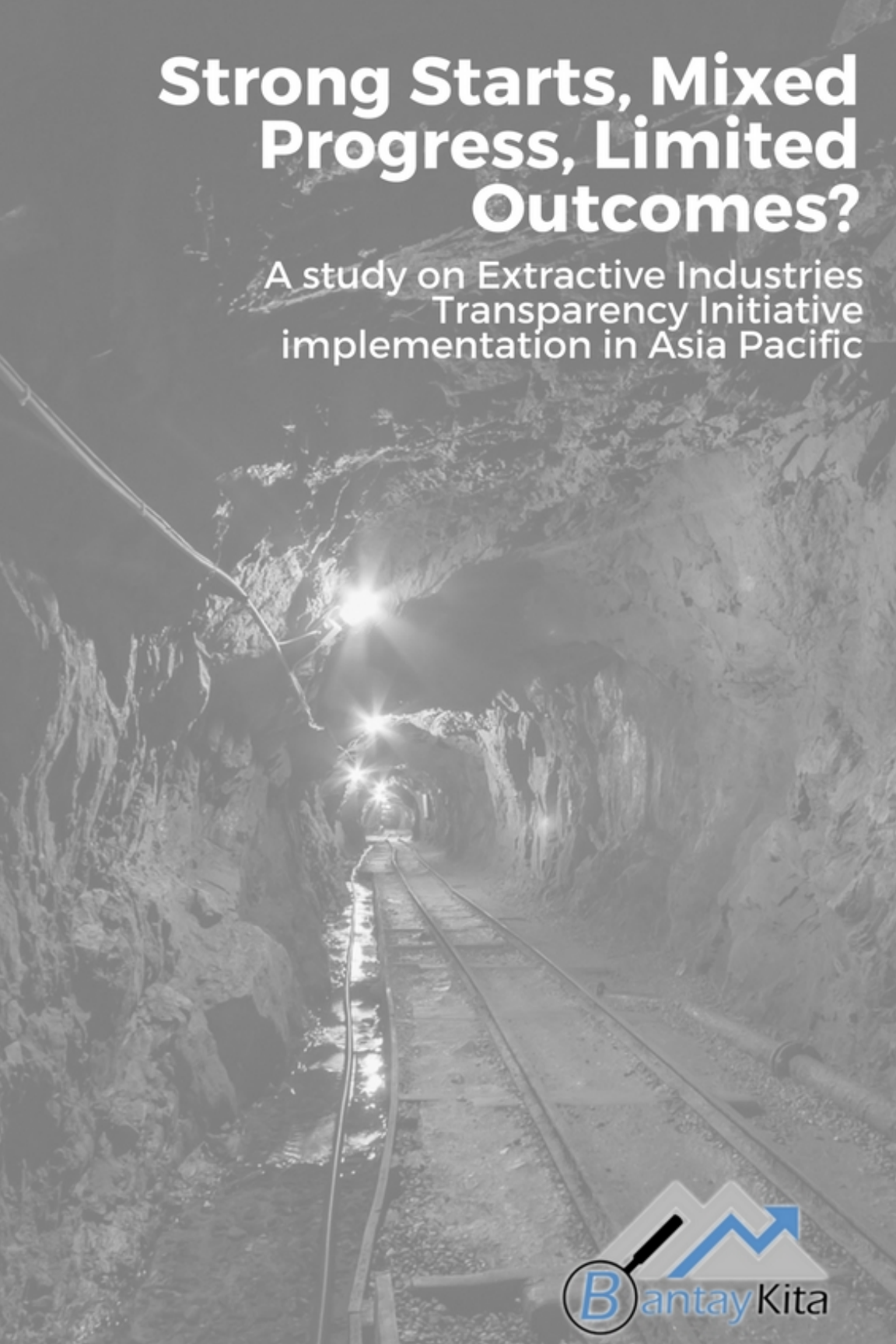
Strong Starts, Mixed Progress, Limited Outcomes?

A study on Extractive Industries Transparency Initiative implementation in Asia Pacific



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I. Introduction

The Extractive Industries Transparency Initiative (EITI) is a global standard of transparency and disclosure in the mining, oil, and gas industries. In 2002, the EITI began as a set of principles and rules on disclosure and reconciliation of payments made by extractive companies to the revenues collected by the governments hosting these operations. In the fifteen years of its existence, the EITI has evolved to become a global standard covering the whole value chain of extractive industries.

The EITI represents a bundle of ideals. As expressed in its 12 principles, it is founded on the belief that a country's natural resources can be translated to sustainable development provided the extraction of these natural resources is managed well. It recognizes the current situation in many developing countries wherein these natural resources only benefit a few instead of the whole nation. These are politically complex dynamics and while the solutions to these problems vary greatly on a country's context, it believes that transparency and dialogue are the first steps towards addressing these issues.

The EITI is an innovation to the multi-state norm-setting efforts. When nations wanted to agree on a certain standard of behavior for each of the member countries, they enter into government-to-government treaties. However, the EITI relies on a multi-stakeholder group composed of government, industry, and civil society representatives per country to push its agenda. This innovation recognizes that it is precisely the lack of space for civil society participation at the state level that perpetuates corruption of their natural resources.

For the past 15 years, the EITI has been successful in legitimizing and establishing itself as a brand. It has increased membership from the original four pilot countries in 2003 to 51 implementing countries in 2016, with four other countries recently expressing their intentions to join. These 51 countries are diverse in terms of types of government, natural resource extracted, incomes and other political, social, and economic factors. The challenge for EITI has been to keep the standard relevant and useful for the national Multi-Sectoral Groups (MSG) to work with despite these differences.

The expanding content of its disclosure standards reflect the EITI's efforts at the international level to continue to push for even greater transparency. The table below compares the disclosure requirements, in terms of the content of the report, from 2011 to the 2016 standard.

Table 1. Disclosure Requirements of 2011, 2013, and 2016 EITI Reports.

2011 EITI Rules	2013 EITI Standard	2016 EITI Standard
Material payments Material revenues	Material payments Material revenues Contextual Information - Legal framework, fiscal regime,	Material payments Material revenues Legal and institutional framework Fiscal regime

	overview, contribution to economy, production data, state participation, revenue distribution, license register, beneficial ownership, contracts Expanded materiality scope - Revenue streams, sale of state's shares, transport, social payments, transport, state-owned enterprises, subnational payments Per company reporting	License allocation Register of lands Contracts Beneficial ownership State participation Exploration Production Export Revenues Barter and infrastructure provisions Transport Revenue allocations Distribution Subnational transfers Revenue management and expenditures Social spending

The table shows the continued push for transparency in all facets of extractives governance. In five years, it has moved beyond payment and revenue reconciliation. The latest framework of EITI indicates its vision on how the benefits from natural resources can be translated to development. It is pushing for transparency across the whole value chain from awarding of contracts and licenses, regulation and monitoring of operations, collection of taxes and royalties, revenue management and distribution, up to spending on development.

