

**Conflict, Contestation, and Corruption Reform:
The Political Dynamics of the EITI in Indonesia**

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Abstract

We know little about the political dynamics shaping country responses to the EITI, despite their importance as a determinant of these responses and the fact that the EITI's success hinges on its ability to attract country members. This paper seeks to enhance our understanding in this respect by examining the Indonesian case. Indonesia was slow to sign up to and implement the EITI but eventually did so. It has remained compliant with the initiative more or less ever since, although its commitment has waned in recent years. We argue that this response reflected the changing balance of power between four sets of actors—national politico-business elites, regional politico-business elites, controllers of mobile capital, and subordinate classes and their NGO allies—as affected by economic shocks, political mobilisation, and elites' political strategies. We accordingly suggest that EITI proponents consider the nature of such dynamics in devising reform strategies.

Keywords: political dynamics, political settlements, EITI, transparency, Indonesia

1. Introduction

Over the past two decades, the Extractive Industries Transparency Initiative (EITI) has emerged as one of the most important global initiatives for combating corruption in developing and emerging economies, particularly resource-rich countries prone to the resource curse. Launched by the UK government in 2002, it has attracted extensive financial and political support from Western governments, major corporations, non-governmental organisations (NGOs), and international development organisations. According to Neumann *et al* (2016, p. 14), over 90 companies and more than 90 institutional investors officially support the EITI, more than 400 NGOs are involved in it in some way, over 300 people work in national EITI secretariats, and more than 1,000 people hold mandates in national multi-stakeholder groups and the International Board. However, country responses to the initiative—that is, their decisions with regards to signing up to and implementing the initiative—have varied enormously, limiting its impact. While many resource-rich countries have signed up to the EITI, numerous others have not yet done so including some of the world’s most resource-rich. At the same time, countries that have signed up to the initiative have varied in the speed with which they have done so, the speed with which they have then implemented the initiative, and the extent to which they have remained committed to the initiative over time. Several such countries have ended up withdrawing from the initiative, being suspended, and/or delisted (EITI, nd a; nd b).

It is widely recognised that country decision-making regarding the EITI is political in nature and involves conflict and contestation between an array of actors with competing interests and agendas. Yet, we know little about how such political dynamics shape country decision-making regarding the EITI. Scholars who have written about the EITI have focused on explaining its origins and evolution at the global level (Collier, 2008; Haufler, 2010; Ostrowski, 2017);

assessing its design (Hilson and Maconachie, 2009; Kolstad and Wiig, 2009; Mouan, 2010; Aaronson, 2011); measuring its impact on the level of corruption, the quality of governance and/or the rate of economic development in participating countries (Corrigan, 2014; 2017; Sovacool and Andrews, 2015; Kasekende *et al*, 2016; Sovacool *et al*, 2016; Rustad *et al*, 2017); and identifying, *via* large-n quantitative analyses, country-level economic, institutional and social attributes that are, on average, associated with participation/non-participation in the EITI (Pitlik *et al*, 2010; David-Barrett and Okamura, 2015; Kasekende *et al*, 2016; Oge, 2016; Lujala, 2018). These latter set of studies have helped us determine which countries have the greatest propensity to participate/not participate in the EITI at particular moments in time. But neither they nor the former sets of studies have told us much about the political dynamics that shape how countries ultimately decide whether to sign up to and implement the EITI and maintain their commitment to it over time.

This paper seeks to improve our understanding of the political dynamics shaping country responses to the EITI by examining the case of Indonesia. The Indonesian government was slow to sign up to and implement the EITI. But it eventually did so and has remained compliant with the initiative more or less ever since, although there are signs that it has become less committed to the initiative in the last few years. This variation in its response over time makes Indonesia a particularly appropriate case through which to explore the role of political dynamics in shaping country responses to the EITI because it allows us to zero in on the nature of these dynamics and their effects, holding other potential explanatory variables—e.g. level of resource dependence, political regime type, corruption level, level of ethnic diversity—constant.¹

¹ These are precisely the variables emphasised in large-n quantitative studies of the determinants of country responses to the EITI.

To the extent that analysts have examined the political dynamics surrounding country responses to the EITI, they have generally emphasised the views, interests and strategic calculations of individual political leaders and the extent of civil society mobilisation in shaping these responses (Shaxson, 2009; Triwibowo and Hanafi, 2014; Ostrowski, 2018). Without discounting the role of these factors, we argue, by contrast, that Indonesia's response to the EITI needs to be understood in terms of the balance of power between the wider set of actors, interests and agendas at play in relation to the initiative—in short, the associated political settlement—and the way this has shifted over time. Specifically, we argue, Indonesia's response reflected the changing balance of power between four sets of domestic political actors—national politico-business elites, regional politico-business elites, controllers of mobile capital, and subordinate classes and their NGO allies—as affected by economic shocks, political mobilisation by proponents of the initiative, and elites' political strategies. Only by taking into account the balance of power between such sets of actors, interests and agendas and the way this shifts over time in response to stimuli can we gain a full picture of the dynamics at work. Accordingly, we suggest that proponents of the EITI should examine such factors in devising strategies for promoting adoption and implementation of the initiative at the country level.

