

# Validation of Papua New Guinea

Decision reference: 2018-55/BM-41/41-5-D

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## News

### 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>

## The Board's decision

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 encouraged 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 lauded the country's efforts to produce timelier EITI data and to actively disseminate the findings of EITI Reports to influence public debate. The Board welcomed 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 encouraged 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.

## Scorecard

EITI Requirements		Level of Progress				
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond
MSG oversight	Government engagement (#1.1) 				█	
	Industry engagement (#1.2) 				█	
	Civil society engagement (#1.3) 				█	
	MSG governance (#1.4) 				█	
	Workplan (#1.5) 				█	
Licenses and contracts	Legal framework (#2.1) 				█	
	License allocations (#2.2) 		█			
	License register (#2.3) 			█		
	Policy on contract disclosure (#2.4) 				█	
	Beneficial ownership (#2.5) 	█				
	State participation (#2.6) 			█		
Monitoring production	Exploration data (#3.1) 				█	
	Production data (#3.2) 		█			
	Export data (#3.3) 			█		
Revenue collection	Comprehensiveness (#4.1) 		█			
	In-kind revenues (#4.2) 	█				
	Barter agreements (#4.3) 	█				
	Transportation revenues (#4.4) 	█				
	SOE transactions (#4.5) 			█		
	Direct subnational payments (#4.6) 		█			
	Disaggregation (#4.7) 				█	
	Data timeliness (#4.8) 				█	
	Data quality (#4.9) 		█			
Revenue allocation	Distribution of revenues (#5.1) 		█			
	Subnational transfers (#5.2) 		█			
	Revenue management and expenditures (#5.3) 	█				

EITI Requirements		Level of Progress				
Categories	Requirements	No Progress	Inadequate	Meaningful	Satisfactory	Beyond
Socio-economic contribution	Mandatory social expenditures (#6.1) 					
	SOE quasi-fiscal expenditures (#6.2) 					
	Economic contribution (#6.3) 					
Outcomes and impact	Public debate (#7.1) 					
	Data accessibility (#7.2) 					
	Follow up on recommendations (#7.3) 					
	Outcomes and impact of implementation (#7.4) 					
Overall Progress						

 **No progress.** All or nearly all aspects of the requirement remain outstanding and the broader objective of the requirement is not fulfilled.

 **Inadequate progress.** Significant aspects of the requirement have not been implemented and the broader objective of the requirement is far from fulfilled.

 **Meaningful progress.** Significant aspects of the requirement have been implemented and the broader objective of the requirement is being fulfilled.

 **Satisfactory progress.** All aspects of the requirement have been implemented and the broader objective of the requirement has been fulfilled.

 **Beyond.** The country has gone beyond the requirements.

 This requirement is only encouraged or recommended and should not be taken into account in assessing compliance.

 The MSG has demonstrated that this requirement is not applicable in the country.

## Corrective actions

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.
10. 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.
  11. 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.
  12. 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.
  13. 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.
  14. 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.