II. Evaluations of EITI

Given the relatively novel approach to reform and the ambitious goals of the initiative, the EITI has been subjected to several assessments already. The results have been mixed in terms of outcomes.

Rustad, Le Billon, and Lujala's (2017)[1] paper provides a good summary of the different assessments on the EITI. Their paper analyzed the results of 45 different studies on the EITI and the assessment of the different authors on the success or failure of the EITI. Majority of these studies are from peer-reviewed journals (59%). The rest are non-peer reviewed but independent studies (30%) and EITI-commissioned studies (11%). The table below shows a summary of that study.

[1] Rustad, Le Billon, and Lujala (2017)

Table 2. Assessment of Success or Failure of EITI
(Adapted from Rustad, Le Billon, and Lujala, 2017)

Goals	Success	Mixed	Failure
Institutional (establishing the EITI brand, promoting transparency norms, support and compliance of governments, and establishing the multi-stakeholder governance model)	38	9	6
Operational (developing standards, building national capacity and producing annual reports, promoting public understanding, and civil society involvement in the MSG)	25	16	16
Developmental (increase in natural resource revenues, increase in investments, and improving governance, living standards, and achieving sustainable development)	7	2	16

The value of this study is that it was able to provide a nuanced explanation on which areas EITI has been considered a success and where it is deemed a failure. There seems to be a consensus that EITI has been successful in achieving its institutional goals, specifically in terms of establishing its brand, model, norms, and enlisting governments to participate and comply.

The conclusions in terms of its operational goals are still mixed. While the EITI standards and the production of the EITI reports are positively recognized, the failures are attributed to the limited use of the EITI reports among the general populace and the limited civil society involvement in the MSG.

It is in the developmental goals that EITI has been found most wanting. The successes were due to the increase in investments it generates. But in terms of improving governance, living standards, or achieving sustainable development, it has been deemed a failure.

There are various explanations for these failures.

Oge's (2016a)[2] comparative paper on the adoption of the EITI in non-democratic governments show that the EITI has been used to attract more foreign direct investments. Another study of his (2016b)[3] labelled such efforts as transparency for public relations instead of transparency for reform. This minimal interpretation of transparency without the corresponding institutional reforms needed mean that the increased inflow of foreign investments will go to corrupt governments.

[2] Öge (2016a)
[3] Öge (2016b)

These findings have been reflected in a study by Sequeria et al. (2016)[4] in Zambia. By comparing the disclosures of mining firms who participate in the EITI and those who do not, the research found no significant difference in the level of disclosure in public environmental reporting between the two firms. While EITI-participating firms may disclose more information on environmental and financial reports, the level of detail and specificity is not enough to be useful for third parties who can pursue further investigations on the matter.

Philips and Whiting (2016)[5] evaluated the 12 principles of the EITI using the sustainability assessment methodology, Geocybernetic Assessment Matrix. They find that the current form of EITI is focused too much on the economics of natural resource wealth and not much on the environmental and social indicators of sustainable development.

Finally, the EITI is a relatively new standard. Any conclusions pertaining to development outcomes is premature at this time.

Regional Features of Extractive Industries Governance

For 2015, mineral and fossil fuels is the second highest export for in Southeast Asia.[6] While the specific commodities differ per country, most of the members of the Association of Southeast Asian Nations (ASEAN) rank in the top sources of oil and minerals globally.

The Natural Resource Governance Institute (NRGI) produced the Resource Governance Index in 2013, which is a ranking of 58 countries globally in terms of the quality of their natural resources management. Seven out of the eleven Southeast Asian countries were covered in this index.[7] The table below shows the results:

Table 3. Resource Governance Index of Southeast Asian Countries (NRGI, 2013a).

Country	Score and Ranking	Strengths	Weaknesses
Cambodia	Weak/ 52 out of 58	Institutional and Legal Setting	Safeguards and Quality Control; Reporting Practices; Enabling Environment
Indonesia	Partial/ 14 out of 58	Institutional and Legal Setting; Reporting Practices; Safeguards and Quality Controls	Enabling Environment
Malaysia	Weak/ 34 out of 46	Enabling Environment	Institutional and Legal Setting;

[4] Sequeira et al. (2016)
[5] Philips and Whiting (2016)
[6] ASEAN (2016a)
[7] NRGI (2013a)

			Reporting Practices; Safeguards and Quality Controls
Myanmar	Failing/ 58 out of 58		Institutional and Legal Setting; Safeguards and Quality Control; Reporting Practices; Enabling Environment
Philippines	Partial/ 23 out of 58	Institutional and Legal Setting; Reporting Practices; Safeguards and Quality Controls	Enabling Environment
Timor-Leste	Partial/ 13 out of 58	Institutional and Legal Setting; Reporting Practices; Safeguards and Quality Controls	Enabling Environment
Vietnam	Weak/ 41 out of 58	Institutional and Legal Setting	Safeguards and Quality Control; Reporting Practices; Enabling Environment

The table shows diversity in governance and institutional mechanisms in the seven countries. None of the seven countries reviewed were considered Satisfactory. This category was mostly populated by advanced developed countries like Norway, Australia, and several Latin American countries. Indonesia, Philippines, and Timor-Leste are in the second category;[8] with Timor-Leste ranking highest in Southeast Asia.[9] Interestingly, these countries are similar in that they were rated highly in terms of the institutions and legal frameworks in place governing oil, gas, and mining, the level of transparency and disclosure of government agencies, and the functioning of the oversight mechanisms and checks and balances in natural resource management. For all three countries, their scores are dragged down by the macro-environment including accountability, rule of law, corruption, and democracy.

Malaysia, Vietnam, and Cambodia scored in the bottom half of the index.[10] Their cases are varied and each country has different strengths. But all three countries share the same weaknesses – weak safeguard mechanisms for regulatory agencies and lack of transparency and disclosures of government data.

[8] NRGI (2013b, 2013c)
[9] NRGI (2013d)
[10] NRGI (2013e, 2013f, 2013g)

Myanmar is at the bottom of the ranking, scoring extremely poorly on all four indicators.[11]

The RGI shows several things about Southeast Asia as a region.

