

# Board decision on the Validation of Papua New Guinea

Referencia de la decisión: 2018-55/BM-41

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## La decisión del Consejo

Following the conclusion of Papua New Guinea's Validation, the EITI Board decided that Papua New Guinea has made meaningful progress overall in implementing the EITI Standard.

The Board commended Papua New Guinea's efforts to move from reports to reforms by ensuring, through high-level government directives, swift follow-up on PNG EITI recommendations. The Board encourages Papua New Guinea to sustain progress on key reforms, including systematic disclosures of license information through the digitization of the petroleum register, and to strengthen follow-up on recommendations related to improving accountability in the management of trust accounts holding resource revenues, in the oversight of subnational payments, and in the governance of state-owned enterprises.

The Board recognised the MSG's satisfactory progress in ensuring appropriate multi-stakeholder oversight of EITI implementation and aligning objectives for EITI with national priorities. It also lauds the country's efforts to produce timelier EITI data and to actively disseminate the findings of EITI Reports to influence public debate. The Board welcomes the government's commitment to strengthen government systems by using the EITI process as a diagnostic tool to support reforms. As part of improvements of such systems, the Board encourages Papua New Guinea to pursue efforts to systematically disclose data required by the EITI Standard as part of routine government and company disclosure systems.

The Board has determined that Papua New Guinea will have 18 months, i.e. until **30 April 2020** before a second Validation to carry out corrective actions regarding the requirements relating to License allocations (#2.2), License register (#2.3), State participation (#2.6), Production data (#3.2), Export data (#3.3), Comprehensiveness (#4.1), SOE transactions (#4.5), Direct subnational payments (#4.6), Data quality (#4.9), Distribution of revenues (#5.1), Subnational transfers (#5.2), Mandatory social expenditures (#6.1), SOE quasi-fiscal expenditures (#6.2), Outcomes and impact of implementation (#7.4). Failure to achieve meaningful progress with considerable improvements across several individual requirements in the second Validation will result in suspension in accordance with the EITI Standard. In accordance with the EITI Standard, Papua New Guinea's MSG may request an extension of this timeframe, or request that Validation commences earlier than scheduled.

The Board's decision followed a Validation that commenced on 1 April 2018. In accordance with the 2016 EITI Standard, an initial assessment was undertaken by the International Secretariat. The findings were reviewed by an Independent Validator, who submitted a draft Validation report to the MSG for comment. The MSG's comments on the report were taken into consideration by the independent Validator in finalising the Validation report and the independent Validator responded to the MSG's comments. The final decision was taken by the EITI Board.

## Contexto

Papua New Guinea submitted an application for candidature on 11 December 2013 and was accepted as an EITI Candidate by the EITI Board at its meeting in Oslo on 19 March 2014. PNG has annually published four EITI Reports covering four fiscal years, namely, 2013-16. The last two reports were published simultaneously on 30 December 2017, ensuring PNG is well ahead of its reporting deadlines

The Validation process commenced on 1 April 2018. In accordance with the Validation procedures, an [initial assessment](#) was prepared by the International Secretariat. The Independent Validator reviewed the findings and wrote a draft [Validation report](#). Both papers were shared with the MSG for its feedback and comments are expected on 10 October. The Independent Validator will then review the comments and respond to the MSG, before finalising the Validation report.

The Validation Committee reviewed the case on 10 October 2018. Based on the findings above, the Validation Committee agreed to recommend the assessment card and corrective actions outlined below.

The Committee also agreed to recommend an overall assessment of “meaningful progress” in implementing the 2016 EITI Standard. Requirement 8.3.c. of the EITI Standard states that:






ii. Overall assessments. Pursuant to the Validation Process, the EITI Board will make an assessment of overall compliance with all requirements in the EITI Standard.

...

iv. **Meaningful progress.** The country will be considered an EITI candidate and requested to undertake corrective actions until the second Validation.


The Validation Committee agreed to recommend a period of 18 months to undertake the corrective actions. This recommendation takes into account that the challenges identified are relatively significant and seeks to align the Validation deadline with the timetable for Papua New Guinea’s 2017 and 2018 EITI Reports.


## Tarjeta de evaluación


Requisitos del EITI		Nivel de progreso				
Categorías	Requisitos	Sin progreso	Inadecuado	Significativo	Satisfactorio	Sobresaliente
Supervisión por parte del grupo de multipartícipes	Compromiso gubernamental (#1.1) 					
	Compromiso del sector privado (#1.2) 					
	Compromiso de la sociedad civil (#1.3) 					
	Gobernanza del grupo de multipartícipes (#1.4) 					
	Plan de trabajo (#1.5) 					