In presenting this argument, we begin in Section 2 by providing an introduction to the EITI focusing on its principal features. In Section 3, we outline an approach to understanding the political dynamics surrounding the EITI at the country level. In Sections 4 and 5, we provide an overview of Indonesia's response to the EITI and explain this using the approach outlined in Section 3. In Section 6, we conclude by elaborating on the conceptual and policy implications of the analysis.

2. The EITI: A Brief Introduction

The EITI brings together governments, companies and NGOs with a view to transforming resource-rich countries into models of ‘good governance’ in the management of revenues from the natural resource sectors. It involves setting an international standard requiring governments to report the revenues that they have received from companies operating in the oil, gas and mining industries, these companies to declare what they have paid to governments, independent auditing and verification of revenues and payments, and the active involvement of civil society throughout the process. The initiative is voluntary in nature—none of the three key sets of actors (government, business, and NGOs) are forced to sign up to and implement the initiative. The presumed benefits of the initiative are increased transparency in revenues from the resources sector and, with that, reduced corruption and vulnerability to the other problems of the resource curse (Hilson and Maconachie, 2009).

To become an EITI implementing country, a country needs to first become an EITI ‘candidate’. This involves completing a set of sign up steps including demonstrating government, business and NGO commitment to the initiative; establishing a multi-stakeholder group to oversee the initiative; and producing an EITI work plan. Having become an EITI candidate, a country is then required to publish an EITI Report within 18 months and commence validation within two and a half years in order to become ‘compliant’ with the standard. Compliant countries are required to undergo validation every three years or upon request from the EITI Board and pass this validation in order to retain compliant status (EITI, nd c). In this paper, we refer to the process of applying for candidate status as *signing up to* or *adopting* the initiative and achieving and maintaining compliance as *implementation*.

The EITI standard has evolved over time, steadily becoming more demanding in terms of the degree of transparency required. Most importantly for our purposes, the 2016 iteration of the standard introduced new requirements for disclosure of information pertaining to government contracts with extractive firms and ‘beneficial owners’ (Moberg, 2016), the latter being ‘the natural person(s) who directly or indirectly ultimately owns or controls the corporate entity’ (EITI, nd d). Both are politically sensitive areas because they involve revealing information that political and business elites in many countries would prefer remain undisclosed. The requirements regarding contracts come into effect from the enactment of the new standard while those regarding beneficial ownership come into effect from 2020.

By 2015, 49 countries had signed up to the initiative of which 31 had achieved full compliance with the EITI standard (EITI, nd a). As noted earlier, numerous developing and emerging economies, including some of the most resource-rich countries in the world, have still not yet signed up to the initiative. These include: Ecuador, Venezuela, Bolivia, Russia, Angola, Brunei, Malaysia, and all of the Gulf States (with the exception of Iraq). At the same time, of those countries that have signed up, a small number have, at one point or another, been suspended because they missed reporting deadlines, made unsatisfactory progress, or experienced political instability. In 2018, the EITI’s website indicated that six countries fell into this category: one because of political instability, one for missing a deadline, and four because of inadequate progress. Six countries had also been delisted or withdrawn from the EITI including Azerbaijan, one of the first countries to sign up, and the US, one of the few Western countries to do so (EITI, nd b).

3. Understanding the Political Dynamics of the EITI at the Country Level

As noted earlier, to the extent that scholars have examined the political dynamics surrounding country responses to the EITI, they have tended to emphasise two variables. The first is the views, interests, and strategic calculations of political leaders. For instance, Shaxson (2009) has argued that Nigeria's decision to sign up to and implement the EITI was driven from the top down by President Obasanju and a 'reform team' of senior officials to whom the president gave his backing reflecting an ideological commitment on their part to promote better natural resource governance in the country. In an extension of this analysis, Oskowski (2017, pp. 95-96) has argued that Obasanju was also motivated in part by practical political considerations. Upon coming to power in 1999, he suggests, Obasanjo sought to root out 'the network of hostile officials and their political patrons' who controlled Nigeria's petroleum industry and were a key source of opposition to his government; and he found the EITI to be 'a useful political tool' for this purpose (2017, pp. 95-96). Similarly, Oskowski argues that Azerbaijan signed up to the EITI because it gave then President Ilham Aliyev 'the perfect opportunity to integrate himself into the international community and to demonstrate to Azeris that the outside world recognized him as a legitimate ruler' (2017, p. 95). It also, he argues, helped Aliyev 'secure recognition for Azerbaijan from key international political and business actors', something it considered 'useful in its ongoing struggle with Armenia over the Nagorno-Karabakh' disputed territory (2017, p. 95).

The second variable is the extent of civil society mobilisation in support of the initiative. According to Shaxson (2009), civil society organisations played little role in Nigeria's decision to sign up to the EITI, suggesting that extensive civil society mobilisation is not a necessary condition for adoption of the initiative. However, analysts of several other countries' experiences—particularly individuals who are associated with civil society organisations—have argued that the degree of civil society mobilisation has been crucial in shaping outcomes

in these cases (Namkhajistan, 2009; Revenue Watch Institute, 2013; Triwibowo and Hanafi, 2014). Triwibowo and Hanafi (2014), for instance, attribute Southeast Asian countries' relatively limited progress in adopting and implementing the EITI to the fact that civil society movements within the region are small and weak, reflecting the legacy of decades of authoritarian rule, even in countries that are now procedurally democratic. In such analyses, government decisions to adopt the EITI are framed as a response to popular pressure in support of an anti-corruption agenda.