First, it is a resource-rich region. The scope of the study focused on the resource-rich countries and majority of the Southeast Asian countries were included. Second, none of these countries are considered to have satisfactory governance mechanisms of their extractive industries. Third, for the three countries that were rated relatively well, they have to contend with deeply embedded structures that compromise the integrity of their governance frameworks. Lastly, the rest of the countries are dealing with a mix of opaque and unaccountable governments and weak institutional and legal frameworks on their extractive industries.

Given the RGI findings, it is to be expected that the top three countries in Southeast Asia are involved in the EITI. The candidacy of Myanmar is the outlier in this case. The table below summarizes the key milestones for each country in their journeys towards EITI adoption.

Table 4. EITI Milestones in SEA.

	Expression of commitment to join	Became a candidate country	Became a compliant country
Indonesia	2008	2010	2014
Myanmar	2013	2014	
Philippines	2012	2013	
Timor Leste	2007	2008	2010

As a resource-rich region, it makes sense that four out of eleven Southeast Asian countries (Indonesia, Myanmar, Philippines, and Timor-Leste) are implementing the EITI standards, while two others (Thailand and Vietnam) signified their intentions to join as well.

Perception of Corruption in Government

Transparency International publishes an annual report collating the different corruption and governance scoresheets in the world under the 100-pt Corruption Perception Index. A score of 100 points indicate a country is perceived as having a clean government. This is the most widely used corruption indicator globally. The table below shows that nine out of eleven Southeast Asian countries score below 50 points.

Table 5. 2015 and 2016 Transparency International Corruption Perception Index Scores of SEA Countries from 2015 -2016 (Transparency International, 2016). [12]

	2016 TI CPI Score	2015 TI CPI Score
Singapore	84	85
Brunei	58	N/A

[11] NRGI (2013h)

[12] Transparency International (2016)

Malaysia	49	50
Indonesia	37	36
Philippines	35	35
Thailand	35	38
Timor-Leste	35	28
Vietnam	33	31
Laos	30	25
Myanmar	28	22
Cambodia	21	21

This finding is confirmed by the series of political scandals that gained global attention in the past decade.

The ongoing investigation on the 1Malaysia Development Berhad (1MDB) has become an international effort, wherein governments of United Kingdom, Australia, Hong Kong, Singapore, Switzerland, and USA have been conducting their own inquiries on the transactions made with 1MDB in their countries.[13] This scandal broke out from a special report by the Wall Street Journal and it alleged that this state fund have made deals that siphoned off billions of dollars to Prime Minister Rajiv Nazak and his cronies.[14] 1MDB was a converted sovereign wealth fund for the oil-rich region of Terrengganu.

Another major global scandal involving corruption in the extractive industries is the leaked recording of Indonesia's House of Representative's Speaker Setya Novanto asking for a 20% stake in Freeport McRoran's Indonesia's copper mining operations in exchange for an early extension of their permit that is due to expire on 2021.[15] The secret recording was made by Freeport Indonesia's CEO Marroef Sjamsoeddin.[16] This has led to the resignations of Novanto from his House speakership and Sjamsoeddin as Freeport Indonesia's CEO.

These two cases provide the most recent examples in Southeast Asian countries of how incomes and revenues derived from extractive industries are vulnerable to state plunder.
Impact of Commodities Demand from China

China is the top trading partner of ASEAN region in 2015.[17] The past two decades saw a boom in demand for commodities and it was mainly driven by demand from China.

In 2014, Global Witness published a 128-page report describing the flow of funds and goods surrounding the jade trade. The report claims that the military and national state leaders have

[13] WSJ (2017)
[14] Malaysiakini (2015)
[15] Mulholland (2015)
[16] Tan (2015)
[17] ASEAN (2016b)

been relying on the proceeds from the jade trade as unaudited slush funds.[18] This has triggered a series of follow-up articles from different news sources on the flows and impact of the jade trade in the regional and national politics of Myanmar.

Chinese government reports estimated USD12.4B worth of mineral exports from Myanmar in 2014 alone.[19] Its shared border with Myanmar and a cultural fascination with jade spanning centuries has been the driving force behind this murky economy.[20]

Meanwhile, China has also been the recipient of smuggled mineral ores from the Philippines for the past decade. A report published in Manila Times found that using United Nations International Trade Statistics Database, Hong Kong reported USD5.3B worth of gold imported from the Philippines from 2005 to 2015. Meanwhile, the Philippines only declared USD1.1B worth of gold exports to Hong Kong in the same period.[21]

The huge demand on commodities boom in China and its proximity to Southeast Asia means that a significant portion of its extracted natural resources inevitably flow to China through legal and illegal means.

[18] Global Witness (2015)
[19] Heijmans (2015)
[20] McCafferty (2016)
[21] Tiglao (2017)

III. Timor-Leste

Context

In May 2002, Timor-Leste officially gained its status as an independent nation after a plebiscite ratified by the United Nations ended three decades of fighting for independence from Indonesia. As a new state, Timor-Leste received technical assistance from the donor community in its transition to an independent state.

Timor-Leste is a democratic government with a population of over 1 million that is recovering from a war of independence that claimed around 250,000 lives of its citizens. The legacy of the prolonged struggle meant a population immersed in poverty, with little infrastructure, and lack of economic diversity.

Timor-Leste's economy is heavily dependent on oil and gas. According to the latest EITI report, the oil sector accounted for 76% of the country's GDP and 98% of exports in 2013.[22] Exploration and production takes place offshore in the Timor Sea. Hence, these companies do not contribute much to the employment of locals.

The unique feature of the Timor-Leste extractive industries is that the success of this new state depends on its Petroleum Fund. Based on the Petroleum Fund Law that was promulgated in August 2005 established that all revenues from its oil reserves are to be transferred to the Petroleum Fund.[23] While there is still no EITI Law in Timor-Leste, the governance structure of the Petroleum Fund as defined by law already requires a high degree of transparency and disclosure of information to the public.

The country is in the difficult position of ensuring that the gains from their oil and gas resources will translate into economic development before their reserves run out. However, its oil-producing sites are forecasted to be depleted in less than 10 years.[24] While there are potential other oil and mineral reserves in Timor-Leste, these are not yet explored.

Institutionalization of EITI

There is government commitment to the EITI. Among the Southeast Asian countries, Timor-Leste has been involved with the EITI the longest. It has been implementing EITI for a decade now. During that time, the country has published six country reports covering 2008 to 2013. It became an EITI-compliant country in 2010. Its compliant status is currently suspended by the EITI Board because they have not submitted their 2014 Country Report on time.

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[22] EITI (2015)
[23] Timor-Leste Ministry of Finance (n.d. a)
[24] Australian Associated Press (2017)

There is a multi-stakeholder group established. Based on the terms of reference for the MSG, six members are from government (including state owned enterprises), three from civil society, and three from industry.

