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## DFAT New International Development Policy Review

### Submission from the Extractive Industries Transparency Initiative (EITI)

## Key trends and challenges in the extractives sector

Natural resources are central to future development and wealth creation prospects in the Indo-Pacific region. Revenues and export earnings from the extractive sector make a substantial contribution to the economies of countries in Southeast Asia and the Pacific, as shown in the table below. Additionally, countries in the region hold major reserves of critical minerals that are in growing demand resulting from an accelerating energy transition towards a low-carbon future.

**Economic contribution from the extractive sector: EITI implementing countries in the Indo Pacific region**

	Government revenue	GDP	Export earnings
Indonesia	9.29%	8.08%	22%
Philippines	2.2%	0.89%	7.85%
Papua New Guinea	8%	28%	88%
Timor Leste	70%	36%	74%

While there are evident opportunities for domestic revenue mobilisation and economic diversification to meet their development needs and ensure continued progress on meeting the SDGs, these will only be realised by addressing three significant risks.

First, several countries in the region suffer from political fragility and have experienced endemic political violence (such as PNG) and the overthrow of elected governments (Myanmar). Competition over natural resources is a major source of such instability. Second, critical mineral supply chains are vulnerable to governance and corruption risks

in the absence of sound institutions, rules and regulations.<sup>1</sup> Third, the poorest people and local communities rarely see the full benefits of resource wealth, resulting in opposition to mining projects and localised conflict.

Considering these current and future risks, the case for natural resource governance as a key development priority for Australia is more compelling than ever.

### Strategic opportunities: energy transition and anti-corruption

The EITI has a key role to play in mitigating these risks: its global Standard to promote good governance in the extractive industries is implemented by 57 countries globally and five countries in the Indo-Pacific region.<sup>2</sup> Australia and Japan are supporting countries, providing funding for the EITI International Secretariat and technical support for implementation.

Two of the EITI's top strategic priorities are the energy transition and anti-corruption.<sup>3</sup> In the first priority area, the governance and fiscal implications of critical mineral supply chains are a core focus. The EITI offers a reporting mechanism to strengthen transparency and accountability across the whole of government in countries rich in natural resources.

In the second priority area, new EITI reporting requirements on full contract disclosure, commodity trading transparency and beneficial ownership transparency can shed light on transactions the extractives value chains, helping to mitigate corruption risk.<sup>4</sup>

There is an opportunity to strengthen the relevance of the EITI at the subnational level by making the EITI more relevant and useful to local communities and promoting economic diversification by ensuring local suppliers are treated fairly. Gender and environmental reporting feature in the EITI Standard with the potential to foster inclusive development. The EITI is increasingly relying on digital reporting to maximise the value of its data and ensure it is produced in a timely, open and accessible manner.

### Building trust and promoting inclusion: multi-stakeholder governance

An integral feature of the EITI lies in its governance structure, with governments, industry and civil society all taking part in multi-stakeholder groups to provide oversight on EITI national implementation. These bodies, both at the international level and in every EITI implementing country, play a unique function in fostering public debate, building consensus and mitigating conflict. Increasingly their role is to analyse data to inform

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<sup>1</sup> [“Mission Critical” - Sustainable Minerals Institute](#)

<sup>2</sup> [Indonesia](#), [Philippines](#), [PNG](#), [Timor Leste](#), and [Myanmar](#). The latter is currently suspended due to political instability.

<sup>3</sup> [“EITI's strategic priorities 2021 - 2022” - Board paper](#)

<sup>4</sup> [EITI Standard 2019](#)

policy discussion, promote public understanding, and disseminate information to stakeholders and local communities.

EITI multi-stakeholder groups perform a vital role in building mutual trust across constituencies as a foundation for shared values of fairness and equality. This is a vital building block in countries that are experiencing democratic reversals, shrinking civic space, and violence directed at environmental defenders and indigenous communities.

### Development capabilities

The EITI has been purposeful in ensuring that implementation is strongly aligned with national priorities. EITI national secretariats are housed within government ministries and their core running costs are met by national budgets. There is an opportunity for Australia to leverage long-term support for EITI implementation by continuing to support the EITI International Secretariat with multi-year financial support in line with other OECD partners. It can complement this core support with technical assistance and capacity building to less developed and more fragile countries in the Indo-Pacific region to promote knowledge exchange with a focus on maximising the opportunities arising from the energy transition and tackling corruption risk. A further strategic priority of the EITI is promoting data access and use, including at a national level.<sup>5</sup>

### National strengths

Australia has significant technical depth in the extractive sector with world leading companies, research institutions and civil society groups. Leading Australian mining companies are supporters of EITI's work globally and they aspire to the highest standards of transparency and accountability,<sup>6</sup> in the process offering expertise and advice to governments and corporate partners in the region. Most international energy companies with operations in the oil and gas sector in Australia are EITI supporting companies. There is scope to involve the private sector more closely in the evolution of Australia's policy on natural resource governance given this wealth of expertise and leadership.

By comparison, capacity and expertise in government is less even and could be harnessed more systematically. DFAT has lost much of its technical expertise in governance and anti-corruption at a time when these skill sets are most in demand in country missions to advise partners on how to manage the risks arising from accelerating demand for critical minerals and realise the considerable development opportunities arising from the extractives sector. This would merit more investment of dedicated skills and expertise to raise the quality and relevance of Australian technical assistance in the sector. It would also bolster Australia's considerable regional presence and recognised diplomatic influence in the Indo-Pacific region.

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<sup>5</sup> [Datathon: Innovative solutions for a data-driven energy transition | EITI](#)

<sup>6</sup> ["EITI publishes data on adherence to supporting company expectations"](#)

## Domestic implications

Australia has supported the EITI for more than ten years through multi-annual grant support from DFAT. With substantial alignment on issues that are core to the agenda of the Australian Government, we hope this support will continue. Government's policy emphasis on the energy transition and integrity provides an opportunity for the Government of Australia to sign up as an EITI implementing country to ensure convergence between domestic and regional agendas. Leading Australian companies and civil society groups are supportive of EITI membership. They believe that this step would strengthen its global leadership in the natural resources sector and provide a strong signal to other governments in the Indo-Pacific region of the government's intent to promote a green and clean transition by practising at home what it advocates to partners overseas.

## Conclusion

In short, there are considerable development opportunities arising from the extractives sector that build on Australia's strengths and domestic leadership: by investing more resources in technical expertise and initiatives like the EITI, it can strengthen systems of transparency and accountability across partner governments; foster subnational implementation, mitigate risks in critical mineral supply chains, and promote a more favourable investment climate for Australian business.