In our view, while both these sets of analyses point to important determinants of country responses to the EITI, they are incomplete because they ignore the wider political and social context within which political leaders and civil society organisations operate. The point here is that political leaders and civil society activists do not act in a political and social vacuum. Rather, they do so in the context of power relationships between competing coalitions of interest within a country that impose structural constraints on what the state can and cannot do. To fully understand the political dynamics surrounding country responses to the EITI, we thus need to bring these power relationships and shifts within them over time into the analysis in a central way.

In an important analysis, Bebbington *et al* (2017) have proposed political settlements analysis (PSA) as one way of doing this. PSA seeks to shed new light on the causes of development outcomes by bringing together ideas from the new institutional economics (NIE) and critical political economy.² Its starting point is the notion that 'institutions'—that is, the rules, regulations and enforcement mechanisms that govern economic and social activity (North, 1990)—a category that includes initiatives such as the EITI, not only shape prospects for

² For an overview of the political settlements framework, see Khan (2010) and Hickey *et al* (2015).

economic and social development, as many new institutional economists have shown, but also the distribution of resources (Khan, 2010; Goodhand and Meehan, 2018). As a result, they are subject to conflict and contestation between competing political and social forces (Parks and Cole, 2011).

Parks and Cole (2011, p. 6) have defined ‘political settlements’ as ‘rolling agreements among powerful actors that are constantly subject to renegotiation and contestation’. The implication of this definition is that institutions are subject to change over time as a result of shifts in the balance of power between competing political and social forces and processes of conflict and contestation. In understanding these forces and processes, analysts using PSA have for the most part focused on the role of elite actors on the grounds that in most contexts these are the most powerful groups (di John and Putzel, 2009). However, some recent contributions (e.g. Hickey *et al*, 2015; Rosser, 2016) have also sought to incorporate ‘popular forces’ such as workers, peasants and NGO activists into the analysis, in recognition of the fact that, while elite actors generally dominate policy-making and implementation processes, popular actors can also play a significant role, particularly when empowered by democratic reform or structural change in the economy and society.

In applying PSA to the analysis of country responses to the EITI, Bebbington *et al* (2017) have emphasised the importance of both sets of actors. ‘Whether and how a country engages with EITI’, they argue, ‘will depend on the national political settlement and the extent to which incentives associated with EITI align with the political goals of ruling elites’ (2017, p. 836). They view ruling elites as important because they control the state apparatus and exercise the dominant influence over policy-making. At the same time, they acknowledge that non-elite

elements such as human rights and anti-corruption civil society organisations) can also be crucial in shaping how countries respond to the EITI.

They illustrate these points through an analysis of the contrasting responses of Peru (an early adopter of the EITI), Colombia (a later adopter), and Bolivia (a non-adopter). Political elites in these countries, they (2017, p. 833) argue, ‘have taken up EITI (or in Bolivia’s case, rejected EITI) as part of a strategy to secure broader goals and to convey particular messages about the state of democracy and political priorities in their countries, including toward actors on the international stage’ even as their objectives ‘may also be intertwined with other international pressures and contexts’. The crucial difference between these states has been the more left-wing/socialist orientation of the Bolivian elite compared to elites in the other two countries. At the same time, Bebbington *et al* also suggest that national EITI processes have progressed more readily in these countries when subordinate groups such as civil society organisations have been able to access the policy-making process and exercise influence, bringing non-elite interests into play.

In a similar analysis, Bunte (2017) has pointed to the importance of elite and non-elite actors in shaping country responses to the EITI in the case of Myanmar, although he does not explicitly use the political settlements framework. He argues that Myanmar decided to sign up to the EITI because *both* the government *and* NGOs determined that they could use the EITI for their own respective purposes: while the government calculated that the initiative would help the country attract increased foreign investment and foreign aid, NGOs calculated that it would be a useful platform for raising concerns about the country’s human rights situation. In other words, he suggested, a strong coalition in favour of the initiative emerged at the domestic level, one powerful enough to counter anxiety among private domestic business groups with

strong links to the former military regime, the principal set of firms involved in the extractive industries.

In this paper, we employ the political settlements framework to explain Indonesia's experience with the EITI. At the same time, however, we introduce an important variation to the framework as it has been applied to the EITI: namely, an explicit concern with the temporal dimensions of participation in the EITI and its determinants. The point here is twofold. First, country participation in the EITI is not a binary and final outcome (e.g. signing up versus not signing up; implementation versus non-implementation) but rather a *process* taking place over time. Countries' participation in the EITI can change—as we have seen, for instance, in the experiences of countries such as Azerbaijan and the United States which have withdrawn from the initiative, been suspended or delisted. Analysis of country responses to the EITI needs to be able to account for such change. Second, the balance of power between competing political and social actors *vis-à-vis* the EITI is not fixed over time either. It can change in response to a number of stimuli with important implications for state attitudes towards the EITI. We propose that three factors are particularly important in this respect: i) economic shocks; ii) the views, interests, and strategic calculations of political leaders; and iii) political mobilisation by proponents of the EITI. Because Bebbington *et al* and Bünthe both seek to explain specific countries' decisions regarding the initiative at particular times rather than trace changes in these countries' views over time, their analyses do not incorporate these time-sensitive factors, at least not in any explicit way, although consideration of such factors is in no way inconsistent with their approach.