Timor-Leste's efforts at implementing the EITI has been recognized internationally, which helps promote the new state to other investors. Representatives of the Timor-Leste EITI has been invited to different countries like Ghana, Philippines, Vietnam and Solomon Islands to learn more about their EITI implementation.

There is no EITI law in the country yet. What facilitated the process for Timor-Leste is that its Petroleum Law is based on the same principles of transparency and disclosure as the EITI.

Operationalization of EITI

Timor-Leste EITI operations is securely set up. It has a functioning secretariat. Its website is regularly updated. It received funding from the Multi-Donor Trust Fund in 2009 which closed in 2010. Since then, the Ministry of Petroleum and Mineral Resources has provided funding for the activities of the Timor-Leste EITI Workplan.

There is significant participation in the reconciliation process from both the government and industry. This shows in the impressive zero variance in the reconciliation reports from 2008-2011. The variance in the 2013 report was caused by the non-submission of two companies of the reporting templates. The total discrepancy though is less than 0% of the total payments so it is deemed insignificant.

Table 6. TL-EITI Reconciliation Results from 2008-2013.

Year	Company Payments (in USD Million)	Government Collections (in USD Million)	Discrepancy
2013	3,251	3,251	(465,032)
2012	3,789	3,789	(235,365)
2011	3,453	3,453	-
2010	2,149	2,149	-
2009	1,763	1,763	-
2008	2,509	2,509	-

Role of civil society is recognized and respected in Timor-Leste. They are present during MSG meetings. In a paper published by Sullivan (2013) which compared Liberia and Timor-Leste EITI, he found that the civil society representatives in Timor-Leste EITI are respected by government.[25] Their outputs and reports are read and studied by their government counterparts, particularly Lao Hamutuk and Luta Hamutuk. However, as far as their reach in

[25] http://www.laohamutuk.org/Oil/EITI/2013/WhatPointTransparencyEn.pdf

terms of influencing policies and budget allocation, civil society participation and involvement has been limited.[26]

There is a need to build capacity of the Timor-Leste Secretariat and MSG. Based on their last country report, the Timor-Leste MSG cites the following weaknesses: (1) unqualified staff in Timor-Leste EITI Secretariat, (2) limited staff, (3) lack of documentation in decisions made by the MSG, and (4) lack of planning to complete tasks.

Impact on Governance

Timor Leste faces typical challenges of newly-independent nations such as lack of infrastructure, low human resource capacity, lack of diversity of economy, and widespread poverty. It has to respond to these challenges using the revenues generated from their oil fields. 97% of the government budget comes from tax payments of the five biggest oil producing companies. The country, however, started on good footing by making sure that their Petroleum Fund is transparent and the payments have been collected and deposited to the fund.

Declining Momentum on Transparency Post-EITI Compliance

Timor-Leste already underwent its first round of revalidation on the 2016 EITI Standard last June to July 2016. The Validation Report produced from that visit finds that Timor-Leste EITI has been regressing.[27] The Validators cited the following problems:

- Lack of agreement on definition of materiality
- Lack of disaggregated reporting of revenues
- Limited disclosures on mandatory social expenditures
- Lack of impact assessment

These problems are traced to the increasingly strained relationships between the MSG members. Industry members of the MSG have successfully lobbied to remove disaggregated figures in the reporting templates. Meanwhile, there were several policies pertaining to the management of the Petroleum Fund that the civil society has been criticizing. This is discussed in more detail below.

Petroleum Fund Sustainability

The Timor-Leste Petroleum Fund was established by legislation in 2005. The Petroleum Law was enacted to prudently manage the country's oil resources and to stabilize the currency and budget given oil price's volatility in the international market.[28] There are three issues that pose a threat to the Petroleum Fund.

a. Investment of Petroleum Fund

In 2005, the Petroleum Law of Timor-Leste went for a conservative approach in investing the Petroleum Fund. They went with low-risk US dollar debt instruments (AA- by S&P or Aa3 by

[26] http://www.laohamutuk.org/Oil/EITI/10EITIindex.htm

[27] http://www.laohamutuk.org/Oil/EITI/2016/ValidationReport_sdsg11Nov16.pdf

[28] Timor-Leste Ministry of Finance (n.d. b)

Moody's), with the remaining 10% in instruments that the law requires to be issued abroad, liquid, transparent and traded in markets with high regulatory standards.[29]

This conservative allocation has been amended twice, in 2008 and in 2011. It makes sense for the Petroleum Fund to take on more risks in exchange for higher growth rates.

Two things to note from the 2011 amendments is that (1) Up to 10% of the PF can now be used as collateral; and (2) the Finance Minister can now determine the manager for the equities portfolio. Since then, the Fund has been calibrating the best risk-to-reward ratio for the fund and its latest allocation has been 60% on bonds and 40% went to developed market equities.[30]

Table 7. Investment of Petroleum Fund 2005-2015.

	2005	2008	2011	2015
US dollar bonds	90%	74%-78%	No less than 50%	50%
Low risk debt instruments	10%	19-21%	Up to 50%	10%
Equities/ Derivatives		3%-5%	5%	40%
Collateral for Loans			Up to 10%	

The equity allocation of the Petroleum Fund is now taking on more risky investments and the insertion of the Finance Minister in the selection of equities manager pose vulnerabilities to this fund.

Factoring in inflation, the Fund's return since its inception in 2005 is 3.8% or 2% in real terms. This is below the real return target of 3% for the fund.[31]

b. Withdrawals from the Petroleum Fund

Every budget cycle, the government calculates the estimated sustainable income for the year. In theory, this should be the basis of the maximum amount that the government can withdraw from the Petroleum Fund for a given year. It factors in oil price projections and value of future oil /projections. The objective of maintaining the ESI is to preserve the Petroleum Fund for the long term.

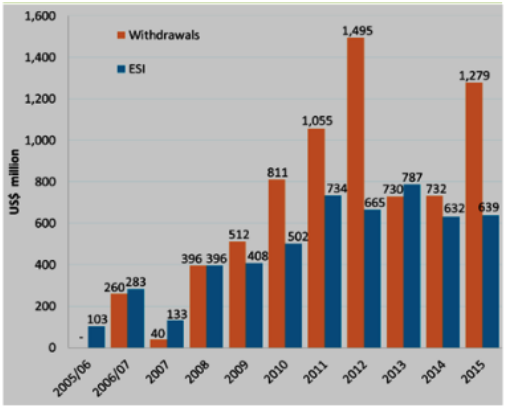
There is an ongoing debate on this aspect. One side believes that the rate of withdrawals is too low for an impoverished country like Timor Leste. It should be investing in social services and infrastructure that will increase incomes of its citizens in the present instead of saving up for future

[29] McKechnie (2013)
[30] Timor-Leste Ministry of Finance (2015)
[31] Timor-Leste Ministry of Finance (2015)

generations.[32] However, another side argues that current absorptive capacity and institutional capacity of the government will make the spending vulnerable to corruption and leakage.