Requisitos del EITI		Nivel de progreso					
Categorías	Requisitos	Sin progreso	Inadecuado	Significativo	Satisfactorio	Sobresaliente	
Licencias y contratos	Marco legal (#2.1)						
	Asignación de licencias (#2.2)						
	Registro de licencias (#2.3)						
	Políticas sobre divulgación de contratos (#2.4)						
	Beneficiarios reales (#2.5)						
	Participación estatal (#2.6)						
Exploración y producción	Datos de la exploración (#3.1)						
	Datos de la producción (#3.2)						
	Datos de la exportación (#3.3)						
Recaudación de ingresos	Divulgación exhaustiva (#4.1)						
	Ingresos en especie (#4.2)						
	Acuerdos de intercambio (#4.3)						
	Ingresos por transporte (#4.4)						
	Transacciones de empresas estatales (#4.5)						
	Pagos subnacionales directos (#4.6)						
	Desagregación (#4.7)						
	Puntualidad de los datos (#4.8)						
	Calidad de los datos (#4.9)						
Asignación de ingresos	Distribución de ingresos (#5.1)						
	Transferencias subnacionales (#5.2)						
	Gestión de ingresos y gastos (#5.3)						
Contribución socioeconómica	Gastos sociales normados (#6.1)						
	Gastos cuasifiscales de empresas estatales (#6.2)						
	Contribución económica (#6.3)						
Resultados e impacto	Debate público (#7.1)						
	Accesibilidad de los datos (#7.2)						
	Seguimiento de las recomendaciones (#7.3)						
	Resultados e impacto de la implementación (#7.4)						


Requisitos del EITI		Nivel de progreso				
Categorías	Requisitos	Sin progreso	Inadecuado	Significativo	Satisfactorio	Sobresaliente
		Overall Progress				


 **Sin progreso.** Quedan pendientes todos o prácticamente todos los aspectos significativos del requisito o de los requisitos y que no se cumple el objetivo más global del requisito o de los requisitos.


 **Progreso insuficiente.** No se han implementado aspectos significativos del requisito o de los requisitos y que está lejos de cumplirse el objetivo más global del requisito o de los requisitos.

 **Progreso significativo.** Se están implementando aspectos significativos del requisito o de los requisitos y que se está cumpliendo el objetivo más global del requisito o de los requisitos.

 **Progreso satisfactorio.** Se han implementado todos los aspectos del requisito o de los requisitos y que se ha cumplido el objetivo más global del requisito o de los requisitos.

 **Sobresaliente.** La implementación del país supera el requisito estándar.

 Esta es una disposición recomendada por lo que no debe ser tenido en cuenta para evaluar el cumplimiento.

 El grupo de multipartícipes ha demostrado que este requisito no es aplicable en su país.

## Acciones correctivas

The EITI Board agreed the following corrective actions to be undertaken by Papua New Guinea (PNG). Progress in addressing these corrective actions will be assessed in a second Validation commencing on **30 April 2020**:

1. In accordance with Requirement 2.2, PNG is required to publicly disclose information related to the award or transfer of mining tenements and oil and gas licenses pertaining to companies covered in the EITI Report. This information should include the number of mining tenements and oil and gas licenses awarded and transferred in the year under review, a description of the award and transfer procedures, including specific technical and financial criteria assessed, and any non-trivial deviations from statutory procedures in practice.
2. In accordance with Requirement 2.3, PNG should maintain a publicly-accessible register or cadastre system(s), including comprehensive information on licenses for all oil, gas and mining companies. In the interim PNG should ensure that information set out under EITI Requirement 2.3.b is publicly accessible for all mining, oil and gas companies.

3. In accordance with Requirement 2.6, PNG should clearly establish its definition of SOEs to delineate the SOEs within the scope of EITI reporting and ensure that a comprehensive list of state participation in the extractive industries, including terms associated with state equity and any changes in the year under review, be publicly accessible. PNG must also clarify the rules and practices governing financial relations between all SOEs, including their subsidiaries, and the state, including the existence of any loans or guarantees extended by the state, or SOEs, to extractives companies or projects.
4. In accordance with Requirement 3.2, PNG should ensure that the complete production volume for oil and gas, and production values for each of the extractives commodities produced during the year under review be publicly accessible, disaggregated by commodity.
5. In accordance with Requirement 3.3, PNG should ensure that export volumes and values are publicly disclosed for each mineral commodity (including oil, condensate and gas) exported in the year under review.
6. In accordance with Requirement 4.1, PNG should ensure that the materiality threshold for selecting companies ensures that all payments that could affect the comprehensiveness of EITI reporting be included in the scope of reconciliation. The MSG should ensure that PNG's next EITI Report includes the IA's assessment of the materiality of omissions from non-reporting entities, an assessment of the comprehensiveness of the EITI Report and that full unilateral government disclosure of total revenues, including from non-material companies, is provided for each of the material revenue streams. In accordance with requirement 8.3.c.i, the MSG should develop and disclose an action plan for addressing the deficiencies in comprehensiveness of reporting documented in the initial assessment.
7. In accordance with Requirement 4.5, PNG should undertake a comprehensive assessment of transactions between extractives SOEs (and their subsidiaries) and mining, oil and gas companies, as well as between the extractives SOEs (including their subsidiaries) and government in its scoping for future EITI Reports. All SOEs collecting material revenues or making material payments to government should be included in future EITI reporting.
8. In accordance with Requirement 4.6, PNG should establish whether direct subnational payments (to government entities) by extractives companies are material. Where material, PNG is required to ensure that direct subnational payments are reconciled between company payments and subnational government entities' receipts. Given widespread confusion yet vivid interest among stakeholders from all constituencies over extractives revenue flows accruing to subnational governments, PNG should consider mapping out subnational revenue flows associated with each individual extractive project, drawing on results from the scoping study on subnational revenue flows being prepared in 2018.
9. In accordance with Requirement 4.9.a, the EITI requires an assessment of whether the payments and revenues are subject to credible, independent audit, applying international auditing standards. In accordance with requirement 4.9.b.iii and the standard Terms of