We use this framework to explain Indonesia's response to the EITI in the two sections that follow. In this respect, we begin by outlining Indonesia's response to the EITI and how this changed over time before examining the political dynamics that have shaped this response.

4. Indonesia's Response to the EITI³

The Indonesian government's response to the EITI went through a series of phases: i) initial ambivalence (broadly 2002 – mid-2008); ii) expressed commitment to and adoption and implementation of the initiative (broadly mid-2008 – April 2014); and iii) continued implementation of the initiative but with signs of reduced commitment (broadly April 2014 – 2018). The Indonesian government's initial reaction to the EITI following announcement of the initiative by the UK government in 2002 was to express public support for it and participate in the key global EITI events. It sent two junior representatives to the first global EITI conference in 2003. One of these delivered a statement at the conference on behalf of the Indonesian government indicating that the government 'would do its utmost to implement the EITI according to Indonesian laws and regulations' (Brown and Kirana, 2009, p. 76). In December 2003, the World Bank released the results of a review into its activities in the extractive industries, a process led by Emil Salim, a prominent economist and former Minister of the Environment in Indonesia. The review report recommended steps to promote greater transparency in revenue flows (World Bank 2003, p. 47). In response, Indonesia's Minister of Finance, Boediono, released a statement expressing support for the review's recommendations. According to Soerjoatmodjo (2012), these developments indicated that the Indonesian government had grasped the principles underpinning the EITI and was committed to them.

³ The material for this and the following sections came from both primary and secondary sources. The authors conducted interviews in Jakarta during September 2017 with approximately a dozen government officials, international organisation officials, and NGO activists involved in EITI processes. We also collected material from secondary sources including government, media and NGO reports as well as reports produced through the EITI.

However, things moved slowly from this point. Accounts of Indonesia's involvement in the EITI suggest that little happened within the Indonesian government in relation to the EITI between 2004 and 2006 (Brown and Kirana, 2009; Soerjoatmodjo, 2012; Soerjoatmodjo *et al*, 2014). In an interview, an informed source suggested that even one of the EITI's subsequent champions within the government appeared reticent to push the initiative along during these early stages.⁴ A large group of resource-rich countries signed up to the EITI in 2007⁵ with other significant cohorts doing so in 2008⁶ and 2009.⁷ But Indonesia was consequently not among them.

The Indonesian government finally began to take some action *vis-a-vis* the EITI during 2007 and the first part of 2008, although it still moved slowly. In April 2007, Montty Giriana, a senior official at the Ministry for National Development Planning (Bappenas), held an inter-ministerial dialogue on the EITI, with a second following in June 2007. The same month, Sri Mulyani Indrawati, who had become Minister of Finance in 2005, appointed a focal person within her ministry to manage its involvement in EITI processes (Brown, nd). Led by Vice-Chairman Erry Riyana Hardjapamekas, the Anti-Corruption Commission (KPK) formulated a draft presidential regulation providing for the establishment of an EITI Steering Group and addressing various related organisational and procedural matters, finalising it in December 2007 (Brown and Kirana 2009, p. 77). In February 2008, Purnomo Yusgiantoro, the Minister for Energy and Mineral Resources, established a focal point within his ministry and instructed that person to consult extractive firms, provide input into further development of the draft

⁴ Interview, Jakarta, September 2017.

⁵ These were Azerbaijan, Cameroon, Democratic Republic of the Congo, Ghana, Guinea, Kazakhstan, Kyrgyz Republic, Liberia, Mali, Mauritania, Mongolia, Niger, Peru, Republic of the Congo, and Yemen.

⁶ Central African Republic, Cote d'Ivoire, Madagascar, Sao Tome and Principe, Sierra Leone, and Timor Leste.

⁷ Albania, Burkina Faso, Mozambique, Nigeria, Norway, Tanzania, and Zambia.

presidential regulation, and recommend whether the initiative should go to the President for approval (Brown, nd).

Progress towards adoption of the EITI sped up dramatically between mid-2008 and early 2009 as the Global Financial Crisis erupted and concern emerged that Indonesia would be negatively affected. In May 2008, Boediono, at that point Coordinating Minister for Economic Affairs, arranged issuance of a presidential instruction stipulating that the government would enact a regulation on extractive industries' transparency (Brown and Kirana 2009, p. 77). During 2008, the Indonesian government also negotiated a new public expenditure loan agreement with the World Bank to help Indonesia manage the challenges posed by the GFC. This agreement included adoption of the EITI as a 'prior action'—that is, actions which must be taken before loan funds are released (World Bank 2017, p. 16). This prior action took shape in December 2008 when Sri Mulyani, who replaced Boediono as Coordinating Minister for Economic Affairs a few months earlier while remaining Minister of Finance, wrote to the EITI secretariat advising that Indonesia intended to sign up to the EITI and work towards compliance. Finally, in early 2009, she (as both Coordinating Minister for Economic Affairs and Minister of Finance) and Purnomo Yusgiantoro (as Minister for Energy and Mineral Resources) signed a Note of Understanding stipulating that the three ministries would work together to implement the EITI with the Coordinating Ministry taking the lead (Soerjoatmodjo 2012, pp. 7, 13).