Nonetheless, the Timor-Leste government has been withdrawing more than the estimated sustainable income for the past few years. For 2015, the government withdrew USD1.2B or twice more than the ESI for the year (USD639M). This is the fifth time in 11 years that the government withdrew beyond the allocated ESI.

Figure 1. Transfer to State Budget (TL Central Bank Petroleum Fund 2015 Report)[33]



c. Allocation/ Fund Utilization

Timor-Leste may have zero discrepancies in terms of revenue collections from oil and gas, but if allocation and spending is irresponsibly implemented, then the country's resources are wasted. Their current situation means that they are working on a tight budget and timelines and it is unavoidable that the Timor-Leste EITI should be monitoring spending of the Petroleum Fund.

Timor-Leste has persistent low scores in Transparency International's Corruption Perception Index and a high perception of corruption in public service among citizens. Government positions have doubled from 2008 to 2012 and there has been complaints of nepotism in hiring of civil servants.

They are also understandably undertaking much needed infrastructure projects – airports, ports, and roads. The procurement for these services are vulnerable to corruption and rent-seeking. There are already cases filed against the Minister of Finance for awarding government contracts to the firm owned by her husband. There were also questions on the generous retirement packages for politicians and continued expansion of the bureaucracy.[34]

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[32] Scheiner (2015)
[33] http://www.bancocentral.tl/PF/Reports.asp
[34] Horta (2014)

IV. Myanmar

Context

The political economy surrounding Myanmar's extractive industries is complex with several local, national, and foreign players colluding and conflicting in the control of its vast natural resources. It is rich in oil and gas, minerals, and gems. According to their first EITI report, Myanmar's extractive sector accounted for 6% of GDP, 23.6% of state revenues, and 38.5% of exports in 2013. These numbers already show a significant contribution of the extractives to the economy even if several sources dispute these as severely underreported.

EITI in Myanmar is operating in one of the most difficult environments for transparency and accountability in the world.

The EITI report of Myanmar reconciled USD380 Million of revenues from jade. However, contrasting data from Chinese customs, Myanmar Gems and Emporium data, and an international NGO, Global Witness, report estimates value of the jade trade from USD8 Billion to USD30 Billion.

Different states in Myanmar have their own dynamics of conflict. The 2008 law effectively corners the country's extractive industries under the purview of the national government, instead of the regional governments. There are conflicts over land rights, poor distribution of benefits, and adverse health and environmental effects on the host communities.

Regions of Myanmar that have been affected by conflict are particularly natural resource rich. It boils down to the sharing scheme of the benefits of natural resource wealth. The violent civil war ongoing between the military and various rebel movements revolves around land rights and benefiting from mineral resources.

Institutionalization of EITI

Government commitment to the EITI is shaky because of the transition. Myanmar's participation to the EITI was considered a pet project of the former President U Thein Sein. However, with the victory of Daw Aung San Suu Kyi in the November 2015 elections, the new government leadership has not prioritized the EITI.[35] This is evident in the lack of updates on its website since March 2016. As of January 2017, they still have not formed the MSG yet.

To produce the first Myanmar EITI report, a MSG was assembled. Based on the meeting minutes on the Myanmar EITI website, the CSO representatives were participating and recognized in the discussions. The MSG was formed and there were six government representatives, six industry representatives, and nine civil society representatives.

Myanmar's EITI candidacy garnered support from the international community. Different international observers followed this development closely.

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[35] Kean (2017)

Operationalization of EITI

Myanmar EITI operations are still uncertain. The Secretariat was supposed to be established under the Ministry of Finance. This is still not yet done. The Myanmar Coordination Office, under the Myanmar Development Resource Institute (MDRI), is still performing the secretariat function. This means that there are no full-time staff and dedicated office for the EITI Secretariat.

Myanmar did receive a grant from the MDTF to support their EITI undertaking.[36] Aside from that, the World Bank also provided technical support in establishing the Coordination Office. These funds expired by 2015. It is uncertain where the funds are coming from for the next report.

Myanmar published its first EITI report in 2015. Local and foreign observers recognize the importance of this milestone and how, just 5 years ago, this would not have been possible under the military junta. Former President's Thein Sein's government was praised for his efforts towards undertaking the daunting task of reforming the government. These reforms aimed to attract investment, improve social and environmental safeguards, and increase government revenues from the extractive industries.

The report alone faced several critiques pertaining to scope, comprehensiveness of data, and quality of data. A briefer from the Natural Resources Governance Institute provided the following critiques on the report.[37]

Table 8. Critique of Myanmar EITI Report (adapted from NRGI, 2016).

Category	Description
Scope of report	Gems and Jade revenues are underreported High materiality thresholds that excluded a lot of gem and jade companies
Non-disclosure	Customs and IRD under Ministry of Finance did not disclose revenues Audit reports from the Office of Auditor General were not made public
Content of the Report	Transportation taxes were not reconciled Revenues collected by SOEs from companies should be reconciled with the transfers made by SOEs to the MOF Production data is not in the reconciliation process Criteria for awarding licenses is not included in the report Contracts of companies were not made publicly available Per project disclosure of social expenditures of companies should be included in the report

The following gaps in the Myanmar EITI report flag areas for improvement in the natural resource governance of Myanmar.

[36] SAR (2013)
[37] NRGI (2016)

The report focused on the Oil and Gas sector. With 85% of the revenues reconciled in the report coming from them. A policy brief by NRGI reports that only 54% of the emporium gemstone companies were included in the EITI report. The table below show the disparities in the export estimates between the EITI report and other data sources:

Table 9. Reported Value of Jade and Gems Export.

Source	Value of Jade and Gems Export
Myanmar 1st EITI report	USD 942.2M
Gems and Jade Emporium	USD 1.5B
Myanmar Business Update (Chinese Customs)	USD 12.3B
Global Witness 2014 Report	USD 30.85B

Civil society groups monitoring the impact of mining projects on the local population have been arrested or faced official harassment. This violates EITI's International Civil Society Protocol where CSOs should have freedom to work and engage in dialogues on natural resource management issues.

Impact on Governance

For all the critiques received by the Myanmar EITI report, it is recognized that the process improved coordination among business, government, and civil society and it increased dialogue between civil society and government ministries.

These claims were corroborated by other sources.

