

Validation of Papua New Guinea:

Final assessment of progress in implementing the EITI Standard

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Acronyms

BO	Beneficial ownership
CSO	Civil society organisation
CT	Contract transparency
DPE	Department of Petroleum and Energy
FASU	Financial, Analysis and Supervision Unit at the Bank of PNG
GloCo	PNG LNG Global Company LLC
IPA	Investment Promotion Authority
JICA	Japan International Cooperation Agency
KMHL	Kumul Mineral Holdings Limited
KPHL	Kumul Petroleum Holdings Limited
LNG	Liquefied natural gas
MoA	Memorandum of Agreement
MRA	Mineral Resources Authority
MRDC	Mineral Resources Development Company
MSG	Multi-stakeholder group
NEC	National Executive Council
OTML	Ok Tedi Mining Limited
PNG	Papua New Guinea
SOE	State-owned enterprise
ToR	Terms of Reference

Executive summary

This final Validation report presents the findings of the International Secretariat's Validation of Papua New Guinea, which commenced on 1 April 2022. The Validation assesses progress in EITI implementation since the previous Validation under the 2016 EITI Standard. The assessment of disclosures focuses on the latest EITI Report, which covers financial year 2019. The assessment follows the 2019 EITI Standard. The draft report was finalised for review by the multi-stakeholder group (MSG) on 26 July 2022. Following comments from the MSG received on 20 September 2022, the Validation report was finalised for consideration by the EITI Board. The assessment suggests that Papua New Guinea has fully met ten, mostly met twelve and partly met seven requirements, with three requirements assessed as not applicable.

Key achievements

- EITI Reports are considered by stakeholders as a reliable and comprehensible source of information about the extractive sector in an environment where publicly available data is otherwise scarce and data management systems weak. Consulted stakeholders noted that the quality of EITI Reports have improved. EITI Reports and the scoping studies on SOEs, subnational revenues, beneficial ownership and contracts have shed light on the complex structures of PNG's extractive sectors in an accessible and comprehensible manner. This is highly relevant in PNG's context, as the country relies heavily on the extractive sector, which represented nearly 90% of the total value of exports in 2019.
- Following recommendations from EITI reporting and the 2018 Validation, the Department of Petroleum and Energy has started to digitise its management of licenses and other information with support from Japan. This enables some systematic disclosure of data and provides for more secure data management.
- The MSG functions as an effective platform for multi-stakeholder dialogue on the extractive sector. The MSG and the national secretariat have demonstrated commitment to the EITI by actively promoting the institutionalisation of the EITI and resulting disclosures. This holds opportunities to ensuring that transparency is sustained despite changes in the government. The government has sustained funding for EITI implementation.

Areas for development

- Significant gaps remain in disclosures related to, for example, state-owned enterprises. Increasing transparency is key to ensuring the accountable management of the sector and revenues arising from it. In 2019, equity distributions received by state-owned KPHL and MRDC's subsidiaries (on behalf of landowners and provincial governments) represented 27% of total government revenue from the extractive sector. State-owned enterprises play a significant role in managing revenues from the sector, and improving the transparency of fiscal terms would help to ensure that PNG's citizens fully benefit from natural resources and that the country is prepared for future developments in its extractive sector, related to both shifts in global demand and the life-cycle of individual

extractive projects. Gaps in disclosures appear to be to some extent a symptom of waning high-level government commitment to the EITI process.

- Engaging civil society beyond Port Moresby, including in affected communities, is challenging due to PNG's geography and the limited resources available. Shedding more light on the distribution of benefits on the subnational level and engaging local stakeholders presents an opportunity for the EITI. There is strong stakeholder demand to increase transparency around subnational payments and transfers.
- There is little evidence of disclosures being used to inform analysis or decision-making in the period under review. The COVID-19 pandemic appears to be partly behind this slowing down of activity. There is potential for EITI to stimulate fact-based debate and decision-making about the future of the extractive sector and its contribution, as several new large-scale mining projects and Papua LNG project are being negotiated and prepared.

Progress in implementation

EITI Validation assesses countries against three components – “Stakeholder engagement”, “Transparency” and “Outcomes and impact”.

Stakeholder engagement

The MSG has continued to operate amidst the COVID-19 pandemic, relying partly on online tools for communication and meetings. Stakeholder consultations suggest that high-level government engagement in the EITI has become weaker, which is reflected in the lack of some key disclosures related to, for example, state participation in the extractive sector, as well as follow-up on recommendations. Civil society engagement is focused in Port Moresby, although there have been some attempts to expand networks to resource-rich provinces. These efforts are restricted by competing priorities and the lack of resources. Extractive companies appear to be fully and effectively engaged in EITI implementation.

Transparency

The comprehensiveness of disclosures has improved since the previous Validation in 2018. Revenue data is disclosed at project level, and discrepancies have reduced. PNG still relies heavily on EITI reporting for disclosures. The MSG has commissioned thematic scoping studies to map the framework for subnational contributions, contract transparency, SOEs and beneficial ownership transparency. This work is still to lead to comprehensive disclosures in these areas. The landscape of subnational payments and transfers, as well as social expenditures is complex and revenue flows are challenging for citizens to track. There is stakeholder demand for strengthening subnational disclosures. Contracts have not been disclosed, which impedes oversight and accountability in the sector. State-owned enterprises (SOEs) collect significant revenues, but their management remains opaque. Shortcomings also remain in disclosures related to oil and gas production and exports, as well as beneficial ownership.

Outcomes and impact

The MSG has managed to adapt its outreach and communication efforts during the COVID-19 pandemic by producing videos and organising online events. Materials have been produced and events organised in different languages and across regions. The MSG has an up-to-date work plan, and it monitors implementation adequately. The work plan includes objectives and

activities that are linked to national priorities. However, it seems that in recent years the follow-up on EITI recommendations has slowed down due to political challenges and the pandemic. There is also limited evidence of stakeholders using EITI data to advocate for reforms in the extractive sector or of the EITI resulting in policy changes.

Figure 1 Draft scorecard: Summary of progress in the Validation of Papua New Guinea

Component & module	EITI Requirement	Progress	Score	
Outcomes and impact		Moderate	73.5/100	
Extra points	Effectiveness and sustainability indicators		1.5	
Outcomes and impact	Work plan (#1.5)	Mostly met	60	↓
	Public debate (#7.1)	Fully met	90	-
	Data accessibility and open data (#7.2)	Mostly met	60	-
	Recommendations from EITI (#7.3)	Mostly met	60	↓
	Outcomes & impact (#7.4)	Fully met	90	↑
Stakeholder engagement		Moderate	75/100	
Multi-stakeholder oversight	Government engagement (#1.1)	Mostly met	60	↓
	Industry engagement (#1.2)	Mostly met	60	↓
	Civil society engagement (#1.3)	Fully met	90	-
	MSG governance (#1.4)	Fully met	90	-
Transparency		Fairly low	62.5/100	
Overview of the extractive industries	Exploration data (#3.1)	Fully met	90	-
	Economic contribution (#6.3)	Fully met	90	-
Legal and fiscal framework	Legal framework (#2.1)	Fully met	90	-
	Contracts (#2.4)	Partly met	30	↓
	Environmental impact (#6.4)	Not assessed	-	-
Licenses	Contract and license allocations (#2.2)	Partly met	45	↑
	License register (#2.3)	Mostly met	60	-
Ownership	Beneficial ownership (#2.5)	Partly met	30	-
State participation	State participation (#2.6)	Partly met	30	-
	In-kind revenues (#4.2)	Not applicable	-	-
	SOE transactions (#4.5)	Mostly met	60	-
	SOE quasi-fiscal expenditures (#6.2)	Partly met	45	↑
Production and exports	Production data (#3.2)	Mostly met	60	↑
	Export data (#3.3)	Mostly met	60	-
Revenue collection	Comprehensiveness (#4.1)	Fully met	90	↑
	Barter agreements (#4.3)	Not applicable	-	-
	Transportation revenues (#4.4)	Not applicable	-	-
	Disaggregation (#4.7)	Fully met	90	-
	Data timeliness (#4.8)	Fully met	90	-
	Data quality (#4.9)	Mostly met	60	↑
Revenue management	Distribution of revenues (#5.1)	Mostly met	60	↑
	Revenue management & expenditures (#5.3)	Not assessed	-	-
Subnational contributions	Direct subnational payments (#4.6)	Partly met	45	↑
	Subnational transfers (#5.2)	Partly met	45	↑
	Social and environmental expenditures (#6.1)	Mostly met	75	↑
Overall score		Moderate	70.5/100	

How EITI Validation scores work

Component and overall score

The three components of EITI Validation – “Transparency”, “Stakeholder engagement” and “Outcomes and impact” – each receive a score out of 100. The overall score represents an average of the component scores.



Assessment of EITI Requirements

Validation assesses the extent to which each EITI Requirement is met, using five categories. The component score is an average of the points awarded for each requirement that falls within the component.



- **Exceeded** (100 points): All aspects of the requirement, including “expected”, “encouraged” and “recommended” aspects, have been implemented and the broader objective of the requirement has been fulfilled through systematic disclosures in government and company systems.
- **Fully met** (90 points): The broader objective of the requirement has been fulfilled, and all required aspects of the requirement have been addressed.
- **Mostly met** (60 points): Significant aspects of the requirement have been implemented, and the broader objective of the requirement is mostly fulfilled.
- **Partly met** (30 points): Significant aspects of the requirement have not been implemented, and the broader objective of the requirement is not fulfilled.
- **Not met** (0 points): All or nearly all aspects of the requirement remain outstanding, and the broader objective of the requirement is far from fulfilled.
- **Not assessed**: Disclosures are encouraged, but not required and thus not considered in the score.
- **Not applicable**: The MSG has demonstrated that the requirement doesn’t apply.

Where the evidence does not clearly suggest a certain assessment, stakeholder views on the issue diverge, or the multi-stakeholder group disagrees with the Secretariat’s assessment, the situation is described in the assessment.

1. Effectiveness and sustainability indicators

The country is awarded 0, 0.5 or 1 point for each of the five indicators. The points are added to the component score on Outcomes and impact.

1.1 National relevance of EITI implementation

This indicator considers the extent to which EITI implementation in Papua New Guinea addresses nationally relevant extractive sector challenges and risks.

EITI Requirements related to, for example, state-owned enterprises, subnational payments and transfers, contract transparency and beneficial ownership are highly relevant for addressing PNG's challenges in extractive sector governance.

The MSG has focused on priority issues by commissioning thematic studies, and the work plan's objectives include, for example, strengthening public understanding about revenue management. However, disclosures still fall short from the expectation, which is reflected in the assessment of disclosure requirements. The EITI has managed to shed light on revenues received by the oil and gas SOE KPHL and the landowners' trustee MRDC, but the management of these funds continues to be opaque. Considering the volume of revenues received by KPHL on behalf of the state and the financial liabilities related to future investments, increasing transparency in this area is a crucial challenge. Increasing transparency of KPHL's management has been subject to public debate as well.

In the period under review, PNG has witnessed public debate about the government take from extractive projects, with demand from citizens to reassess project terms. In particular, consulted companies highlighted the importance of EITI Reports in providing clear, reliable data about the extractive sector's contribution to the economy amidst concerns of increased resource nationalism. Corruption allegations linked to the financing of the state's acquisition of shares in an oil company have led to an investigation and public debate. With the development of the Papua LNG project by Total Energies and its partners, as well as the development of new mining projects, EITI implementation will continue to be highly relevant for improving governance in the sector. The EITI has contributed to some improvements in data management, which is a challenge in PNG. EITI Reports play an important role in collating information that is not publicly available elsewhere.

The Secretariat proposes that 0.5 additional points be added to the score on Outcomes and impact for this indicator. PNG has used the EITI to address nationally relevant extractive sector governance challenges, for example, by producing thematic studies that address key issues and pave the way for relevant disclosures. There is potential for PNGEITI to increase transparency and accountability in the extractive sector by addressing opacity related to SOEs, contracts and subnational benefits. Fulfilling this potential requires high-level government commitment.