Over the next year and a half, Hardjapamekas (having stepped down from the KPK, but retaining considerable influence) and other government supporters of the EITI (such as Muhamad Husen, at that time Assistant Deputy Minister for Oil in the Coordinating Ministry for Economic Affairs) pushed the initiative along within government. Eventually in April 2010 President Susilo Bambang Yudhoyono issued *Presidential Regulation 26/2010 on*

Transparency of State Revenue and Regional Income Derived from the Extractive Industries providing a legal basis for the EITI; and in September 2010 Hatta Rajasa, who had become Coordinating Minister for the Economy in October 2009, announced that the Indonesian government would implement the EITI and formally apply to the EITI for candidacy. According to David Brown, Senior Advisor on the EITI to the UK's Department for International Development and then the World Bank between 2006 and 2014, it only became certain at this point that Indonesia would sign up to the EITI.⁸ The EITI Board accepted Indonesia as a candidate country in October 2010 (Soerjoatmodjo 2012, pp. 9, 13).

Over the next few years, the Indonesian government worked solidly, if slowly, towards compliant status. It issued its first EITI report, which covered 2009 data, in May 2013 and published separate reports on the oil and gas and mining sectors covering 2010 and 2011 data in April 2014. In the wake of these reports, the EITI Board declared Indonesia to be a compliant country in October 2014 (Ichsan, 2014). In February 2015, Indonesia's membership of the EITI was temporarily suspended because of late submission of the next report in the series covering 2012-2013 data. However, Indonesia regained compliant status in December 2015 after the report was finally published. In February 2017, Indonesia published its fourth report, covering 2014 data, and in December 2017, it published its fifth report covering 2015 data. The latter was submitted on time.

The Indonesian government has had some difficulty in persuading extractive firms to submit data required under the EITI process. For instance, of the 167 oil and gas companies and 138 mining companies expected to submit data for the 2015 EITI report, 14 and 38 respectively did not do so (EITI Indonesia, 2017). In general, large oil and gas firms operating under 'production

⁸ Interview, Jakarta, September 2017.

sharing contracts’ (PSCs) and large mining firms operating under ‘contracts of work’ (CoWs) issued by the national government—a group that includes major Western extractive firms, national-level state-owned extractive enterprises, and some large private domestic companies (such as Medco and Adaro)—have been much better at submitting the data required under the EITI than smaller mining companies operating under mining licences (IUPs) issued by district and provincial governments.⁹ Offsetting this, however, is the fact that because the larger firms have typically submitted the required data, Indonesia’s EITI reports have accounted for a very high percentage of total government revenues from the extractive industries (EITI Indonesia, 2017).

By late 2018, Indonesia was deemed to be compliant with the 2011 version of the EITI standard and was awaiting assessment against the 2016 version. It was going through validation during 2018. At the same time, it was taking steps to prepare for the requirements of the 2016 standard related to disclosure of beneficial ownership which would come into effect in 2020. For instance, in December 2016, it published a ‘roadmap’ outlining how it intended to meet these requirements and, in March 2018, it issued *Presidential Regulation 13/2018 on the Principles of Recognizing Beneficiaries of Corporations in the Prevention and Eradication of Money Laundering and Criminal Acts of Terrorism*. This regulation, which also represented a product of Indonesia’s membership of the G20, introduced new disclosure requirements for companies pertaining to beneficial ownership.

Despite these moves, signs had emerged by this time that the government was becoming less committed to the initiative than it had been in the past. One of these was an emerging view that the initiative lacked a champion within government and that this was hampering the initiative’s

⁹ Interviews with Sjahrir, Chairman of the Indonesian Mining Association, Jakarta, September 2017.

progress. In this respect, a contrast was drawn to earlier times when figures such as Sri Mulyani and Hardjapamekas took up the mantle.¹⁰ Another was that the EITI Secretariat in Jakarta proved unable to secure release of government contracts with extractive firms for publication in the 2015 report, something encouraged under the 2013 standard and required under the 2016 standard. This was despite judgments in favour of their release by the country's Central Information Commission (KIP) following review requests made by a local freedom of information NGO. In the case of oil and gas contracts, the Supreme Court had stood in the way of their release, ruling that disclosure of these contracts would breach Indonesian law. In the case of mining contracts, the Energy and Mineral Resources Ministry, PWYP Indonesia, KIP and other stakeholders were in late 2018 reportedly involved in discussions to determine which parts of which contracts could be disclosed and which could not because of national security considerations (EITI Indonesia Secretariat, 2017: 7; Coordinating Ministry for Economic Affairs, 2018).

How should we understand Indonesia's response to the EITI? In particular, how can we explain its initial ambivalence in relation to the EITI, subsequent decision to sign up to and implement the initiative, and current apparent reduced enthusiasm for it? We consider these questions in the following section.

5. The Political Dynamics of Indonesia's Response to the EITI

We begin our analysis of the political dynamics of the EITI in Indonesia by delineating the principal actors, interests and agendas involved in shaping the government's response to the EITI. We then illustrate how the balance of power between these elements has changed over time in response to stimuli such as economic shocks, political mobilisation, and the changing

¹⁰ See, for instance, Hatriani (2017). This notion also came through in interviews with a number of activists and officials involved in the EITI, Jakarta, September, 2017.

strategies of political elites and examine the implications for the Indonesian government's position *vis-à-vis* signing up to and implementing the EITI.