"In 2012, cooperation between civil society organizations, the government (particularly the Ministry of Mines) and parliament has improved greatly. One example is the civil society public consultations that took place during parliament's deliberations over laws governing hand-drilled oil wells which allowed those most affected to present their views to lawmakers directly."[38]

One of the mechanisms for dialogue has been the creation of local EITI units. Since the dynamics of natural resource governance vary per region, this is a good step to raise problems at the local level and generate solutions.

The Myanmar EITI report also showed that a significant amount of their revenues from state-owned enterprises are diverted to unaudited other accounts.

[38] Tun (2016)

Within the scope covered by the EITI report, there is almost no discrepancy in the amounts collected and amounts received by the reporting agencies. However, 58% of these amounts are held in "other accounts" of SOEs. How SOEs allocated and spent these amounts are unknown.

Table 10. Transfers Made by SOEs (in millions MMK).

SOE	Amount Transferred to Budget Accounts	Amount Transferred to SOE Other Accounts
MOGE	880,449	1,320,175
MGE	228,436	195,516
ME (1)	5,502	2,436
ME (2)	16,314	20,963
ME (3)	2,784	3,563
Total	1,133,486	1,542,563

An ADB policy brief said that these other accounts are sources for extra-budgetary government expenditures.[39] These other accounts are not disaggregated – both their sources and allocations are not fully reported. This means that significant amount of public funds are outside of the budget, spent without oversight, and are not audited.

The EITI was also found lacking as far as being an avenue to resolve human rights issues on the extractive industries. Human rights-related concerns and grievances have been brought into EITI MSG discussions repeatedly during the year, even though EITI as a process is not equipped or intended to capture these issues.

[39] Oo et al. (2015)

V. Indonesia

Context

Indonesia is a resource rich country. As of 2013, it accounted for 56% of all people living in resource rich countries in the Asia Pacific. It ranks in the world as:

- 27th largest in terms of crude oil reserves
- 14th largest in terms of natural gas reserves
- 5th largest in terms of gold reserves
- 2nd largest in terms of lead reserves
- 10th largest in terms of coal reserves.

Oil production has declined in the past 15 years but there is still 3.9 billion barrels of oil reserves. The mining sector has been expanding the past decade. Revenues from extractives in 2013 account for 11.3% of the GDP, 31.4% of the state revenues, and 32.6% of exports.

Compared to Timor-Leste and Myanmar, Indonesia's democratic government has been relatively stable. It has expressed commitment to the EITI in December 2005 and was admitted as an EITI Candidate in 2010.

Institutionalization of EITI

In 2010, Indonesia issued the Presidential Regulation Number 26 on Transparency of National Extractive Industry Revenues.[40] Based on this document signed by former President Susilo Bambang Yudhoyono, Indonesia believes that management of its natural resources should be transparent, inclusive, anchored towards sustainable development and promotes improvement in the investment climate. This commitment has been maintained under the current administration.

Based on this same regulation, Indonesia has a two-tier body responsible for EITI implementation in the country. The Steering Team is composed of six heads of government ministries. They are responsible for giving direction for the Implementation Team. Most of the actual work is done by the Implementation Team. This team consists of 20 members - nine of whom are from government, three are from local government associations, three are from industry associations, three are from non-government organizations, and the remaining are from state-owned enterprises.

Both government commitment and multi-stakeholder participation is assured and going to continue in Indonesia. Its innovations and accomplishments are recognized by international organizations.

[40] EITI Indonesia (2010)

Operationalization of EITI

PER-04 released on April 2012 updated the Presidential Regulation Number 26 by setting up the EITI Secretariat and putting its operations under the Ministry of Economic Affairs.[41] Their source of fund comes from the national budget.

Indonesia is the second Southeast Asian country to be an EITI candidate in 2010. They became a compliant country in 2014 and have submitted four country reports covering 2009 to 2014. Their next validation is due in 2018.

Indonesia has the highest number of companies reporting to the EITI in Southeast Asia with 296. For their 2014 report, 55 companies did not submit their reporting templates with 45 of those coming from the mining sector and the rest are from oil and gas sector. The non-reporting companies are estimated to have contributed 7.4% to the mining revenues and 2.5% in the oil and gas revenues. This led to a discrepancy ranging from 0.16% to 11.33%.

There is no penalty for non-submission of reports.

There is adequate involvement and autonomy for civil society to participate and engage in the EITI. Publish What You Pay – Indonesia has been a powerful network of civil society organizations in Indonesia and they have worked on ensuring that the EITI data is translated into outcomes that will empower communities hosting extractive operations.

EITI implementation in Indonesia is based on a presidential decree (Presidential Regulation RI No. 26/2010). Their EITI compliance was suspended last February 2015 because of the delay in submission of the report. Their compliant status was reinstated later that year when they submitted their report after a few months.

This delay reflects a couple of obstacles for EITI in Indonesia.

Only 81% of targeted mining companies submitted reports

There are currently no penalties for companies who do not submit reports for the EITI. The mining sector is vast in Indonesia. The country also has a law where regional governments can issue mining permits. Central government has little control on the mining licenses issued by subnational governments.

Inter-Ministry/ Inter-Government Red Tape

The IA encountered delays due to red tape and penetrating the different agencies with oversight in the mining sector. Dealing with different subnational governments and extracting their data on mining licenses also held up the reconciliation process. This problem indicates areas where process reforms are needed.

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[41] EITI Indonesia (2012)

Setting Accounting and Reporting Standards

The different accounting methods (cash and accrual), exclusion of information of upstream oil and gas, property tax (PBB), and different exchange rates between dollar and rupiah over time made it difficult for the reconciler to verify the data. The cash basis payment which is often recorded in a different year by government and companies also created problems in reconciliation process. Incomplete deposit evidence from companies to government also made reconciliation process more challenging.

Impact on Governance

In the seven years of EITI, Indonesia moved beyond reporting and targeted some key result areas.

Expanding space for participation in natural resource governance for local authorities

The EITI reports have surfaced gaps and problems in the flow of funds from companies to central governments and back to the local governments. In Indonesia, their 2010-11 EITI report showed several errors in the recordkeeping process that resulted in errors in the computation of provincial wealth share.[42] While this complaint is still not yet completely addressed as of the 2012-2013 report, the EITI country report allows municipal authorities to calculate how much oil and gas revenue they are entitled to.[43]

Indonesia also formed Implementation Teams and three provinces are members of the Implementation Team – Jawa Timur, Riau, and Kalimantan Timur. This move expands the policy discussions to include the needs and experiences of local communities.

Strengthening governance of natural resources; veering away from corruption

PWYP-Indonesia has been developing solutions and implementing innovations to ensure that the content of the EITI reports benefit the communities.