1.2 Systematic disclosures of extractive industry data

This indicator considers the extent to which data is systematically disclosed, as well as plans to strengthen systematic disclosures.

Disclosures in PNG continue to rely heavily on EITI reporting. There is no credible pathway towards systematic disclosures, which is also reflected in the 2022 EITI work plan. There have been some improvements to data collection for the EITI Reports and the development of an electronic reporting mechanism has been planned with support from the World Bank. However, it is unclear if these reforms will lead to data being increasingly disclosed systematically. The Department of Petroleum and Energy has developed its data management systems and is working to disclose, for example, license information on its website. This work is still ongoing, and information continues to be partly paper-based despite the fact that digitisation of license information is a recurring recommendation in several EITI Reports. The Mineral Resources Authority (MRA) collects monthly reports from mining companies, including information on royalties, production levels, etc. These reports could form a basis for timely systematic disclosures. The MRA also maintains a [mining license cadastre](#) that is publicly available online. The MSG could consider exploring opportunities to build on the payment disclosures of companies whose home jurisdictions mandate annual country-by-country reporting of payments.

The Secretariat proposes that 0 additional points be added to the score on Outcomes and impact for this indicator.

1.3 Environment for citizen participation in extractive industry governance

This indicator considers the extent to which there is an enabling environment for citizen participation in extractive sector governance, including participation by affected communities.

Papua New Guinea's geographical, cultural and linguistic diversity creates a unique setting for engaging citizens in extractive industry governance. Travel within the country is difficult and costly, which has restricted outreach efforts to affected communities by civil society and other constituencies. This has been further exacerbated by the COVID-19 pandemic. In February 2022, PNGEITI undertook extensive consultations across resource-rich provinces on the PNGEITI Commission Bill.¹

The legal framework supports the participation of affected communities in decision-making about how extractive resources are governed. Most of the land area is subject to customary tenure, and landowners have the right to a share of equity on extractive projects, managed usually through the Mineral Resources Development Corporation (MRDC). The flow of benefits from mining projects is agreed on a case-by-case basis in a Memorandum of Agreement (MoA), which is negotiated with local stakeholders in forums organised for this purpose and confirmed by the National Executive Council. The process is outlined in the 1992 Mining Act. The MoAs are not publicly accessible apart from the Umbrella Benefits Sharing Agreement of the PNG LNG project, although PNGEITI has initiated discussions about the disclosure of other MoAs. Stakeholders

¹ The consultation process and feedback are captured in this report: <http://www.pngeiti.org.pg/wp-content/uploads/2022/03/DRAFT-2-Consolidated-Regional-Consultation-Report-PNGEIT-Commission-Bill.pdf>.

noted that the management of funds by MRDC, which is 100% state-owned and sits under the Prime Minister's office, was opaque.

Beyond the negotiation of benefit-sharing and the EITI process, there are few opportunities for communities to participate in extractive sector governance. Some consulted civil society stakeholders noted that it was not clear where communities or local civil society should voice their concerns regarding mining projects. The 2021 Freedom in the World report rates PNG as "partly free". It notes that freedom of expression and assembly are largely respected, and NGOs are able to operate freely. However, the government operations are generally opaque, and there is no access to information law.²

The Secretariat proposes that 0.5 additional points be added to the score on Outcomes and impact for this indicator. There are mechanisms in place for engaging citizens in the legal framework, including affected communities and landowners in extractive sector governance, although some concerns exist regarding effective participation in monitoring extractive activities and benefit-sharing.

1.4 Accessibility and use of extractive industry data

This indicator considers the extent to which extractive sector data is accessible and used for analysis, research and advocacy.

Stakeholders noted that EITI Reports were a useful tool providing reliable information about the extractive sector in a comprehensible manner. However, there is little evidence of EITI Reports or other extractive sector data being used for analysis, research or advocacy, beyond the few examples provided in the Outcomes and impact file. Consulted stakeholders highlighted opportunities for more active debate on, for example, the use of funds by SOEs and MRDC, as well as potential revenue losses resulting from the Infrastructure Tax Credit scheme.

Considering the significance of the extractive sector to PNG's economy and in light of new petroleum and mining projects in the pipeline, there is demand for analysis and fact-based debate. This would help PNG balance considerations between resource nationalism and attracting investment, help to identify and address revenue loss risks related to fiscal terms and practices, and facilitate an understanding of future extractive revenues and factors affecting them.

At the moment, petroleum and mining contracts are only made available to government agencies upon request from the State Solicitor's office, which creates barriers for monitoring that companies meet fiscal and other terms. Increased transparency would not only ensure that all government agencies have access to necessary information. It would also enable CSOs and academia to undertake analysis and raise issues to the discussion. The Secretariat proposes that 0 additional points be added to the score on Outcomes and impact for this indicator. While the MSG has made efforts to make data accessible to citizens, there remain missed opportunities related to the use of the data in debates about extractive sector governance.

² <https://freedomhouse.org/country/papua-new-guinea/freedom-world/2021>

1.5 EITI-related changes to extractive industry policy and practice

This indicator considers the extent to which EITI has informed changes in extractive sector policies and practices.

EITI implementation resulted in the development of the National Policy Framework on Transparency and Accountability in 2019 and the ongoing process for establishing a legal basis for the EITI through the PNGEITI Commission Bill. The Outcomes and impact file submitted by the MSG notes that EITI has had an indirect effect on public and political debate around government take in the extractive sector. The partial digitisation of the database and license register of the Department of Petroleum and Energy (DPE) is a result of EITI implementation. With support from Japan, DPE has begun to digitise and systematically disclose information that was previously only available in paper format.

However, there is limited evidence of the EITI resulting in concrete changes in policy or practice in the period under review. Following early EITI Reports, the NEC adopted directives in 2017 that mandated government agencies to implement recommendations arising from EITI reporting. Follow-up and implementation of the recommendation appears to have been limited, with many actions still outstanding.

The Secretariat proposes that 0.5 additional points be added to the score on Outcomes and impact for this indicator. This reflects primarily progress in digitising DPE’s data management systems, which is a direct result of EITI implementation.

2. Outcomes and impact

This component assesses EITI Requirements 7 and 1.5, which relate to progress in addressing national priorities and public debate.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>Work plan (Requirement #1.5)</p> <p><i>Mostly met</i></p>	<p>The Secretariat’s assessment is that Requirement 1.5 is mostly met, which represents backsliding from the previous Validation. This reflects primarily changes to Requirement 1.5 that were introduced in the 2019 EITI Standard and relate to mainstreaming, contracts and beneficial ownership. Overall, the 2022 work plan mostly meets the objective of the requirement. The work plan addresses the required areas of EITI implementation, but does not lay out a path towards systematic disclosures of EITI data or the disclosures of, for example, contracts and beneficial ownership information.</p>

	<p>The 2022 work plan includes six objectives, the rationale for each of them, as well as related governance challenges. Under each of the objectives, there are sub-objectives with expected outcomes. The work plan includes time-bound, costed activities with sources of funding. It is available on the PNGEITI website and was agreed by the MSG. It appears to reflect stakeholders' priorities for the EITI process.</p> <p>The first objectives relate heavily to the EITI's procedural aspects, while objective 4 on strengthening revenue collection is more clearly linked to national priorities. The work plan addresses contract transparency and beneficial ownership transparency, although activities mainly refer to other documents and reports, where the concrete actions are outlined. This may make monitoring the implementation of the work plan more challenging. The same applies to the objectives and activities related to follow-up on EITI recommendations.</p> <p>PNG relies heavily on EITI Reports produced by an Independent Administrator. The work plan addresses mainstreaming but does not establish a clear path with concrete activities towards comprehensive systematic disclosures of EITI data. There are activities related to strengthening government and company systems related to recording payments and revenues. Activities to introduce systematic disclosures of other information are not included.</p> <p>Annual work plans are drafted by the national secretariat, presented at the MSG meeting, discussed and approved by the MSG in principle. The national secretariat later refines the work plan and gives one week for the MSG members to provide further feedback. If there is no additional feedback within the timeframe, the annual work plan is considered final and published. Consulted stakeholders appeared satisfied with this approach. The MSG noted that outreach activities provided an opportunity for broader constituencies to provide input on the objectives of EITI implementation. However, capacity constraints have limited civil society's ability to engage CSOs beyond Port Moresby (see Requirement 1.3).</p> <p>To better enable monitoring of the work plan's implementation, the MSG could agree more concrete activities related to, for example, systematic disclosures, data quality and contract, BO and SOE transparency, clearly indicating the entity responsible for implementing each of the steps. These could be drawn from the recommendations from EITI reporting, scoping studies and Validation into a separate matrix accompanying the work plan.</p>
<p>Public debate (Requirement #7.1)</p> <p><i>Fully met</i></p>	<p>The Secretariat's assessment is that Requirement 7.1 is fully met. Consultations suggest that stakeholders consider the objective of the requirement to be fully met, as PNGEITI has actively communicated relevant data to key stakeholders in ways that are accessible and reflect stakeholders' needs.</p> <p>The COVID-19 pandemic restricted outreach activities in the period under review. However, the MSG has made efforts to ensure that information is comprehensible and widely accessible. Outreach events have been organised both virtually and in person in resource-rich provinces. PNGEITI has a</p>

	<p>communications strategy, the latest one covering 2022-2023.³ The strategy includes considerations for addressing the information needs of different genders and sub-groups of citizens.</p> <p>The geography and linguistic diversity of PNG create challenges for communicating data and inciting public debate. PNGEITI has published communication materials such as summary reports and brochures and organised events in different parts of the country, using local languages in addition to English. During the COVID-19 pandemic online communication tools and videos have been developed. PNGEITI also publishes a newsletter. Further information on events and materials is available in the Outcomes and Impact file.</p> <p>However, there is limited evidence of use of EITI data for research or analysis. Stakeholder consultations suggest that use of EITI Reports by decision-makers has reduced in recent years. Extractive companies consider EITI Reports useful for communicating the contribution of the sector. Some stakeholders noted that there is a need for public debate on revenue loss risks related to, for example, the Infrastructure Tax Credit scheme. The Secretariat did not encounter evidence of, for example, parliamentarians using EITI data in the period under review. There are some examples of news articles referring to EITI data.⁴</p>
<p>Data accessibility and open data (Requirement #7.2)</p> <p><i>Mostly met</i></p>	<p>The Secretariat's assessment is that Requirement 7.2 is mostly met. The objective of the requirement is fulfilled regarding the availability of summary data, but comprehensive EITI data is yet to be made accessible in open format. This effects the fulfilment of the objective of the requirement, which is to enable the broader use and analysis of information on the extractive industries.</p> <p>PNGEITI's Open Data Policy was agreed by the MSG in 2016. Summary Data templates are available up to 2019, but beyond them EITI data does not appear to be available in open format. The summary data for 2019 was in preliminary form at the time of this assessment, pending finalisation based on feedback from the International Secretariat.</p>
<p>Recommendations from EITI implementation (Requirement #7.3)</p> <p><i>Mostly met</i></p>	<p>The Secretariat's assessment is that Requirement 7.3 is mostly met, which represents backsliding from the previous Validation. The Secretariat's analysis and stakeholder comments suggest that the objective of the requirement has not been fully met. The MSG has documented the status of recommendations from EITI reporting and Validation, and the work plan refers to the follow-up on recommendations. However, there is limited evidence of systematic follow-up with responsible entities in the period under review. The Secretariat recognises that the COVID-19 pandemic has had an impact on this, as the MSG has met less regularly.</p> <p>The Outcomes and impact template documents the MSG's follow-up on corrective actions from the 2018 Validation. It notes that implementation of the recommendations from the SOE and BO studies was delayed due to the COVID-</p>

³ PNGEITI Communications Strategy 2022-23: http://www.pngeiti.org/wp-content/uploads/2018/04/104-PNGEITI-Media-Communication-Strategy-2022-2023_final_v0406-002-Autosaved-converted.pdf.

⁴ See eg Post Courier (2022): <https://postcourier.com.pg/kphl-is-an-illegal-entity-says-mori/>.