Broadly speaking, the political dynamics of the EITI in Indonesia have involved four main sets of political and social actors. The first is the country's politico-business elites, a group that includes the country's major business conglomerates and the senior national-level political, bureaucratic and military figures to which they are connected. Under Suharto's New Order, the authoritarian regime that ruled Indonesia from 1965 to 1998, Indonesia's extractive sectors were dominated by major Western firms because only they could muster the financial and technological resources required to exploit the country's oil, gas and mineral resources (Warburton, 2018). Nevertheless, by the end of this period, some well-connected domestic entrepreneurs had developed significant interests in these sectors including Hashim Djojohadikusumo, Arifin Panigoro, Aburizal Bakrie, and Bob Hasan (Pura, 1993; Institute for Economic and Financial Research, 1995; Waldman, 1998). Such entrepreneurs significantly expanded these interests in the post-New Order period by, in some cases acquiring new licenses, and in many cases by taking over large extractive operations previously controlled by Western firms as the latter have exited the country in the face of increasingly nationalist resource policies (Warburton, 2017). For instance, in its June 2018 edition, *Globe Asia* identified 33 of the country's 150 wealthiest people and 17 of the country's top 50 business groups as having interests in mining and/or energy, a listing that is unlikely to be exhaustive (*Globe Asia*, 2018a; 2018b). In many cases, these interests appear to have been secured through corruption, collusion, and nepotism with officials at the national and local levels, reflecting the close links between these two groups (Transparency International Indonesia, 2017). These actors have consequently had a vested interest in preventing serious improvements in extractive industry transparency.

The second set of political and social actors involved in the political dynamics of the EITI in Indonesia has been regional politico-business elites. Decentralisation, which was implemented in 2001, transferred authority over natural resources policy and its implementation to district governments. This opened up new opportunities for collusive practices in the management of resources at the local level, enabling regional officials and their business associates to secure substantial interests in these sectors as well, particularly in resource-rich regions (Ferri, 2016; Prasetyawan, 2017). As noted above, in the mining sector these interests were generally conferred through IUPs. For this reason, regional elites have had, like their national counterparts, a vested interest in preventing serious improvements in extractive industry transparency; also like these counterparts, they have been able to protect this interest through direct occupation of the state apparatus, and consequent control over issuance of mining, land and business permits.

The third set of political and social actors is controllers of mobile capital, a grouping that includes private financial investors, the World Bank and IMF, and other Western donors. Broadly speaking, these actors have sought to promote market-oriented policy and institutional reform in accordance with neoliberal conceptions of good governance, reflecting a concern to ensure a secure investment environment for mobile capital (Winters, 1996). They have accordingly expressed strong support for improved transparency in public administration, both globally and within Indonesia specifically (EITI Investor Group, 2006). They have exercised significant influence over the Indonesian government by virtue of their structural power—that is, their ability to relocate investment resources under their control to alternate jurisdictions. Within the Indonesian government, their principal allies have been economic technocrats such as Boediono and Sri Mulyani Indrawati reflecting the latter’s ideological commitment to free

markets (Rosser, 2002). Importantly for our purposes, this set of actors has also secured support from major Western oil, gas and mining firms. During the 1990s, global civil society campaigns emerged that were aimed at combating corruption and ensuring multinational companies—in particular, Western extractive firms—behaved responsibly in conflict-affected areas. Led by NGOs such as Transparency International (in the case of the anti-corruption campaign) and Global Witness (in the case of the corporate responsibility campaign), these efforts ‘converged on transparency, particularly corporate transparency, as the solution’ to these problems (Haufler, 2010, p. 53). In the wake of these campaigns, Western extractive firms have increasingly come to champion measures aimed at enhancing transparency in the extractive industries, including the EITI, as a way of securing a social license to operate (Bickham, 2009; Brown and Kirana 2009, pp. 76-77).

The final set of political and social actors is Indonesia’s subordinate classes and their allies in the NGO community. These elements have been the principal victims of low levels of transparency in Indonesia’s extractive sectors to the extent that poor transparency has reduced government ability to mobilise tax resources to fund public services and infrastructure, encouraged public sector corruption, and reduced corporate accountability for the negative environmental and social effects of extractive activities. These elements have accordingly generally supported initiatives to improve transparency in these industries (Soerjoatmaodjo, 2012; Triwibowo and Hanafi, 2014; Soerjoatmaodjo *et al*, 2014) with the crucial exception of anti-mining NGOs for whom improved transparency is not enough.¹¹ These elements were prevented from exercising much influence over policy-making and its implementation under the New Order because of the New Order’s imposition of authoritarian controls on their

¹¹ For instance, Walhi and Jatam, two anti-mining NGOs in Indonesia, have rejected the EITI on the grounds it is a pro-mining initiative (although one local branch of Walhi has joined PWYP). Interview with Ermy Ardhyanti, Artikel 33, Jakarta, September 2017.

activities (Robison and Hadiz, 2004). But they have had greater opportunity to participate in policy-making and implementation due to the freedoms created by democratisation (Rosser *et al*, 2005).