A partnership between Swandiri Institute and PWYP Indonesia piloted the use of GIS technology and EITI data on mining licenses to compare the territory on which mining and palm oil companies are legally permitted to operate in territories they are operating. [44] The findings from this project show that in West Kalimantan province, there is a number of mining companies operating in territories they did not have permit to operate. This resulted in more than USD1.5M loss in income on land rent.

These findings have been forwarded to the Corruption Eradication Commission (KPK) of Indonesia for further investigation.[45]

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[42] EITI (2016)
[43] Rogan (2014)
[44] GIS Cloud Ltd (n.d.)
[45] Radjawali (2014)

Another project with SOMASI entailed collecting project-level payment data in West Lombok and West Sumbawa. This project aimed to assess how effectively district governments had utilized the natural resource wealth to advance human development in these provinces.[46]

Lastly, there were efforts to deliver localized version of the EITI report to a province in Papua. Being one of the most resource rich regions in the country, AJI delivered the following outputs:[47]

- Produced newsletters
- Dialogue and presence in local television shows and radio programs
- News Café – Press Conference
- SMS gateway

These efforts increased awareness among citizens.

Translating Transparency to Accountability

Indonesia was hopeful that with the election of Joko Widodo as President, corruption in the public sector will be reduced. The gains in promoting transparency and improving governance in Indonesian extractive industries governance have been encouraging. However, just last year, the country was embroiled in a corruption scandal which showed its House Speaker Setya Novanto attempting to extort U.S. mining giant PT Freeport Indonesia.[48]

This raises the challenge for Indonesia now to ensure that the gains in transparency are translated to accountability.

The findings of the Swandiri Institute on violations on operating permits in West Kalimantan were also forwarded to the KPK for further investigation. The KPK (Corruption Eradication Commission) is one of the most trusted government institutions in the country. In its first 13 years, it has gained a reputation of thorough investigations and prosecutions of high-level targets and achieving a 100% conviction rate. [49]

Unfortunately, the past two years, KPK has been in limbo under Widodo. The House of Representatives picked five new commissioners heavily criticized by civil society as weak and unqualified.

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[46] PWYP (2016a)
[47] PWYP (2016b)
[48] Nangoy
(2015)

[49] Coca (2016)

VI. Philippines

Context

The Philippines has significant production of gold, nickel, copper, chromium, iron ore, chromium, zinc, and silver. The Malampaya project accounts for over 90% of gas production in the country. The following are the distinguishing features of extractive industries in the Philippines.

Compared to the other EITI implementing countries in Asia Pacific, extractive industries contribution to the economy is lowest in the Philippines.

Table 11. Comparison of extractive industries contribution to the economy among EITI implementing countries in Asia Pacific.

Country	% of GDP	% of Exports	% of Government Revenues
Timor-Leste (2013 TL EITI Report)	76%	98%	97%
Myanmar (2013 Myanmar EITI Report)	6%	38.5%	23%
Indonesia (2013 Indonesia EITI Report)	11.3%	32.6%	31.4%
Philippines (2013 PH-EITI Report)	0.75%	11.5%	4%

Institutionalization of EITI

For the Philippines, former President Benigno S. Aquino III stated that the country would join the EITI to ensure that the government is able to collect the proper share from the extractive industries and that these revenues are translated to development.[50] The creation of the Philippine EITI (PH-EITI) was established through Executive Order No. 79.

The PH-EITI MSG includes equal representatives from government, industry, and civil society. This body is governed by certain norms and standards that require all sides to discuss in a rational and respectful manner. Prior to the EITI MSG, the dialogues between these players were highly contentious which resulted in no productive outcomes.

Working committees and ad-hoc committees were created by the MSG to ensure a more detailed and thorough discussion of specific concerns. This was done for the purpose of drafting the EITI Bill and reviewing the provisions of the Local Government Code on revenue collection. The EITI Bill has been filed in Congress, but has is not yet passed.

[50] EITI Philippines (2013)

The Philippine EITI has been internationally recognized. Secretary Purisima and Secretary Dominguez have both received citations from the International EITI for what?

Operationalization of EITI

The Philippines expressed its commitment to join the EITI in 2012. Since then, the country began its candidacy in 2013 and has published three country reports covering 2012 to 2014. It is also the first country in Southeast Asia to have undergone validation under the 2016 EITI standards and it is expected to be a compliant country by 2017.

There were 58 targeted companies for the 2014 report and 46 of those companies were able to submit their reports. For the latest country report, the total percentage coverage of the participating companies based on reported government tax revenues is 92%.

Non-participation of Semirara

Semirara Mining and Power Corporation is the country's biggest coal mining operator. In 2013, 98% of coal production in the country came from that company. Despite repeated communications from the MSG and Department of Finance, the company has refused to participate. Semirara refused to join again in the second and third rounds of EITI report.

Impact on Governance

Improvements in inter-government processes

The findings of the PH-EITI reports flagged problem areas in the flow of approvals and flow of funds from revenue collection to distribution of wealth between national and local government. The PH-EITI worked closely with the Open Government Partnership in implementing data transparency in the Philippine government.

Some reforms were also undertaken to hasten the timeframe for the collected taxes to reach the local governments. The portal by Bureau of Local Government Finance has been developed and currently piloted so that local governments can record the different revenues collected from the extractive companies in their area.

Increased transparency in the extractives industry

Before the Philippines began its EITI implementation, actors interested in gathering data on specific extractive activities can only access the data from the Mines and Geosciences Bureau. Even then, they released aggregated information instead of per project information. Because of the EITI, extractive companies disclosed both mandatory and non-mandatory information that resulted from negotiations/ discussions from the MSG meetings.

The Open Contracts micro-portal is an example of this information. Currently, the terms of contracts between extractive firms and the government are available online, along with their annexes. Other non-mandatory information that will be shared are the mining monitoring reports, social development plans, rehabilitation plans, and ancillary permits issued to companies.

Contentious and conflicting political environment for mining

A Global Witness report in 2015 showed the Philippines (15) as the 3rd highest country in terms of number environmental activists killed in 2014, behind Brazil (29) and Colombia (25). Significant percentage of those killed were members of indigenous groups and the disputes center on land rights.[51]

Need for an Audit of Actual Ore Shipments

The table below shows a comparison between the ores, metals, and gold declared exported by the Philippines to Hong Kong and the same goods imported by Hong Kong from the Philippines from 1995 to 2015 based on UN ComTrade data. The huge disparity between these two data partially explains that very low contribution of mining to the economy for the past decade.