	<p>19 pandemic. In early 2022, the MSG established working groups to follow up on these recommendations. Some of the recommendations are reflected in the reporting process for the upcoming 2020 and 2021 EITI Reports. The commissioning of the scoping studies on contract transparency, BO, subnational revenues and SOEs demonstrate a willingness to follow up on recommendations. Consulted stakeholders noted that follow-up on the recommendations from the subnational study has been limited.</p> <p>The 2019 EITI Report documents progress on addressing recommendations from earlier EITI Reports. Recommendations from the 2013 and 2014 EITI Reports were submitted by PNGEITI to the National Executive Council (NEC) for its consideration. The NEC directed responsible government agencies to act upon the recommendations (NEC Decision #91/2017). The 2021 APR documents progress in addressing the directives. Implementation of the recommendations appears to be mostly still ongoing and similar recommendations have been carried over from report to report.</p>
<p>Review the outcomes and impact of EITI implementation (Requirement #7.4)</p> <p><i>Fully met</i></p>	<p>The Secretariat's assessment is that Requirement 7.4 is fully met. The objective of ensuring regular public monitoring and evaluation of implementation is fulfilled. PNG has addressed the corrective action from the previous Validation, which focused on covering all required elements of the APR and on providing opportunities for stakeholders to provide feedback.</p> <p>PNGEITI publishes annual progress reports (APR), the latest one covering 2021. The APR comprehensively documents activities undertaken in 2021, media coverage, use of website, the status of EITI recommendations and NEC decisions related to the EITI process. There is less focus on monitoring and documenting the actual impact of the EITI improving extractive sector governance. However, the Outcomes and impact file includes an overview of impact, as well as opportunities provided to stakeholders outside the MSG to provide feedback on the EITI process.</p>
New corrective actions and recommendations	
<ul style="list-style-type: none"> • In accordance with Requirement 1.5, Papua New Guinea should include in its EITI work plan concrete activities towards systematic disclosures and disclosures of contracts and beneficial ownership information. The MSG is encouraged to identify the entities responsible for necessary actions and to follow up with them on implementation. • In accordance with Requirement 7.2, Papua New Guinea should ensure that all EITI data is available in open format online, i.e., accessible in CSV or Excel format. This could contain all tables, charts and figures from EITI Reports. • In accordance with Requirement 7.3, the MSG should regularly consider findings and recommendations from the EITI process and act upon those deemed as priorities to ensure that EITI implementation is a continuous learning process that contributes to policy making. • To strengthen implementation of Requirements 7.1 and 7.4, the MSG is encouraged to consider how EITI implementation could have an increased impact on extractive sector governance through analysis and other use of data. 	

3. Stakeholder engagement

This component assesses EITI Requirements 1.1 to 1.4, which relate to the participation of constituencies and multi-stakeholder oversight throughout the EITI process.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>Government engagement (Requirement #1.1)</p> <p><i>Mostly met</i></p>	<p>The Secretariat's assessment is that Requirement 1.1 is mostly met, which represents backsliding since the previous Validation. There are signs that government engagement in the EITI has weakened during the period under review, although operational engagement has remained strong. This has affected the fulfilment of the objective of the requirement, which is to facilitate all aspects of EITI implementation. Stakeholder consultations support the assessment. Consulted stakeholders from different constituencies raised concerns about the weakening of government engagement during the period under review. However, the MSG argued in its feedback on the draft Validation report that the requirement should be considered as Fully met. The MSG noted that the government had constantly provided funding to sustain the EITI process. As EITI implementation had matured and become institutionalised, high-level political engagement was no longer expected. The MSG highlights the strong operational engagement by relevant government officials. MSG meetings are mostly not attended by senior government officials. The MSG Chair continues to be the Minister of Treasury, but in practice meetings are chaired by the Deputy Secretary. Consulted stakeholders noted that lack of high-level engagement from the Treasury and the Prime Minister had affected implementation and the follow-up of recommendations. This is reflected in gaps related to disclosures, especially those related to extractive SOEs (<i>see section on state participation</i>) and contract transparency (<i>see Requirement 2.4</i>). Consulted stakeholders noted that previously eg the parliament had discussed information from EITI Reports, but that this was not the case with recent reports. Stakeholders pointed out that weaker high-level engagement may be partly related to the COVID-19 pandemic, as priorities have shifted. The Secretariat recognises that parliamentary follow-up of EITI recommendations is an exceptional practice that is not required from implementing countries in order to fully meet Requirement 1.1.</p> <p>The national secretariat, housed within the Treasury, continues to operate efficiently according to consulted stakeholders. They expressed satisfaction with the support the MSG received from the secretariat. The government also provides significant funding to the EITI process, which demonstrates commitment. Government agencies largely provided the requested data for the 2019 EITI Report. However, stakeholders noted that it was challenging obtaining information from SOEs, as well as data on subnational transfers</p>

	<p>from the Treasury. In 2019, the National Executive Council (NEC) adopted the PNGEITI National Policy, which reiterated commitment to the EITI and introduced a draft PNGEITI Bill that would establish a legal basis for the MSG. The Office of the State Solicitor provided feedback to the draft, and in 2022 PNG EITI addressed the feedback. Consultations with stakeholders were ongoing at the time of this Validation. The state is also considering several bills that would facilitate beneficial ownership disclosures.</p> <p>The Secretariat acknowledges the effective operational engagement of the national secretariat and many government officials, as well as the government's continued financial support to EITI implementation. Considering the MSG's support for assessing the requirement as Fully met, the Secretariat found it challenging to conclude the assessment of this requirement. The Secretariat balanced the weakening of government engagement, also acknowledged by the MSG in its feedback, against the level of engagement expected in the Validation Guide and other Validations. The Validation Guide highlights as evidence for assessing Requirement 1.1, inter alia, submission of data for EITI reporting and commitment to resolving bottlenecks, such as legal barriers.</p> <p>In light of available evidence and views expressed during stakeholder consultations, the Secretariat continues to consider that the objective of the requirement is mostly met. Some parts of government are fully and actively engaged in EITI implementation and facilitate EITI implementation, but this engagement is inconsistent. The Secretariat recognises that with the maturation of the EITI process, leadership of implementation is transferred to an operational level. However, many of the weaknesses in disclosures related to SOEs result directly from lack of willingness to disclose required data by either the SOE or the government agency overseeing it, even when there are no legal obstacles to it. There are also challenges in obtaining disclosures related to subnational transfers, although these may be more clearly linked to broader challenges in data management. There is little evidence of efforts by the government to effectively overcome legal barriers related to beneficial ownership or contract disclosure, or the disclosure of comprehensive, disaggregated production and export data on oil and gas. The Secretariat recognises that legal reforms take time. The MSG noted in its feedback on the draft Validation report that they also require a whole-of-government approach. This highlights the importance of continued high-level political engagement in EITI implementation..</p>
<p>Industry engagement (Requirement #1.2)</p> <p><i>Mostly met</i></p>	<p>The Secretariat's assessment is that Requirement 1.2 is mostly met, which represents backsliding from the previous Validation. The Secretariat's assessment is that the objective of the requirement is mostly met, recognising that this assessment borders with fully met. Companies are actively and effectively engaged in the EITI, both in terms of disclosures and participation in the MSG's work. More proactive engagement by extractive companies and coordinated efforts through the Chamber of Mines and Petroleum could facilitate resolving shortcomings in disclosures related to production and exports, contracts and beneficial ownership.</p> <p>The MSG argued in its feedback that the requirement should be assessed as Fully met. It noted that companies were actively engaging in all aspects of EITI</p>

	<p>reporting. The MSG’s feedback acknowledged that “the next step is for the industry companies to move away from their involvement in overseeing reports preparation to advocating for contracts and beneficial ownership disclosure, SOEs transparency and other shortcomings in the disclosure process.”</p> <p>The oil, gas and mining industry’s representation in the MSG is coordinated by Chamber of Mines and Petroleum. The Chamber’s representation and participation in the MSG’s work has been active during the period under review. The Chamber circulates EITI documents with the other companies for input. Other representatives from both mining⁵ and petroleum⁶ companies have been attending relatively regularly. Total, which is entering PNG as the operator of the Papua LNG project, is also actively engaging in the EITI process and received recognition from other constituencies for this. Representatives from state-owned Kumul Petroleum Holdings Limited (KPHL) and Mineral Resources Development Company (MRDC) attended meetings sporadically. Weaknesses in the engagement of KPHL are reflected under Requirement 1.1 on government engagement, as well as the module on SOE-related disclosures.</p> <p>Consulted company representatives noted that the EITI Report was a useful tool for demonstrating the sector’s contribution to the economy. Companies participated actively in the writing of the 2019 EITI Report and the summary report as part of the MSG’s technical working group. Apart from state-owned KPHL, companies provided comprehensive data. Company representatives noted that shifting the MSG’s focus from overseeing the reporting process to informing debate could make the EITI process more meaningful. Several companies expressed support for contract transparency, if the government was to enable disclosures. However, there is little evidence of companies actively advocating for contract disclosure. At least Newcrest also provided funding for the preparation of the thematic report on subnational revenue flows.</p> <p>There appear to be no major obstacles to industry participation in the EITI, although consulted company representatives noted that tight deadlines sometimes limited their engagement. Participation in online MSG meetings, which were organised in 2021 due to the COVID-19 pandemic, was challenging due to poor connections.</p>
<p>Civil society engagement (Requirement #1.3)</p> <p><i>Fully met</i></p>	<p>The Secretariat’s assessment is that Requirement 1.3 is fully met. Persistent challenges in CSOs’ capacity and resources to effectively engage with civil society beyond Port Moresby have affected civil society engagement in the EITI, exacerbated by the COVID-19 pandemic. However, civil society has made efforts to strengthen its coordination and seek external support. There is no indication of the enabling environment for civil society engagement having deteriorated since the previous Validation in 2018. In the previous Validation, PNG was assessed as having made ‘satisfactory progress’ on this requirement.</p>

⁵ OK Tedi, Barrick, Harmony Gold, Newcrest

⁶ Exxon Mobil PNG Limited, Oil Search, Total

	<p>Civil society representation in the EITI is coordinated by the PNG Resources Governance Coalition (PNGRGC). PNGRGC was founded in 2014 and formally established as an association in 2019. The first Annual General Meeting (AGM) was held in 2020.⁷ The AGM elected new members for a Council. PNGRGC also partly refreshed civil society representation on the MSG in 2020 (see <i>Requirement 1.4</i>). There are seven organisations represented in PNGRGC's Council, most which are also active in the MSG.</p> <p>MSG meeting minutes and consultations suggest that civil society continues to engage actively in the MSG's work. There is little evidence of outreach to provinces affected by extractive activities, which seems to be a result of lack of resources. In 2020, the World Bank funded the preparation of a roadmap for PNGRGC.⁸ It is largely yet to be implemented. There is some evidence of PNGRGC members discussing coordination on EITI matters.⁹ Civil society is participating in outreach and communication activities, but there is little indication of CSOs undertaking analysis based on EITI data. Based on consultations with stakeholders, this appears to reflect both the lack of capacity and competing priorities.</p> <p>Indicators such as Freedom in the World and Civicus Monitor suggest that there haven't been significant changes in the broader enabling environment for civil society participation since the previous Validation in 2018. Consulted stakeholders confirmed that civil society was free to operate, associate, express and engage on EITI-related matters. There appears to be lively media coverage and political debate around controversial issues, including corruption and the role of SOEs. The environmental and human rights impacts of mining have provoked controversy in the period under review. For example, the government revoked the license for the Porgera mine following reports of abuses and concerns that the state was not benefitting sufficiently from the project.¹⁰ The broader environment for citizen participation in the extractive sector is discussed under the Effectiveness and sustainability indicators.</p>
<p>Multi-stakeholder group (Requirement #1.4)</p> <p><i>Fully met</i></p>	<p>The Secretariat's assessment is that Requirement 1.4 is fully met. The MSG continues to exercise meaningful oversight of all aspects of the EITI process. The interests of the three constituencies are represented in a balanced manner. In the previous Validation, PNG was assessed as having made 'satisfactory progress' on this requirement.</p> <p>The MSG ToR (2017) and code of conduct (2016) appear to still be followed in practice, although fewer meetings were held in 2021 due to the COVID-19 pandemic. The national secretariat provides effective support to the MSG. As codified in the MSG ToR, MSG meetings take place on quarterly basis. However, due to COVID-19 pandemic, there were only three MSG meetings in</p>

⁷ http://www.pngeiti.org.pg/wp-content/uploads/2018/04/Appendix-C_PNGRGC_AGM_Minutes_2019_Draft_PNGRGC_edited-1.pdf.