Under the New Order, national-level politico-business elites exercised the dominant influence over the government with controllers of mobile capital being able to shape policy at times of economic crisis. By contrast, in a context of centralised authoritarian rule, Indonesia's regional elites, subordinate classes and NGO activists had relatively little influence over policy-making and its implementation (Robison and Hadiz, 2004; Rosser *et al*, 2005). In the context of this configuration of power and interests, the Indonesian government did little to promote greater transparency in the country's extractive industries, notwithstanding the emergence of transparency as a key development issue during the 1990s including for the natural resources sectors specifically (World Bank, 1993; 1996). Analyses of extractive industries governance during this period suggest that the level of transparency in these industries was extremely low and that this fuelled corruption, environmental degradation, and human rights abuses (Marr, 1993; Ascher, 1998).

The Asian economic crisis and demise of the New Order produced a shift in the balance of power between these competing elements. By increasing the country's public debt and undermining sources of government revenue, the crisis forced the government to negotiate a rescue package with the IMF and accept increased aid. Both these factors enhanced the structural power of mobile capital controllers, especially for the period of the crisis and the IMF package, the latter running until 2003. At the same time, democratisation removed key obstacles to organisation and activism by the subordinate classes and the NGO community and opened up new more inclusive policy spaces, making it easier for both to engage in collective

action aimed at influencing government policy in a range of areas. Democratisation also created an incentive for politicians and their political parties to promote populist policies, including anti-corruption measures, that appealed to these groups because of the latter's electoral weight (Rosser *et al*, 2005).

However, while the crisis and the collapse of the New Order certainly weakened the politico-business elite vis-à-vis competing sets of actors, it did not ultimately threaten their political dominance. This is because these elites were able to reinvent themselves successfully in the post-New Order period through new vehicles and alliances such as political parties (Hadiz, 2003), and, in so doing, maintain their control over much of the central state apparatus. For instance, while democratisation saw an influx of NGO activists into the political parties (Mietzner, 2013), the country's political elite remained dominated by figures from military, bureaucratic, or business backgrounds, albeit with the latter becoming increasingly prominent (Poczter and Pepinsky, 2016). At the same time, as noted above, decentralisation delivered authority into the hands of local elites who developed interests in predatory rule comparable to their national counterparts, imposing important limits on the scope for liberal or progressive reform. In this context, as we have seen, the government indicated initial support for the EITI but did little else.

By 2007-2008, however, domestic political conditions had changed in a number of respects, creating a context more favourable to adoption and implementation of the EITI. First, controllers of mobile capital, NGOs and some major Western extractive firms had begun to mobilise in support of the EITI. In October 2006, a group of over 70 major institutional investors, representing over \$12 trillion in investment funds, issued a statement calling on extractive firms, including those with investments in Indonesia, to join the EITI as a way of

reducing the risks associated with their investments (EITI Investor Group, 2006). In December 2006, DFID appointed David Brown as Senior Advisor on the EITI to act as a focal point for donor engagement with the Indonesian government in relation to the initiative, his role subsequently moving to the World Bank. In 2007, the Indonesian Mining Association, an industry body dominated by Western mining firms, voiced public support for the EITI and encouraged its members to sign up (Brown and Kirana, 2009: 76). Finally, in November 2007, 43 civil society organizations established PWYP Indonesia as a coordinating mechanism for these organisations' lobbying activities in relation to the EITI (Soerjoatmodjo *et al*, 2014: 15-16), triggering increased activism. In the same month, Peter Eigen, a founder of Transparency International and then the head of the EITI secretariat in Oslo, visited Indonesia to proclaim its benefits (Alfian, 2007).

Second, with parliamentary and presidential elections looming in 2009, then President Susilo Bambang Yudhoyono began to champion redistributive and anti-corruption measures as a strategy for cultivating a more progressive and reformist image. As Michael Buehler (2009: 16) has noted, Yudhoyono's electoral prospects had been damaged by the KPK's inability to bring to justice numerous figures accused of corruption, including ones close to Yudhoyono himself, and a series of other scandals. Although Indonesia's politicians began employing populist strategies early in the post-New Order period, they did not immediately latch onto the EITI, perhaps because the initiative lacked visibility at that time. For Yudhoyono in 2007-2008, however, joining the EITI offered a way of appealing to popular resentment against endemic corruption and bolstering his credentials as a reformer in the lead up to the 2009 elections (Buehler, 2009).

Finally, the onset of the GFC raised fears that the Indonesian economy would experience a serious downturn, forcing the government to look to the donor community for financial assistance. As noted earlier, the World Bank took advantage of this situation by negotiating a new conditional loan agreement with the government predicated upon the government's willingness to adopt as 'prior actions' a number of governance and fiscal reforms that were prioritized by the Bank at that time, including the EITI. Although the Indonesian economy ultimately weathered the GFC without needing to draw down the funds made available through this conditional loan agreement (World Bank, 2017, p. viii), the government had, by that time, as a safety measure, publicly declared a commitment to the EITI, together with a larger basket of reform commitments.