Reference for the Independent Administrator agreed by the EITI Board, the MSG and Independent Administrator should:

- Ensure that the Independent Administrator provides a clear and categorical assessment of comprehensiveness and reliability of the (financial) data presented, including an informative summary of the work performed by the Independent Administrator and the limitations of the assessment provided.
- Ensure that the Independent Administrator provides an assessment of whether all companies and government entities within the agreed scope of the EITI reporting process provided the requested information. Any gaps or weaknesses in reporting to the Independent Administrator must be disclosed in the EITI Report, including naming any entities that failed to comply with the agreed procedures, and an assessment of whether this is likely to have had material impact on the comprehensiveness and reliability of the report.

In accordance with requirement 8.3.c.i, the MSG should develop and disclose an action plan for addressing the deficiencies in the reliability of reporting documented in the initial assessment.

1. In accordance with Requirement 5.1, PNG should clarify which extractive revenues are recorded in the national budget. Where revenues are not recorded in the national budget, the allocation of revenues should be explained, with links provided to relevant financial reports.
2. In accordance with Requirement 5.2, PNG is required to ensure that material subnational transfers of extractives revenues are publicly disclosed, when such transfers are mandated by a national constitution, statute or other revenue sharing mechanism such as benefit-sharing agreements. The MSG should also disclose any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount transferred between the central government and each relevant subnational entity on an annual basis.
3. In accordance with Requirement 6.1, PNG should ensure that reporting of mandatory social expenditures be disaggregated by type of payment and beneficiary, clarifying the name and function of any non-government (third-party) beneficiaries of mandatory social expenditures.
4. In accordance with Requirement 6.2, PNG should undertake a comprehensive review of all expenditures undertaken by extractives SOEs (and their subsidiaries) that could be considered quasi-fiscal. PNG should develop a reporting process with a view to achieving a level of transparency commensurate with other payments and revenue streams, and should include SOE subsidiaries and joint ventures.
5. In accordance with Requirement 7.4, the MSG is required to review the outcomes and impact of EITI implementation on natural resource governance in PNG by ensuring that all the



prescribed details of the annual progress report are mentioned in the next report. The MSG should ensure that all stakeholders, including those outside of the MSG, are given an opportunity to participate in the production of, and have their view reflected in, the annual progress report.

The government and the MSG are encouraged to consider the other recommendations in the Validator's report and the International Secretariat's initial assessment, and to document the MSG's responses to these recommendations in the next annual progress report.

## Noticias

### **EITI Board recognises Papua New Guinea's achievements in improving natural resource governance**

*Papua New Guinea achieves meaningful progress in EITI implementation, but further institutional reforms are necessary.*

At its meeting in Dakar on 30 October 2018, the EITI Board decided that Papua New Guinea (PNG) has made meaningful progress in implementing the EITI Standard. The Board recognised PNG's efforts in implementing reforms to address weaknesses in government systems and in improving the level of transparency on state participation in the country's extractive industries.

"The EITI is having a real impact in Papua New Guinea: citizens can now see how the revenues from oil and gas projects are being distributed and how the government is managing mining revenues through trust accounts", said Fredrik Reinfeldt, chair of the EITI.

"The process has improved the petroleum register and shone a light on the state's participation in the sector. I welcome the news that stakeholders will increasingly use EITI to inform investment decisions and to assess the sector's contribution to the economy."

The Board also acknowledged PNG's satisfactory progress on all requirements related to governance and oversight of the EITI process, attributing the progress in PNG's implementation to strong government commitment and meaningful engagement by stakeholders.

While the quality of data needs to be improved and significant gaps remain in the disclosure of information around subnational payments and distribution of revenues, the Validation process showed how EITI contributes to public debate and policy reforms in PNG. The use of EITI data has sparked discussions on how revenues are collected from the [PNG LNG](#) project and how local communities may benefit from a Benefit Sharing Agreement entered in connection with this project.

## Notes

- View the **interactive** Validation **scorecard** to view PNG's results per sub-requirement: [Papua New Guinea's progress by requirement](#)
- [Read more about Papua New Guinea on the country page](#)
- View the Reports that guided the Board's decision [Validation of Papua New Guinea - documentation](#)
- View the decision in full: <https://eiti.org/BD/2018-55>