⁸ Draft available here: http://www.pngeiti.org.pg/wp-content/uploads/2018/04/2020-PNGRGC-Roadmap-v1_Draft-Report.pdf.

⁹ See the minutes from the Interim Council meeting in March 2020: http://www.pngeiti.org.pg/wp-content/uploads/2018/04/Appendix-B_-Meeting-Minutes-for-PNGRGC-10-March-2020-1.pdf.

¹⁰ See eg 'In Search of Justice Pathways to Remedy at the Porgera Gold Mine' (2018): https://www.bsr.org/reports/BSR_In_Search_of_Justice_Porgera_Gold_Mine.pdf.

	<p>2021. The MSG has established technical working groups on Validation, policy and legislation, communications, and remuneration.¹¹ Since Validation commenced, the MSG has also established a working group to follow up on recommendations from the thematic reports.</p> <p>The three constituencies appoint their own members to the MSG and are adequately represented, although government representatives often send proxies. This appears to signal weaker government engagement (see <i>Requirement 1.1</i>). Civil society representation is focused in Port Moresby (see <i>Requirement 1.3</i>). MSG membership is male-dominated, although in practice alternates and proxies attending meetings have a better gender balance.</p> <p>The selection of industry MSG members is coordinated by the PNG Chamber of Mines and Petroleum. There is no clear procedure for how the industry representatives are selected. In practice, industry representatives are nominated based on their seniority in their respective organisations or companies, knowledge, and experience about the industry. New entrants to the sector, including TotalEnergies have joined the MSG since the previous Validation.</p> <p>Civil society representation is coordinated by the coalition PNGRGC. There are currently five organisations represented on the MSG, rather than the statutory seven. In March 2020, PNGRGC's Interim Council identified inactive CSO Members, namely PNG Mining Watch, PNG Eco-Forestry Forum and Business Coalition Against Corruption who were once members of the MSG. PNGRGC elected new Council members in July 2020. One of them, Center for Environmental Law and Community Rights (CELCOR), joined the EITI MSG as well. PNGRGC membership requires that the organisation is registered. There are no statutory limitations to organisations that are not members to nominate members for the MSG. However, difficulty in travel and lack of outreach in practice limit participation to Port Moresby-based organisations. CELCOR's membership in the MSG strengthens the representation of affected communities.</p>
New corrective actions and recommendations	
<ul style="list-style-type: none"> • In accordance with Requirement 1.1, the Government of Papua New Guinea should reinvigorate high-level political leadership in the EITI process as a means of facilitating all aspects of EITI implementation. • In accordance with Requirement 1.2, extractive companies should fully, actively and effectively engage in overcoming barriers to comprehensive disclosure of all required EITI data, including on production and exports, contracts and beneficial owners. • To strengthen implementation of Requirement 1.3, civil society engaged in the EITI is encouraged to deepen its networks in areas affected by extractive activities and to seek resources that enable sustaining this work. 	

¹¹ <http://www.pngeiti.org.pg/2020-validation/>.

4. Transparency

This component assesses EITI Requirements 2 to 6, which are the requirements of the EITI Standard related to disclosure.

Overview of the extractive sector (Requirements 3.1, 6.3)

Overview of progress in the module

The 2019 EITI Report provides comprehensive information about the extractives sector in PNG, including information on exploration and the contribution of the sector to the economy, as required by the EITI Standard.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>Exploration (Requirement #3.1)</p> <p><i>Fully met</i></p>	<p>The Secretariat's assessment is that Requirement 3.1 is fully met. PNG was assessed as having made 'satisfactory progress' on the requirement in the previous Validation.</p> <p>The objective of this requirement is to ensure public access to an overview of the extractive sector in the country and its potential, including recent, ongoing and planned significant exploration activities. This information is presented in the 2019 EITI Report, which includes a clear summary of key extractive companies, a detailed overview of exploration activities, including project details, a list of non-reporting projects, and a breakdown of revenue streams and active exploration licenses. Project information includes information on reserves and commodities, as encouraged by Requirement 3.1. However, this information is yet to be systematically disclosed.</p>
<p>Contribution of the extractive sector to the economy (Requirement #6.3)</p> <p><i>Fully met</i></p>	<p>The Secretariat's assessment is that Requirement 6.3 is fully met. PNG was assessed as having made 'satisfactory progress' on the requirement in the previous Validation.</p> <p>The 2019 EITI Report includes key data on the contribution of the extractive sector to the economy, including Gross Value Added, and estimate of informal sector activity, government revenues, exports, and employment data. This information is mostly disclosed through the EITI Report, rather than systematically on government websites.</p>
<p>New corrective actions and recommendations</p>	

- To strengthen implementation of Requirement 6.3, Papua New Guinea is encouraged to systematically disclose on government websites timely information on the contribution of the extractive sector to the economy.

Legal environment and fiscal regime (Requirements 2.1, 2.4, 6.4)

Overview of progress in the module

EITI reporting is the primary mechanism through which PNG discloses a description of the legal framework and fiscal regime governing the extractives industries. This information is broadly summative and in line with the Requirements of the EITI Standard, but lacks a clear description of fiscal devolution, which is of particular importance to governance of the extractives sector in PNG.

PNG has made no progress on disclosing contracts and licences as required by the 2019 Standard, due to several specific legal obstacles, but efforts have been made by the MSG to initiate conversations on contract disclosure. .

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in the annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>Legal framework and fiscal regime (Requirement #2.1)</p> <p><i>Fully met</i></p>	<p>The Secretariat's assessment is that Requirement 2.1 is fully met. PNG was assessed as having made 'satisfactory progress' on the requirement in the previous Validation.</p> <p>The objective of this requirement is to ensure public understanding of all aspects of the regulatory framework for the extractive industries, and the 2019 EITI Report provides a summary description of the fiscal regime that satisfies much of this objective. This includes an overview of relevant laws and regulations, a description of the different types of contracts and licenses that govern the exploration and exploitation of oil, gas and minerals, and information on the roles and responsibilities of relevant government agencies. The 2019 Report also complies with disclosures encouraged by Requirement 2.1, by providing extensive information on relevant legal reforms and reform processes.</p> <p>The 2019 EITI Report does not clearly describe the level and nature of fiscal devolution as required by the EITI Standard, although the legal framework sets out in broad terms which level of government collects each revenue stream. This issue is particularly important in the PNG context, given the prominence of extractives activities in provinces, and the exceptionally complicated nature of sub-national transfers and payments for the extractives sector. Shortcomings in</p>

	disclosures related to subnational revenues are assessed in the module on Subnational contribution (Requirements 4.6, 5.2, 6.1).
Contracts (Requirement #2.4) <i>Partly met</i>	<p>The Secretariat's assessment is that Requirement 2.4 is partly met.</p> <p>This requirement is intended to ensure the public accessibility of all licenses and contracts underpinning extractive activities, and Phase 1 disclosures outlined in the Requirement apply to the period under review for this Validation.</p> <p>There have been some indications of government interest in contract transparency, including a 2017 letter from the Deputy Prime Minister suggesting that relevant ministers had been instructed to disclose Memorandum of Agreements, and a 2019 letter from the formal Acting State Solicitor advising that MRA could disclose project contracts and memorandum of agreements in accordance with recommendations in EITI Reports. The MSG noted in its feedback on the draft Validation report that the Mineral resources Authority had made efforts through the MSG to disclose a list of mining memoranda of agreement (MOAs) in recent EITI Reports. The PNGEITI National Secretariat has been involved in the State Negotiation Team attending Mining Development Forums for new projects and in the MOA reviews of existing mining projects that resulted in including EITI transparency clauses into the mining agreements (Woodlark Mine and K92 Mining would be the first to disclose parts of the agreement).</p> <p>Despite these indications, no extractives license or contract texts have been publicly disclosed in PNG. It is not possible to determine whether this represents a significant gap in compliance with Requirement 2.4.a, which requires the disclosure of all licenses and contracts entered into or amended after 1 January 2021, since there is no publicly available and comprehensive list of contracts and licenses entered into. As noted in the following section on licenses and property rights, while the mining cadastre maintained by MRA appears to be comprehensive, it does not clarify which tenements are pro forma and to which a mining agreement is associated. The DPE meanwhile has only disclosed information on licenses for the fiscal year 2019.</p> <p>Several obstacles to the disclosure of contract and license texts have been noted and the 2019 EITI Report makes particular note of privacy and confidentiality protections in Section 163 of the Mining Act, Section 52 of the MRA Act, and Section 149 of the Oil and Gas Act. These legal barriers were confirmed in stakeholder consultations and by the Contract Transparency (CT) Report commissioned by the MSG, which also noted cultural and capacity barriers, estimating that "there are approximately 118 active exploitation licences for oil, gas and minerals. Each licence could require the disclosure of several documents" (page 4). Consultations with government suggest that government systems for contract transparency are yet to be developed, and that even government agencies, such as the revenue administration, only have access to contracts upon request.</p> <p>Consultations nevertheless suggest that contract transparency would be welcome by many stakeholders, including several companies, as contract disclosure would be helpful in managing perceptions about the extractives industry in PNG. However, there appear to be diverging views within the</p>

	<p>company constituency about contract transparency, also among EITI supporting companies. Consulted government stakeholders noted contract transparency would facilitate monitoring of compliance with the terms of contracts, for both the public and the government.</p> <p>Both the 2019 EITI Report and the CT Report make specific recommendations on how to overcome these obstacles, and the latter includes a Roadmap by which PNGEITI could pursue compliance with Requirement 2.4. The 2019 EITI Report describes initial conversations regarding reforms with the State Solicitor, and openness for pursuing reforms within the MRA, though consultations suggest that these conversations have not progressed. Though contract transparency is mentioned in PNGEITI work plans, document review stakeholder consultations were not able to identify any planning or progress towards compliance with Requirement 2.4. This may in part be due to the perceived difficulty of overcoming obstacles, and consulted stakeholders noted that the process for legal reform is laborious in PNG and that the MSG had not yet developed a strategy for addressing this.</p> <p>The MSG argued in its feedback on the draft Validation report that the requirement should be assessed as Mostly met. The MSG noted that the legal reforms resulting in contract transparency requires a whole of government approach and takes time. The COVID-19 pandemic has slowed down follow-up on the contract transparency study, The MSG also flagged the efforts and progress made towards disclosing memoranda of agreement (MOAs) with local stakeholders. The Secretariat recognises the barriers identified by the MSG and the efforts made, but considers that the level of progress does not justify an assessment of Mostly met in accordance with the Validation Guide.</p>
<p>Environmental impact (Requirement #6.4)</p> <p><i>Not assessed</i></p>	<p>The Secretariat's assessment is that Requirement 6.4 remains not assessed, given that several encouraged aspects of this requirement remain to be addressed by PNG EITI. The 2019 PNG EITI Report provides limited information on the environmental impact of extractive industries, except for noting relevant legal framework and including information on environmental permits as reported by CEPA (p.129). In its comments to the draft Validation report, the MSG provided clarifications related to the process for approving environmental permits. The MSG is encouraged to ensure that the information is made publicly available, for example, through the PNG EITI website and in upcoming EITI Reports.</p>
New corrective actions and recommendations	
<ul style="list-style-type: none"> • To strengthen implementation of Requirement 2.1, PNG is encouraged to publish a summary description of the fiscal regime, which includes a description of the level of fiscal devolution and information about subnational transfers, in order to support public understanding of the regulatory framework for the extractive industries. • In accordance with Requirement 2.4.a, the PNG is required to disclose the full text of any contracts and licenses that are granted, entered into or amended as of 1 January 2021. In accordance with Requirement 2.4.b, the MSG is expected to agree and publish a plan for disclosing contracts with a clear time frame for implementation addressing any barriers to comprehensive disclosure, including a clear overview of the specific acts that require amendment and the steps that will be taken to pursue appropriate reforms. In accordance with 	

Requirement 2.4.c.ii, PNG should disclose an overview of active contracts and licenses, indicating which are publicly available and which are not.