These changed political conditions served to shift the balance of power away from the country's politico-business elites, both national and local, and towards mobile capital controllers, subordinate elements, and NGOs. In so doing, these changed conditions created the political foundations for Indonesia's adoption and implementation of the EITI. To be sure the fact that the EITI is a voluntary initiative and initially did not require disclosure of highly sensitive matters such as contracts and beneficial ownership, doubtless facilitated government adoption of the initiative. It is important to note in this context that there was no open resistance to the EITI from Indonesia's politico-business elites prior to or following its adoption by the government.¹² The Indonesian Petroleum Association (IPA) was reportedly resistant to the initiative (Brown and Kirana, 2009, p. 76) but this was likely more to do with opposition from US oil and gas companies related to a contest in the US over the Dodd-Frank law rather than from the country's politico-business elites.¹³ Ultimately, the shift in power mattered, not

¹² Interviews with Rivan Prahasya, Transparency International Indonesia, and Firdaus Ilyas, Indonesia Corruption Watch, Jakarta, September 2017.

¹³ Interview with Emmanuel Bria, Country Manager, Natural Resource Governance Institute, Jakarta, September 2017.

because it neutralised open opposition to the initiative but because it disrupted inertia within government in relation to extractive industry transparency borne of the reigning post-New Order political settlement.

Between 2010 and 2018, political conditions gradually became less favourable to the EITI as a result of a number of developments. Foremost among these was solid economic growth rates in Indonesia in the wake of the GFC—between 2009 and 2017, the Indonesian economy grew, on average, by 5.4 percent per year in nominal terms. This reduced the leverage afforded to donors and, in particular, the World Bank by the GFC. Another important development was a nationalist shift in the orientation of Indonesia’s economic policies following the GFC, especially with regards to natural resources (Negara, 2015; Warburton, 2017). For instance, the government moved to renegotiate contracts with foreign mining companies, force these companies to divest controlling ownership stakes to local interests, and prohibit the export of metal ores so that mining companies have to construct on-shore smelters. These moves triggered the departure from Indonesia of several major Western extractive firms including BHP Billiton and Newmont (Busch, 2017; Abraham, 2017). A third important development was that a number of key NGOs withdrew from PWYP Indonesia because of concerns about i) the relative effectiveness of the EITI as an anti-corruption initiative compared to initiatives such as the establishment of the KPK; and ii) the transformation of PWYP Indonesia from a network into a charitable foundation (*yayasan*), making it a competitor for funding.¹⁴ A final development was that Joko Widodo, who was elected to the presidency in 2014 on a reformist platform and with the support of many progressive NGO activists, gradually became less committed to or at least less able to promote such reform over time as the practicalities of

¹⁴ The NGOs that withdrew included Indonesia Corruption Watch and Artikel 33. Interview with Ermy Ardhyanti, Artikel 33, Jakarta, September 2017.

governing in a patronage-driven and fragmented political system took precedent (Hill and Negara, 2018).

Collectively these developments served to weaken the coalition of actors that had mobilised in support of the EITI, limit the ability of donors to exercise structural leverage over the government in favour of the initiative, and reduce support for the initiative at the top of the political system. The result, as indicated earlier, was an apparent decline in government commitment to the initiative as reflected, for instance, in the EITI secretariat's inability to persuade many extractive firms to submit data required under the EITI process and ensure disclosure of relevant government contracts.

6. Conclusion and Policy Implications

This paper has sought to improve our understanding of the political dynamics shaping country responses to the EITI by examining the case of Indonesia. We have argued that the Indonesian government's response to the EITI went through a series of distinct phases: initial ambivalence, expressed commitment to and adoption and implementation of the initiative, and, finally, continued implementation of the initiative but with signs of reduced commitment. Existing analyses of the political dynamics of the EITI at the country level have generally emphasised the views, interests and strategic calculations of individual political leaders and the extent of civil society mobilisation in shaping these responses. While our analysis does not discount the role of these factors, it advocates instead for an approach that grounds these variables in an analysis of the changing political settlement surrounding the initiative. Specifically, we contend that Indonesia's response to the EITI needs to be understood in terms of the balance of power between competing domestic political and social actors and the way this has been affected by economic shocks, political mobilisation by proponents of the initiative, and elites' political

strategies. In conceptual terms, then, our analysis suggests that scholars seeking to explain country responses to the EITI need to give greater attention to the way in which shifting domestic constellations of power and interest—as shaped by the three factors just mentioned—mediate the relationship between the country attributes emphasised in large-n quantitative studies and shape governments’ ultimate decisions regarding the EITI.

Our findings have important implications for policy, specifically for the strategies that proponents of the EITI employ to promote the initiative in developing and emerging countries. Pitlik *et al* (2010) propose that proponents of the EITI should focus their efforts on countries that, judging by country attributes identified in large-n quantitative analyses, are most likely to adopt the initiative in order to use their scarce resources most efficiently. By contrast, our analysis suggests that they also need to consider the nature of domestic political settlements and what they imply for the potential for change. More specifically, it suggests that proponents of the EITI should be mindful of the balance of power between competing political and social actors can shift as a result of economic shocks, political mobilisation, and elites’ political strategies. In practical terms, this means carrying out regular political mapping exercises of prospective and current member countries and making judgement calls about where and when to engage, noting that periods of economic crisis and in the lead up to elections may, depending on the precise country circumstances, be the most propitious times. It also means finding ways of building and sustaining a local movement in support of the initiative.

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