Table 13. Comparison of exported ores, metals, and gold exports *(United Nations, 2016)*

	Reported by the Philippines USD	Reported by Hong Kong USD	Variance	
2007	188,108,905	309,701,373	121,592,468	65%
2008	325,977,965	369,125,361	43,147,396	13%
2009	132,651,397	530,261,354	397,609,957	300%
2010	53,037,355	626,755,422	573,718,067	1082%
2011	59,312,022	874,170,666	814,858,644	1374%
2012	69,089,299	731,939,261	662,849,962	959%
2013	47,956,284	848,890,694	800,934,410	1670%
2014	27,258,259	645,189,577	617,931,318	2267%
2015	41,552,878	568,414,999	526,862,121	1268%
2016	148,874,042	989,920,298	841,046,256	565%

Need to Reform the Mining Act

This is an opportunity to include reforms and amendments to the taxation regime for extractive firms. The share of mining revenues to total government revenues has been at 1% since 2007. A 2013 study argued that industry-level averages are misleading indicators because of the huge variance in tax payments within the industry (Mendoza & Canare, 2013). In the case of Nickel Asia

[51] Global Witness (2016)

and Philex, the share of government on their total revenues are at 18% and 20% respectively in 2010 and 2011, while the industry average was at 10%.

Sustainability of PH-EITI under the Duterte Administration

The absence of an enabling law to compel all companies to participate in the process is one major challenge. This has been evident in the refusal of some companies to execute the BIR waiver and the difficulty in getting the Board of Investments to disclose incentives.

Uncertainty of funding poses problems in the continuous implementation of activities. The slow government processes for the issuance of the Special Allotment Release Order (SARO) and the tedious procurement processes have caused delays in the engagement of the Independent Administrator which is critical for the timely submission of the third report.

The operations of the secretariat have been severely hampered by the delays in financial processes. Payment of the compensation of key staff from the secretariat has been delayed and/or irregular.

Finally, the series of mining closure and suspension orders issued by the new Secretary of DENR affect both mining firms and the communities that rely on these incomes. The industry members have questioned the mining audit.

VII. Comparison of EITI Progress in Southeast Asia

	Timor-Leste	Myanmar	Indonesia	Philippines
Institutionalization (Government Commitment, Establishment of MSG, Recognition from International Community, Compliance Status)	Strong	Weak	Strong	Strong (with uncertainties for this administration)
Operationalization (Establishing Secretariat, Regular Fund Source, Regular Report Outputs, Participation in the Reconciliation Process, Penalties in Non-Participation, Genuine Civil Society Involvement in MSG)	Mixed	Weak	Strong (except for participation)	Strong (except for regular fund source)
Governance Outcomes (Improvements in Governance, Increased Transparency, Reduction of Conflict, Reduction of Corruption, etc.)	Limited	Limited	Mixed	Mixed

Institutionalizing EITI

As far as establishing the EITI in their respective countries, 3 out of the 4 countries in this study are maintaining their commitment to the process. The legal basis for the national EITI are Presidential Orders; none has been able to pass a law so far. The MSGs have been established and the membership has been from government, civil society, and industry. All countries have received international recognition and institutional support for their efforts. However, the continuation of the Myanmar EITI is shaky under the new administration. The Daw Aung San Suu

Kyi administration is understandably prioritizing issues of regional and local conflict and guiding the transition to democratic rule and the EITI has been unattended since the end of the Thein Sein administration.

Operationalizing EITI

There are mixed results as far as how the different countries in this study operationalized EITI. Secretariats have been established and fund sources have been defined for the three countries. Myanmar had an interim secretariat lodged in an external think-tank and this has not been embedded or absorbed by the government yet. It should be noted though that the International EITI has been extending as much leeway to Myanmar because it is for the best that the country will continue to be engaged with the initiative during its democratic transition.

While Timor-Leste has maintained its Petroleum Fund transparent, its MSG and Secretariat are grappling with the need to build capacity so as to both meet the expanded 2016 reporting standards and the even greater challenge of monitoring and influencing allocation of their Petroleum Fund.

Indonesia's observance of the EITI has been strong. Fund source and Secretariat are securely lodged under the Ministry of Economic Affairs. There is active involvement and autonomy given to the civil society organizations engaging with the EITI. Their previous reports have been expanding in scope, including a lot of the new disclosure requirements to the 2016 standards. They should have no problems maintaining their compliant status.

However, there have been delays in their report submission. The delay is due to non-reporting of several companies. Indonesia EITI has been pushing for an EITI law to address this by imposing penalties on non-reporting. However, this also points to several institutional arrangements in their regulatory regime since regional governments also issue permits; hence putting these companies beyond the control of the central government.

Aside from this, operationalization has been strong in Indonesia.

The Philippine case is similar to Indonesia. Operationalizing the EITI in the country has been relatively successful. There is active civil society involvement in the MSG. The reports have been published annually and Philippine EITI is likely to be considered compliant with the 2016 standard.

There are currently some uncertainties in the EITI operations in the Philippines because of the transition to a new administration. It is lodged under the Department of Finance whose current Secretary's family is involved in mining. Aside from this, the PH-EITI was also not able to compel Semirara, the largest coal mining company in the country, to participate.

While there is still no law imposing penalties on non-participating company, the Department of Environment and Natural Resources is going to issue a department order making EITI participation mandatory.

Impact on Governance

There has been limited to mixed results from all four countries in terms of influencing governance reforms. There have been notable improvements at the process-level, specifically the coordination between government-to-government and government and other stakeholders. Starting points of the countries are also different, yet the effort increased transparency in all the countries. It opened datasets that have not been shared publicly previously, enabled access to both local and foreign observers, and set a precedent for recognizing the role of civil society in monitoring extractive industry revenues.

However, despite these gains, the EITI implementation in these countries also fail to address the pressing governance issues in their countries. While the transparency in the Petroleum Fund in Timor-Leste is commendable, it is inevitable that they should also focus on the allocation side and engaging citizens in budgeting and monitoring of their funds.

Myanmar's first EITI report showed two glaring areas reflecting corruption in their gems industry. Their EITI report grossly understated the impact of their jade and other gem trade in their economy. Aside from that, more than half of the revenues of the state-owned enterprises involved in extractives are diverted to unaudited accounts. These huge gaps are probably not going to be addressed by the government anytime soon.

For communities as well, the EITI was seen as another avenue to factor in human rights and environmental impact of extractive industries in the discussion. It has been a common shortcoming in the four countries that the focus has been solely on revenues.

Overall, EITI in Southeast Asia follows overall global trend of strong accomplishments in institutionalizing the brand in their respective countries, mixed results in terms of operationalizing the EITI process, and limited success in terms of achieving governance outcomes in their countries.

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