- To strengthen implementation of Requirement 6.4, the MSG is encouraged to assess the extent to which information regarding environmental management and monitoring is currently publicly available and to consider further disclosures of environmental information that respond to stakeholders' needs.

Licenses and property rights (Requirements 2.2, 2.3)

Overview of progress in the module

PNG discloses most of the information related to contract and license awards and transfers as required by the EITI Standard, through the websites and publications of regulatory agencies for each extractive sector. Some information is lacking, however, including comprehensive information on the criteria and process for awarding mining tenements. In regard to license registries, the MRA maintains an up-to-date cadastre as required by the EITI Standard. Oil and gas licenses are only partially maintained by the DPE, and only for the fiscal year 2019. There is no publicly available clarification about the comprehensiveness of these registries or thresholds for the inclusion of tenements and licenses.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in the annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>Contract and license allocations (Requirement #2.2)</p> <p><i>Partly met with considerable improvements</i></p>	<p>The Secretariat's assessment is that Requirement 2.2 is partly met with considerable improvements compared to the previous Validation. PNG has provided some additional information regarding the technical and financial criteria for awarding licenses, and stakeholders did not express doubts about the comprehensiveness of disclosures of license awards and transfers.</p> <p>The objective of this requirement is to allow stakeholders to identify and address possible weaknesses in the license allocation process. Stakeholder consultations suggest that there are shortcomings in the oversight mechanisms for license awards and transfers. Information about licenses awarded and transferred in 2019 is publicly available, as well as an overview of the process. However, there is no indication of an assessment of whether the awards and transfers of mining, oil and gas contracts and licenses in 2019 deviated from the applicable legal and regulatory framework. The detailed technical and financial criteria for awarding mining licenses do not appear to be available on government websites, but in the Transparency template submitted by the MSG at the beginning of this</p>

	<p>Validation, the MSG indicated some questions that are considered in assessing a mining tenement application.</p> <p>For the oil and gas sector, licenses awarded and transferred in 2019 are listed on the DPE website.¹² The process and criteria for awarding oil and gas licenses are described in Petroleum Policy Handbook section 2.5, which is publicly available, although how the assessment criteria is applied remains unclear. No licenses were awarded through a bidding process in 2019. Transfers of oil and gas licenses are registered by the DPE, but are regarded as private transactions between third parties, so no prior approval is required by the DPE. The DPE as regulatory authority has no insight or input into license transfers as such, and stakeholders consulted for this Validation described this as a regulatory gap for the extractives sector, noting that it inhibits any kind of oversight, and inhibits DPE's ability to generate license fees and reporting. Stakeholders also noted specific examples of oil and gas licenses that had changed hands repeatedly without any regulatory oversight.</p> <p>For the mining sector, the 2019 EITI Report provides an annexed overview of tenements awarded or extended in 2019, as reported by the MRA. The 2019 EITI Report summarises the process for awarding mining tenements. However, the detailed process and technical and financial criteria for awarding tenements are not published. The MSG indicated in private correspondence in preparation for this Validation that awards are based on the MRA's interpretation of the Mining Act. Stakeholder consultations thus suggest that there exists an assessment tool that the MRA applies that is not publicly disclosed. The Transparency file indicates the questions considered in the assessment. These are mostly related to financial criteria. Considering that the Mining Act (Part V) does not include details about the technical and financial criteria for awarding tenements and that it grants the Minister discretion in deciding on awards, the lack of clear publicly available criteria used in the process is considered a material gap by the International Secretariat.</p> <p>According to the 2019 EITI Report, no mining tenements were transferred in 2019. The EITI Report provides a summary description the process according to which the MRA transfers mining tenements.</p> <p>The MSG argued in its feedback on the draft Validation report that the requirement should be assessed as Mostly met. The MSG points to legal obstacles related to contract disclosure. MRA notes in the MSG's comments that it could disclose additional documentation upon approval by its management. The MSG's feedback does not address the gaps identified in the preliminary assessment. Therefore, the Secretariat continues to consider the requirement as Partly met with considerable improvements since the previous Validation.</p>
<p>Register of licenses (Requirement #2.3)</p> <p><i>Mostly met</i></p>	<p>The Secretariat's assessment is that Requirement 2.3 is mostly met. PNG was assessed as having made 'meaningful progress' on the requirement in the previous Validation.</p> <p>The objective of this requirement is to ensure the public accessibility of comprehensive information on property rights related to extractive deposits and</p>

¹² <https://petroleum.gov.pg/dpe-eiti/>.

	<p>projects. Consulted stakeholders commended progress in establishing a digital cadastre for oil and gas licenses but noted that progress was still partial.</p> <p>This objective is achieved for the mining sector, through the MRA's mining cadastre, which includes names, application, award and expiry dates, and coordinates of mining tenements, and this does not include an overview of past tenements that are no longer active.¹³</p> <p>This objective is far from achieved for the oil and gas sector, as licenses are only made available on the DPE website for the 2019 fiscal year, are only available through separate pdf documents, and lack information on coordinates, size, or location of licensed areas (see https://petroleum.gov.pg/dpe-eiti/). However, the availability of partial information online represents an improvement in the period under review. DPE has partly digitised its previously paper-based license register with support from JICA.</p>
New corrective actions and recommendations	
<ul style="list-style-type: none"> • In accordance with Requirement 2.2, Papua New Guinea should assess whether there are any material deviations from the applicable legal and regulatory framework in the award and transfer of oil, gas and mining licenses. The MRA and DPE should disclose the detailed technical and financial criteria used in awarding and transferring licenses, to the extent that such criteria exists. The MSG is encouraged to collaborate with DPE and MRA to further strengthen transparency and accountability in the license award and transfer process. The agencies are encouraged to systematically disclose on their websites timely information about license awards and transfers. • In accordance with Requirement 2.3, DPE should publicly disclose information on all active oil and gas licenses, including all data points listed in Requirement 2.3.b. 	

Beneficial ownership (Requirement 2.5)

Overview of progress in the module

Adherence to Requirement 2.5 on beneficial ownership is assessed in Validation as of 1 January 2020 as per the framework agreed by the Board in June 2019.¹⁴ The assessment consists of a technical assessment focusing on initial criteria and an assessment of effectiveness.

Technical assessment

The technical assessment is included in the Transparency template, in the tab on Requirement 2.5. The PNG MSG has made some progress on technical aspects of this requirement, which are documented in the [Beneficial Ownership Disclosure \(BOD\) Report](#) published in December 2020. This includes a definition of a “beneficial owner” that includes legal and natural persons and sets an ownership threshold at 5%, and which is accompanied by a definition of Politically Exposed Persons to be disclosed “irrespective of the level of control or ownership”, and series of proposed quality assurance measures. The MSG has also agreed on a BO Declaration Form which adheres

¹³ See <https://portal.mra.gov.pg/Site/MapPage.aspx?PageID=e735c534-5f4e-4b2b-a544-89b90357e0f1>

¹⁴ <https://eiti.org/document/assessing-implementation-of-eitis-beneficial-ownership-requirement>.

to Requirement 2.5. The DPE and MRA have issued a letter inviting “all licence holders and corporate entities that apply for a license in oil & gas and mining sectors” to submit BO declarations by completing this form, and the MSG invited companies to attend a workshop to learn about how to submit declarations. It is unclear which period of license application the request applies to and how it has been followed up on.

Of the 145 companies identified by the MSG as holding or applying for a license, only 21 submitted BO declarations as a result of the above initiatives, constituting “more than 29% of the extractive revenues collected by PNG,” according to the 2020 BOD Report.¹⁵ Of these, 20 companies were more than 95% owned subsidiaries of publicly listed companies, none were identified as a PEP by reporting entities. It is unclear, whether any of the companies with minority private ownership disclosed beneficial owners. The Disclosure Form was organised into a section for a signed declaration statement, a section for data on the legal entity, and a section for data on natural persons as beneficial owners. This third section was only submitted by one of the submitting companies and deemed not applicable for all others.

The 2020 Report assessed the BO data submitted and found the following deficiencies:

- lack of information on ultimate beneficial owners i.e., ownership is not reported back to natural persons;
- failure to provide the link to BO disclosure for publicly listed companies;
- failure to provide legal ownership information even it is available on IPA website;
- failure to provide information on the intermediary legal entities or the ownership chain;
- where individuals were identified, there is a lack of detail enabling confirmation of individuals e.g., ID numbers, dates of birth and addresses.

This data was nevertheless used to develop a pilot BO register using five interconnected Excel spreadsheets, which is published together with extensive documentation of previous scoping studies, and the BO Disclosure Form on the PNG EITI website (<http://www.pngeiti.org.pg/beneficial-ownership-reporting/>).

Though the BO report notes that a registry of companies is maintained by the IPA in both paper and digital format (pg 39), this could not be verified on the IPA website and the link provided in the BO Report did not lead to a functioning webpage, suggesting that legal ownership information is only publicly available through the PNGEITI website, as described above.

Assessment of effectiveness

While the PNG MSG has made significant efforts to facilitate BO declarations and a BO registry through scoping studies, workshops, and various reports, this has not led to clear engagement with relevant government agencies, which is likely essential to facilitate meaningful company disclosures.

Documentation provided and stakeholder consultations suggest that this is related to significant legal obstacles to the implementation of BO disclosure and registry procedures in PNG, as several key pieces of legislation address shareholder ownership and share structure of

¹⁵ See Table 1, column DF3. Columns and corresponding sections of the Disclosure Form are explained on page 58.

companies, but not beneficial ownership. This includes the Investments Promotion Act, the Associations and Corporations Act, the Companies Act, the Business Groups Act. The 2020 Report further recommends amendments to other pieces of legislation in order to facilitate the establishment of a national BO register in keeping with international best practice, including the Mining Regulations Act, the Mining Act, the Oil and Gas Act, the Unconventional Hydrocarbons Act, and the National Procurement Act. Though legal amendments made to the Companies Act in January 2022¹⁶ require companies to 'collect and maintain sufficient information to identify the beneficial owner of a share issued by the company', this does not dictate specific procedures that companies will be required to follow, and it is unclear how this legal reform will affect the legislative processes and obstacles referenced above.

Stakeholder consultations and the 2020 BOD Report both suggest that the most appropriate government agency to lead the process for developing a national BO registry would be the Investment Promotion Authority (IPA), which houses the national Registry of Companies. Stakeholders consulted for this Validation repeatedly noted that the IPA had reviewed the matter and concluded that establishment of a national BO registry would be in conflict with the legislation described above. Several stakeholders speculated about upcoming regulatory amendments and reforms that might help to advance the beneficial ownership agenda in PNG, but no draft amendment text reviewed during the Validation process included a definition of beneficial ownership in line with the 2020 EITI Report or the EITI 2019 Standard.

The 2020 BOD Report provides a number of recommendations according to which the MSG should address the above challenges, including dialogue and collaboration with various agencies, including the Investment Promotion Authority (IPA), the Financial, Analysis and Supervision Unit (FASU) at the Bank of PNG, and the Mineral Resources Authority (MRA), to identify an appropriate strategy for pursuing legislative reforms. Consultations held for this Validation suggest that no such steps have been taken by the MSG since the publication of the 2020 Report, though a line item for acting on Report recommendations has been included in the 2021 and 2022 MSG work plans.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in the annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
Beneficial ownership (Requirement #2.5) <i>Partly met</i>	The Secretariat's assessment is that Requirement 2.5 is partly met. The objective of the requirement is far from being fulfilled. Requirement 2.5 is intended to enable the public to know who ultimately owns and controls the companies operating in the country's extractive industries, and requires disclosures and actions according to two phases. As of 1 January

¹⁶ *Companies (Amendment) Bill 2022*, see <https://www.parliament.gov.pg/index.php/bills-and-legislation/view/companies-amendment-bill-2022>.

	<p>2022, the requirement is assessed in accordance with Phase 2 (see Validation Guide).</p> <p>In regard to Phase 1, the MSG has agreed on an appropriate, publicly available definition of the term beneficial owner that is aligned with Requirement 2.5.f.i, as presented in the Beneficial Ownership Disclosure Report that was published December 2020 (page 53-54). This report also included a template form for requesting beneficial ownership information from companies, which was sent to all companies holding or applying for licenses, and which included all of the information required by the EITI Standard, including names, nationalities, countries of residences, and recommended information such as national identity numbers, dates of birth and means of contact. The BOD Report also identified several gaps, and implementation of the Report’s recommendations is included as an activity line in the PNGEITI work plans for 2021 and 2022, though no detailed activities are included.</p> <p>The content of the 2020 BOD report has not been matched by corresponding advances in government policy or practice. There is currently no government policy on beneficial ownership, and though definitions of beneficial owners have been proposed for inclusion in amendments to legal documents, the definitions included in the Income Tax Act amendment (9th draft) did not correspond with the definition required by the EITI 2019 Standard.</p> <p>Stakeholders consulted for this Validation consistently noted that PNG’s current regulatory framework is oriented towards shareholder information, and not beneficial ownership as understood in the EITI Standard. This also the case for the 2019 EITI Report, which discloses shareholder structure information of companies, not beneficial ownership.¹⁷ Though work is underway for a new company registry, stakeholder expect that this too will be oriented towards information on company shareholders, in keeping with PNG law. Comprehensive information about the legal owners of extractive companies is currently not publicly available in PNG. It is not clear which extractive companies are publicly listed or wholly owned subsidiaries of publicly listed companies, although the BOD Report and the 2019 EITI Report map the ownership structure of some companies.</p> <p>Though the disclosure form annexed to the 2020 Report had been shared with the IPA, no stakeholders consulted during this Validation were aware of any specific actions taken by the IPA towards using or adapting that form. In regard to Phase 2, no steps or disclosures have been made. The MSG has not developed a specific strategy for addressing legal obstacles to beneficial ownership in PNG, or implementing the action plan and recommendations of the 2020 Report more generally.</p> <p>The MSG argued in its feedback on the draft Validation report that the requirement should be assessed as Mostly met. The MSG noted that legal reforms enabling BO disclosure will take time and that the COVID-19 pandemic has slowed down follow-up on the BO study. It also noted that the MSG had</p>
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¹⁷ The 2019 EITI Report presents ownership structures for several mines and projects pgs 102-123, as well as for the MRDC (Table 107), but does not provide a consolidated analysis of ownership structures of extractive companies in PNG.

	established a technical working group to address beneficial ownership transparency and to follow up on the recommendations of the BO study. The Secretariat commends this forward-looking commitment. In light of available information and the Validation Guide, it continues to consider the requirement as Partly met.
New corrective actions and recommendations	
<ul style="list-style-type: none"> In accordance with Requirement 2.5, the government is required to request and companies are required to disclose the beneficial owners of all companies that hold or apply for an oil, gas and mining license. Appropriate mechanisms for ensuring the reliability of beneficial ownership information should be introduced. PNGEITI is encouraged to develop a concrete strategy for engaging with the IPA to support legal amendments that would enable beneficial ownership disclosure in line with the EITI Standard. PNGEITI is encouraged to play a coordinating role in promoting reforms necessary for beneficial ownership transparency and to lead outreach activities among companies and government agencies. Papua New Guinea should also ensure comprehensive disclosure of legal ownership and the shareholder structure of applicable companies and ensure that for publicly listed companies and their wholly owned subsidiaries, the name of the stock exchange and a link to filings have been disclosed. 	

State participation (Requirements 2.6, 4.2, 4.5, 6.2)

Overview of progress in the module

The universe of state participation in PNG's extractive sector is complex. The clearly material extractive SOEs in the period under review for disclosures (2019) are Kumul Petroleum Holdings Ltd (KPHL) and Ok Tedi Mining Ltd (OTML). KPHL holds the state's 16.6% share in the large PNG LNG project, which is a source of significant revenues, as well as financial obligations. OTML operates the Mt Fubilan copper, gold and silver mine. The state's holding in OTML was transferred from the Treasury to Kumul Mining Holdings Ltd (KMHL) in 2020. Future disclosures are expected to cover the relationship and any transfers between OTML and KMHL, as well as KMHL and the state.

The Mineral Resources Development Company Ltd (MRDC) is technically an SOE, but in practice it serves as a trustee for landowners' and provincial governments' interests in extractive projects through a number of subsidiaries. It operates under the Prime Minister's office, which according to consulted stakeholders exercises considerable decision-making power on the management of funds. MRDC's policies and practices regarding retention of earnings and dividend payments to landowners and provincial governments are opaque. In the 2019 EITI Report, the MSG decided not to define MRDC as an extractive SOE, but rather as a trustee. The Secretariat calls on PNG to ensure transparency in the undertakings of MRDC and its subsidiaries, including the volume and management of fees collected from trust companies.

The lack of transparency in how the funds collected by KPHL and MRDC are managed is a serious concern that was highlighted in stakeholder consultations. The upcoming Papua LNG project, in which KPHL is expected to obtain fully paid equity on behalf of the state, highlights the importance of increasing transparency in KPHL's management. There is indication of

considerable quasi-fiscal expenditures by extractive SOEs, which should be disclosed in a timely manner to enable the transparent and accountable management of extractive revenues.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in the annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>State participation (Requirement #2.6)</p> <p><i>Partly met</i></p>	<p>The Secretariat's assessment is that Requirement 2.6 is partly met, which represents backsliding compared to the previous Validation. The Secretariat considers that there are significant omissions related to disclosures of the practices regarding the financial relationship between KPHL and the state, which impedes accountability and results in the objective of the requirement to be far from fulfilled. There is little information available about the rules governing the relationship between OTML and the state, although information on practices in 2019 is more readily available.</p> <p>In addition to the 2019 EITI Report, the Secretariat has considered the 2021 SOE scoping study and other publicly available sources in this assessment.</p> <p>According to the MSG's definition, there were two material SOEs in 2019: Kumul Petroleum Holdings (KPHL) and Ok Tedi Mining (OTML). The Secretariat takes note of the MSG's decision to classify MRDC as a trustee rather than an extractive sector SOE. The exceptional role of MRDC was reiterated in the MSG's feedback on the draft Validation report. However, given MRDC's significant role in managing landowners' and provincial governments' interest and revenues, disclosures related to MRDC's finances in accordance with Requirement 2.6 are expected. The 2019 EITI Report only includes information related to the financial year 2016, and there is no indication of publicly available information on MRDC related to 2019. Kumul Mineral Holdings (KMHL) is an extractive SOE, but did not make material payments to the government in 2019 as defined by the MSG. In 2020, the state's holding in OTML was transferred to KMHL. Kumul Consolidated Holdings (KCH) no longer appears to hold interests in extractive projects or companies.</p> <p>The 2019 EITI Report describes the legal framework enabling the state to acquire equity in extractive projects, as well as plans to clarify the policy on state participation. The level of state ownership in each extractive project is disclosed in the 2019 EITI Report, as well as in the SOE scoping study. The scoping study notes that KPHL's interests are held as fully paid equity. OTML fully owns and operates the Mt Fubilan mine. It does not appear to hold interests in other extractive projects, apart from holding exploration licenses in the surroundings of the Mt Fubilan mine. The state of PNG owns 67% of OTML, while the rest is held by three different subsidiaries of MRDC on behalf of landowners. According to</p>

	<p>consulted stakeholders, the state and MRDC subsidiaries receive dividends according to the proportion of their shares.</p> <p>The Kumul Petroleum Holdings Limited Authorisation Act 2015 establishes rules related to the financial relationship between KPHL and the state. KPHL is free to engage in commercial activities, including raising third-party financing (debt, not equity). The state is not liable for KPHL's debt or other obligations. KPHL's planned expenditures (retained earnings, reinvestment) must be included in an Annual Plan that is submitted to the National Executive Council (NEC) for approval. The Board of KPHL determines dividends, which are paid to the Sovereign Wealth Fund (not yet operational). KPHL is responsible for meeting the state's financial obligations arising from participation in projects. Consulted stakeholders noted that from 2022 onwards KPHL had been advised to retain part of its earnings to finance participation in future projects such as Papua LNG. Meeting financial obligations related to the project is likely to also involved debt from third parties, which further increases the importance of transparency around KPHL's expenditures and loans.</p> <p>Related to KPHL, the 2019 EITI Report covers the "vendor financing" scheme through which KPHL lends to landowner beneficiary groups and provincial governments to enable them to buy an interest in the PNG LNG project. However, no information is provided on the sums lent by KPHL to each provincial government, nor on the loan tenor or interest rates. The vendor financing scheme could be considered a QFE, as it is not a loan to an extractive company (see <i>Requirement 6.2</i>). The 2019 EITI Report also describes the GloCo debt repayment scheme and KPHL share of remaining debt. The Secretariat was not able to locate KPHL's 2019 audited financial statement. Information about KPHL's retained earnings and reinvestment in 2019 does not appear to be publicly available. This is a significant omission considering that KPHL's subsidiary holds the state's 16.6% in the PNG LNG project and received in 2019 nearly PGK 1.2bn in equity distribution. Consulted stakeholders noted that the accounts for 2019 had been finalised but that their disclosure was at the discretion of the Prime Minister, which oversees KPHL.</p> <p>The Secretariat was not able to locate disclosures related to the prevailing rules related to the financial relationship between OTML and the state, including those governing transfers between the state and OTML, retained earnings, reinvestment and third-party financing. In the MSG's comments on the draft Validation report, the Department of Treasury noted that a dividend policy applying to all SOEs was being drafted. Its annual report suggests that OTML did not provide loans or loan guarantees to any extractive companies in 2019. OTML's 2019, 2020 and 2021 audited financial statements are available on the company website. OTML's website also includes encouraged information about corporate governance. Similar information does not appear to be publicly available for KPHL or for MRDC.</p> <p>The MSG argued in its feedback on the draft Validation report that the requirement should be assessed as Mostly met. It referred to the publication of the SOE study, and highlighted that legal reforms related to SOE governance would take time. It noted that the MSG was planning to implement the recommendations from the SOE study and had established a technical working group on the topic. The COVID-19 pandemic had slowed down these efforts. The</p>
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	Secretariat commends the MSG's forward-looking commitments. The MSG has not presented additional disclosures in its feedback that would support an assessment of Mostly met.
Sale of the state's in-kind revenues (Requirement #4.2) <i>Not applicable</i>	The Secretariat's assessment is that Requirement 4.2 is not applicable. There is no indication of the state or SOEs receiving revenues in kind in the period under review (2019).
Transactions related to state-owned enterprises (Requirement #4.5) <i>Mostly met</i>	<p>The Secretariat's assessment is that Requirement 4.5 is mostly met. PNG was assessed as having made 'meaningful progress' on the requirement in the previous Validation.</p> <p>The EITI Report discloses and reconciles dividends paid by KPHL and OTML to the Treasury and to MRDC, which holds equity on behalf of landowners (private) and provincial governments (subnational government entities). The report demonstrates that KPHL paid PGK 212m in dividends in 2019, while receiving PGK 1.2bn in equity distribution. KPHL's share of project costs is deducted before equity distribution is paid out by GloCo.</p> <p>In addition, SOEs make other payments to the state that correspond to those made by non-state-owned companies (e.g. CIT, royalty, fees). These are covered under Requirement 4.1.</p> <p>KPHL receives "equity distributions" in accordance with its share of participation in the PNG LNG project, which it holds on behalf of the state. Equity distribution payments from GloCo to KPHL are disclosed in the EITI Report. The reconciliation of these payments was not possible due to restrictions in GloCo's ability to disclose the information. The data was provided by KPHL and confirmed by the operator ExxonMobil. Based on stakeholder consultations, the Secretariat considers this approach to be adequate for ensuring the reliability of disclosures. Information on possible equity distribution received by KPHL from other extractive projects in 2019 does not appear to be publicly available. Through its subsidiaries, KPHL holds a 21.4% and 11.3% interest in the SE Gobe and Moran Unit oil projects, respectively. Apart from equity distributions, SOEs do not appear to collect any other revenue on behalf of the state.</p> <p>For the 2019 EITI Report, the MSG decided not to classify MRDC as an SOE (see <i>Requirement 2.6</i>). The 2019 EITI Report discloses equity distributions received by MRDC subsidiaries, but does not shed light on transfers from MRDC to local governments or landowners, on behalf of which it holds equity. Stakeholder consultations suggest that there are concerns over the management of funds by MRDC. Opacity prevents local governments and landowners from effectively monitoring the flow of funds to, from and within MRDC. Given the legal status of MRDC as an SOE, the authority of the PM's office over its management and stakeholder concerns regarding the distribution of benefits, the International Secretariat's view is that transparency of transaction related to MRDC should be ensured at the level required in Requirement 4.5.</p>

	There is no indication of the state making transfers to SOEs or their subsidiaries in the period under review (2019), although this could not be confirmed by the International Secretariat.
<p>Quasi-fiscal expenditures (Requirement #6.2)</p> <p><i>Partly met (with considerable improvements)</i></p>	<p>The Secretariat's assessment is that Requirement 6.2 is partly met with considerable improvements since the previous Validation. Stakeholder consultations suggest that undisclosed quasi-fiscal expenditures (QFEs) are being undertaken by SOEs. PNG has recently made efforts to define QFEs. The MSG has agreed a definition of QFE as introduced in a recent scoping study on SOEs. The definition is based on PNG's context and international standards.</p> <p>Some expenditures undertaken by SOEs in 2019 have been disclosed. It is unclear whether these expenditures meet the definition of QFEs, as latest disclosures (2019) predate the definition introduced in the SOE scoping study (2021). The Transparency file suggests that the MSG does not consider the requirement to be applicable for 2019. However, the 2019 EITI Report and the SOE scoping study document some expenditures by OKTL, KPHL and MRDC that could be considered as QFEs, including power subsidies, education programmes and infrastructure. Consulted stakeholders noted that the government requested KPHL to undertake development-related expenditures, sometimes on an ad hoc basis. There is strong indication that at least some of these expenditures would be considered as quasi-fiscal. This is supported by reports from, for example, the World Bank. Although MRDC is no longer defined as a material extractive sector SOE, it collects and manages revenues on behalf of provincial governments. MRDC's possible quasi-fiscal expenditures should be considered in the scope of EITI reporting.</p> <p>The SOE scoping study includes a recommended definition of QFEs. The MSG plans to adopt this definition for future EITI reporting. In assessing the requirement as mostly met, the Secretariat has considered the efforts undertaken to define QFEs, as well as the existing disclosures related to expenditures that could be classified as QFEs. The broader objective of ensuring transparency in the management of SOE expenditures is considered to be partly met.</p> <p>The MSG argued in its feedback on the draft Validation report that the requirement should be assessed as Mostly met. It referred to information disclosed in the EITI Report and the SOE study, and highlighted that legal reforms related to SOE governance would take time. It noted that the MSG was planning to implement the recommendations from the SOE study and had established a technical working group on the topic. The COVID-19 pandemic had slowed down these efforts. The Secretariat commends these efforts, which are reflected in the assessment of Partly met <i>with considerable improvements</i> since the previous Validation. The MSG has not presented additional disclosures in its feedback.</p>
New corrective actions and recommendations	
<ul style="list-style-type: none"> In accordance with Requirement 2.6.a, Papua New Guinea should disclose information related to the financial relationship between the state and KPHL, including retained earnings, reinvestment and third-party financing in the period under review. The rules governing the financial relationship between OTML and the state should be disclosed. In line with Requirement 2.6.a, KPHL is expected to publicly disclose its audited financial statements. The MSG is 	

encouraged to agree a disclosure framework for MRDC, which addresses the information needs of landowners and the citizens of provincial governments on behalf of which MRDC acts as a trustee and strengthens MRDC's accountability to them.

- In accordance with Requirement 4.5, Papua New Guinea should comprehensively disclose transactions related to SOEs, including material company payments to SOEs, SOE transfers to government agencies and government transfers to SOEs. These disclosures should cover transfers from MRDC to local governments and funds. Material revenues received by KPHL from any extractive project should be disclosed, or the lack of these confirmed.
- In accordance with Requirement 6.2, Papua New Guinea should comprehensively disclose quasi-fiscal expenditures by extractive SOEs as per the definition agreed by the MSG. It is recommended that the SOEs disclose QFEs as part of their annual reporting.

Production and exports (Requirements 3.2, 3.3)

Overview of progress in the module

PNG discloses key data on extractives production and export through EITI reporting. Disclosures have become more comprehensive since the 2018 Validation, especially related to production. As included in the 2019 EITI Report, however, this information does not include disaggregated information on the values of production or export for the oil and gas sector.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in the annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>Production (Requirement #3.2)</p> <p><i>Mostly met</i></p>	<p>The Secretariat's assessment is that Requirement 3.2 is mostly met. PNG has partly addressed the corrective action from the 2018 Validation.</p> <p>The objective of this requirement is to ensure public understanding as a basis for addressing production-related issues in the extractive industries, which is not fully accomplished by the information included in the 2019 EITI Report or elsewhere publicly available.</p> <p>PNG exceeds the requirement when it comes to disaggregating production data by project and reconciling data reported by companies and government agencies. However, production values are not disaggregated between oil and gas. Previously, the value of oil and gas production was not publicly available even at an aggregate level. The MSG has sought to overcome confidentiality barriers, by calculating the aggregated value of oil and gas production by extrapolating production data from one MSG member to the entire sector. As described by the 2019 Report: "Oil and gas production value is not available on DPE's reporting</p>

	<p>template nor to any public portals but has been recalculated by the Oil Search representative and forwarded to the Chamber of Mines and Petroleum. Amount was calculated by applying Oil Search’s net equity in each project and grossing up; using their quarterly average gas and oil prices (stated in the Quarterly reports); applying their gas conversion factor of 5,100 scf to one barrel of oil; and the high heating value of the sales gas as LNG at 1140 BTU per mmscf. The same procedure is applied to all four quarters of 2019, resulting to a production value of PGK18,250,731,625.” This approach is considered endorsed by the MSG through the MSG approval of the 2019 Report.</p> <p>The 2019 Report includes project-level production information in tables 84, 8598, and 99, de facto disaggregated by commodity and company, as these are distinct per project. For mining, information includes both volumes and values. The tables on oil and gas production do not include values, however, limiting the utility of this information. The 2019 EITI Report notes that this information has been reported by both DPE and companies, with some variance, but does not provide detailed information on how the information is collected by DPE, and further notes that resource constraints inhibit the DPE from conducting detailed reviews or audits of this information. An aggregate estimate of the value of oil and gas production is provided for 2019 (table 2).</p> <p>Consulted civil society stakeholders noted that the government should improve its capacity to monitor and verify that companies provide accurate data on production. The 2019 EITI Report notes that MRA has the mandate to audit production data reported by companies, but in practice does not have the resources or capacity to do so. The added value of reconciling production data is unclear, given that the source of data from both sides is de facto the company,</p> <p>Additionally, the production information presented in the 2019 EITI Report is not disaggregated by region or province for either sector, though stakeholders consulted in preparation for this report note that this could be deduced by projects, which are generally associated with specific provinces. Disaggregation by region is not required.</p> <p>Most importantly, it is worth noting that the 2019 EITI Report identified several significant variances in the reconciliation of production reporting by MRA and companies, including a 100% variance in the Lihir project and 707% variance in the Kainantu project. Consultations conducted as part of this Validation suggest that the MSG has not taken steps to determine the cause or implications of this variance, in keeping with the objective of Requirement 3.2.</p>
<p>Exports (Requirement #3.3)</p> <p><i>Mostly met</i></p>	<p>The Secretariat’s assessment is that Requirement 3.3 is mostly met.</p> <p>The objective of this requirement is to ensure public understanding as a basis for addressing export-related issues in the extractive industries, which is not fully accomplished by information included in the 2019 EITI Report.</p> <p>The 2019 Report includes information on mining exports according to value and volume, including a reconciliation of information reported companies and the MRA (tables 84-85). Export volumes and values are also presented by commodity and disaggregated by destination (table 86). Information on oil and gas exports is reported in volume by commodity and by destination country, but not in value</p>

	(tables 99-100), which is likely related to the same confidentiality constraints discussed in regard to Requirement 3.2. However, an estimate of the aggregate value of oil and gas exports is provided (table 2). The report notes that there are inconsistencies in export data reported by the DPE and by companies.
New corrective actions and recommendations	
<ul style="list-style-type: none"> • In accordance with Requirement 3.2, Papua New Guinea should disclose the value of oil and gas production disaggregated by commodity. In order to strengthen implementation, PNGEITI may wish to take active steps to explore the reasons for variances in reported production data identified in EITI Reporting. The MSG is encouraged to work with DPE and MRA to strengthen the reliability of production data. These government agencies are encouraged to consider timely, systematic disclosures of production data reported to them by companies and to overcome any confidentiality issues related to disaggregated disclosures. • In accordance with Requirement 3.3, Papua New Guinea should disclose the value of oil and gas exports disaggregated by commodity. The MSG is encouraged to work with DPE, MRA and Customs to strengthen the reliability of export data. These government agencies are encouraged to consider timely, systematic disclosures of export data and to overcome any confidentiality issues related to disaggregated disclosures. 	

Revenue collection (Requirements 4.1, 4.3, 4.4, 4.7, 4.8, 4.9)

Overview of progress in the module

The comprehensiveness of revenue disclosures has improved in the period under review, which was also recognised by consulted stakeholders. Payments and revenues are reported at project level, when applicable. Data quality continues to be a concern, as a large part of revenue information from 2019 was not subject to credible audit following international standards. However, the MSG has agreed data quality assurances, and discrepancies identified in reconciliation have decreased. There is no indication of infrastructure and barter agreements, in-kind revenues or material transportation payments. However, the opacity of extractive contracts makes it difficult to assess this reliably (see *Requirement 2.4*).

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in the annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
Comprehensive disclosure of taxes	The Secretariat's assessment is that Requirement 4.1 is fully met. The materiality decision is explained in the EITI Report (pp.31-40). It is based on information about total government revenues collected from all extractive companies. Excluded revenue streams represent in total 2% of revenue and excluded

<p>and revenues (Requirement #4.1)</p> <p><i>Fully met</i></p>	<p>companies 0.6%. The report suggests that all material reporting entities provided comprehensive financial disclosures. There is no indication of material payments having been excluded from the scope of reporting or the actual disclosures. The government fully reported all revenues, including revenues below the materiality threshold by revenue stream. The EITI Report documents discrepancies and provides explanations for most of them. Consulted government stakeholders and the Independent Administrator noted that using project-specific tax identification numbers as the basis of reporting had helped reduce discrepancies significantly. A different methodology was used for reconciling the equity distribution payments from GloCo to KPHL (see Requirement 4.5).</p>
<p>Infrastructure provisions and barter arrangements (Requirement #4.3)</p> <p><i>Not applicable</i></p>	<p>The Secretariat's assessment is that Requirement 4.3 is not applicable. The MSG considers that the requirement is not applicable. The Secretariat is not aware of any indication of infrastructure provisions or barter arrangements. However, reliably confirming this is challenging due to the confidentiality of extractive contracts. The Infrastructure Tax Credit scheme is not considered as an infrastructure provision as defined by Requirement 4.3, in line with the 2018 Validation. The MSG's feedback on the draft Validation report notes that the MSG regularly reviews the applicability of the requirement.</p>
<p>Transportation revenues (Requirement #4.4)</p> <p><i>Not applicable</i></p>	<p>The Secretariat's assessment is that Requirement 4.4 is not applicable. The MSG considers that the requirement is not applicable. The 2019 EITI Report notes that the Treasury has confirmed that revenues from transport are not collected, apart from pipeline fees, which are not material. Pipeline fees collected in 2019 were not disclosed to support the materiality assessment. The MSG's feedback on the draft Validation report notes that the pipeline fees will be disclosed in upcoming EITI Reports, despite not being material.</p>
<p>Level of disaggregation (Requirement #4.7)</p> <p><i>Fully met</i></p>	<p>The Secretariat's assessment is that Requirement 4.7 is fully met. Each project has a specific tax identification number (TIN), which is the basis of reporting payments and revenues. Government representatives explained in stakeholder consultations that reporting based on TIN has helped decrease discrepancies in the 2019 EITI Report. Revenue streams related to the exploration stage, such as license fees, were not considered material for the 2019 EITI Report.</p>
<p>Data timeliness (Requirement #4.8)</p> <p><i>Fully met</i></p>	<p>The Secretariat's assessment is that Requirement 4.8 is fully met. The 2019 EITI Report was published in July 2021. The 2020 EITI Report is expected to be published in late 2022.</p>
<p>Data quality and assurance (Requirement #4.9)</p> <p><i>Mostly met</i></p>	<p>The Secretariat's assessment is that Requirement 4.9 is mostly met. PNG has partly addressed the corrective action from the previous Validation. The MSG has taken appropriate measures to ensure data quality by requesting assurances from reporting entities in line with the Board-agreed standard procedures. Compliance with these measures has been partial, and a significant part of payments and revenues disclosed were not subject to credible, independent audit. The Secretariat finds that despite the MSG's and IA's efforts to ensure data quality, the broader objective of the requirement cannot be considered fully met.</p> <p>The 2019 EITI Report (tables 111-113) documents reporting entities' compliance with agreed data quality assurances. While all reporting entities' submissions were sent by authorised representatives, only approximately half had their 2019</p>

	<p>financial statements audited. Government agencies were required to sign their reporting templates, which was not fully complied with. The IA has not clearly stated whether it considers the data reliable. However, the report addresses data reliability and notes the shortcomings in the availability of audited financial statements, as well as the lack of follow-up on previous recommendations (p.13). Consulted stakeholders noted that audits of government agencies and SOEs were delayed by several years due to capacity issues and a significant backlog. The Independent Administrator noted that there were plans to improve data reliability through eg the testing of revenues, but that this was yet to be realised.</p>
New corrective actions and recommendations	
<ul style="list-style-type: none"> • To strengthen implementation of Requirement 4.3, the MSG is encouraged to regularly review the existence of infrastructure and barter agreements in the extractive sector and to develop a methodology to do this reliably despite the confidentiality of extractive contracts. • To strengthen implementation of Requirement 4.4, Papua New Guinea is encouraged to annually disclose pipeline fees collected by the government. • To strengthen implementation of Requirement 4.7, Papua New Guinea is encouraged to clearly identify and document which instances are considered a single project in cases where multiple agreements are substantially interconnected and governed by a single contract, joint venture, production sharing agreement or other overarching legal agreement. Substantially interconnected agreements are a set of operationally and geographically integrated contracts, licenses, leases or concessions or related agreements with substantially similar terms that are signed with a government, giving rise to payment liabilities. • To strengthen implementation of Requirement 4.8, Papua New Guinea is encouraged to improve the timeliness of disclosures of extractive sector data, through systematic disclosures and timelier EITI reporting. • In accordance with Requirement 4.9, Papua New Guinea is required to ensure that reporting entities comply with the data quality assurances agreed by the MSG. It is expected that government and company disclosures are subject to credible, independent audit. PNGEITI is encouraged to work with the Auditor General and the Independent Administrator to find ways to strengthen data quality and underlying audit procedures. 	

Revenue management (Requirements 5.1, 5.3)

Overview of progress in the module

Management and distribution of revenues is described in the 2019 PNG EITI Report (see pp.71-77 in particular). The report covers the budget process, budget governance structures, recent reforms to the budget process, PNG Sovereign Wealth Fund, how extractive industry revenues are recorded and auditing of public accounts. Stakeholder consultations highlighted the complexity of the revenue management process in PNG and indicated improvements in data comprehensiveness in recent EITI reporting. At the same time, stakeholders consulted expressed varying views on what is recorded in national, subnational budgets as well as on which revenues are off budget. Moreover, several stakeholders flagged the issue of timeliness of publicly

accessible data, where some information is currently available only, for example, for the 2018 fiscal year.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in the annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>Distribution of extractive industry revenues (Requirement #5.1)</p> <p><i>Mostly met</i></p>	<p>The Secretariat's assessment is that Requirement 5.1 is mostly met. PNG has partly addressed the corrective action by explaining which revenue streams are recorded in the national budget and which are retained by collecting entities. Opinions of stakeholders consulted were split over whether the objective of traceability of extractive revenues to the national budget and ensuring the same level of transparency and accountability for extractive revenues that are not recorded in the national budget had been fulfilled.</p> <p>The 2019 PNG EITI report provides an overview of how extractive revenues are recorded and where relevant information on a particular revenue stream can be found (table 23). However, for many revenue streams not recorded in the national budget, further information such as financial reports is not available or it is outdated. The volume of off-budget revenues is not explicitly disclosed. Table 18 provides aggregated information on revenues recorded in the national budget. In addition, the report details the main recipients of the extractive sector revenues. At the same time, it appears that there is some confusion among stakeholders related to whether some revenue flows (for example, infrastructure development grants) are recorded in the national budget. KPHL appears to retain a significant proportion of revenues it collects from oil and gas projects. These retained or reinvested earnings are not disclosed for 2019. Only dividends paid by KPHL to the state are recorded in the national budget. This is reflected in the assessment of Requirement 2.6</p>
<p>Revenue management and expenditures (Requirement #5.3)</p> <p><i>Not assessed</i></p>	<p>The Secretariat's assessment is that Requirement 5.3 remains not assessed in PNG in the period under review, given that PNG has made progress on some, but not yet all, of the encouraged aspects of Requirement 5.3. The 2019 EITI Report includes a summary of the budget process and a description of recent reforms and the status of the sovereign wealth fund. No information is provided on revenue sustainability or resource dependence, although the 2019 EITI Report includes some estimates of short-term developments in the sector. Increasing the availability of information on expected revenues in coming years is highly relevant in PNG's context. The extractive sector represented 88% of PNG's exports in 2019. The energy transition is likely to affect the demand for both petroleum and metals produced by PNG, which will impact government revenues.</p>
<p>New corrective actions and recommendations</p>	

- In accordance with Requirement 5.1, Papua New Guinea is required to clearly document for each fiscal year which extractive revenues are recorded in the national or subnational budgets, including the volume of these revenues. If any revenues from the extractive sector are allocated to extra-budgetary entities or retained by revenue-collecting entities, this should be disclosed systematically. The disclosures should include or consist of financial or other relevant reports demonstrating the basis of the allocation of revenues and actual allocations in the period under review.
- To strengthen implementation of Requirement 5.3, Papua New Guinea is encouraged to disclose information that will further public understanding and debate around issues of revenue sustainability and resource dependence.

Subnational contribution (Requirements 4.6, 5.2, 6.1)

Overview of progress in the module

Subnational, social and environmental payments continue to play a significant role in the PNG's economy. According to the [scoping study](#) on subnational payments and transfers, almost 35% of total revenues from the PNG's extractive sector were allocated to subnational entities in 2013-2017 (p.7). The study also highlights a number of case studies from various provinces in PNG demonstrating the crucial role of subnational payments and transfers in the country. The study has been discussed by the MSG and there is a broad agreement to follow up on the recommendations in the paper through, for example, creation of the working group on this thematic area.

An online extractive payments and transfers [dashboard](#) (also available [here](#)) was developed to provide more information on the revenue flows on national and subnational levels for the 2013-2017 fiscal years. According to stakeholder consultations, the dashboard has not been updated for the latest fiscal years covered by the EITI reporting due to the challenges caused by the COVID-19 outbreak.

Based on the study and stakeholder consultations, the following revenue streams are applicable on a subnational level (p.59):

- Development levy
- Discretionary social [payments/expenditures]
- Infrastructure Tax Credit Scheme
- Mandatory social [payments/expenditures]
- Public Investment Program
- Royalties
- Share of sales

However, the EITI reporting and other publicly accessible documents do not seem to include a clear classification of which subnational revenue streams are direct payments from companies to subnational government entities and which subnational revenue streams are transfers between national and subnational government entities. Stakeholders consulted had varying views on this

classification. In addition, there seem to be diverging opinions related to definition of materiality of subnational payments.

The MSG argued in its feedback on the draft Validation report that Requirements 4.6 and 5.2 should be assessed as Mostly met. It referred to the publication of the scoping study on subnational payments and transfers, and highlighted resource constraints related to follow-up on the study. It noted that the MSG had established a technical working group to work with government agencies to implement phase 2 of the subnational reporting project. The COVID-19 pandemic had slowed down these efforts. In the MSG feedback, the Department of Treasury also noted that the distribution of revenues from the central government to local government entities was governed by the MOA.

The Secretariat commends the MSG's forward-looking commitments. The MSG did not present additional disclosures in its feedback that would support an assessment of Mostly met. However, progress made since the previous Validation is reflected in the assessment of Requirements 4.6 and 5.2 as Partly met *with considerable improvements*.

Progress by requirement and corrective actions

The detailed assessment of progress in addressing each EITI Requirement or corrective action is available from the data collection templates referenced in the annex to this report.

EITI Requirement / past corrective action and assessment	Summary of progress in addressing the EITI Requirement
<p>Subnational payments (Requirement #4.6)</p> <p><i>Partly met (with considerable improvements)</i></p>	<p>The Secretariat's assessment is that Requirement 4.6 is partly met with considerable improvements since the previous Validation. The corrective action from the previous Validation has been partly addressed. Despite efforts to map subnational benefit streams through the thematic scoping study, the landscape of subnational payments and transfers remains opaque, with confusion among stakeholders on how different streams should be classified. This hinders the ability of citizens to track and monitor subnational payments.</p> <p>There were differing opinions among stakeholders consulted over whether the objective of enabling stakeholders to gain an understanding of benefits that accrue to local governments through transparency in companies' direct payments to subnational entities and to strengthening public oversight of subnational governments' management of their internally-generated extractive revenues had been fulfilled. At the same time, most stakeholders consulted noted the challenges related to the COVID-19 pandemic and funding that have affected the EITI implementation in the country, including progress on increasing transparency and accountability of subnational reporting. Stakeholder consultations confirmed the importance and materiality of subnational reporting in the PNG context, highlighted plans to increase data availability and noted considerable difficulties related to obtaining, systematising and publicly disclosing these data due to complexity of the issue and other factors.</p>

	<p>Annex B of the scoping study provides a detailed overview of these revenue streams (pp.128-139). Based on documentation provided and stakeholder consultations, the following revenue streams appear to be subnational payments (direct payments from companies to subnational government entities):</p> <p><u>Mining sector</u></p> <p>Mining royalties are calculated at 2% of gross revenue and paid via electronic funds transfer directly to provincial and local governments as well as landowners. The legislation does not seem to provide specific rules for how mining royalties should be distributed between provincial, local governments and landowners, but this information is usually specified in Memoranda of Understanding (MOAs) for specific projects. The scoping study notes that information on subnational distribution of royalties to provincial and local governments is usually specified in the National Economic Commission Fiscal Reports. However, stakeholders consulted flagged granularity issues related to these reports. The 2019 PNG EITI Report provides unilateral disclosures of subnational payments as reported by the following mining companies: Barrick Niugini Ltd, K92 Mining Ltd, Lihir Gold Ltd, MCC Ramu Nico, Morobe Consolidated Goldfields Ltd, Simberi Gold Limited (pp.84-89). However, the nature of such payments is not clearly described. In addition, the EITI reporting provides reconciliation of mining royalty payments (pp.190-191) for seven mining companies (as reported by companies and the MRA). Stakeholders consulted had differing opinions about the comprehensiveness of the presented data. Some stakeholders consulted also noted that in some cases share of mining royalties might appear to be subnational transfers.</p> <p><u>Oil and gas sector</u></p> <p>Based on provided documentation and stakeholder consultations, there appear to be no subnational payments related to the oil and gas sector. Some stakeholders argued that oil and gas royalties could also be classified as subnational payments, however, there seemed to be no mutual agreement on this aspect. The 2019 PNG EITI Report includes some unilaterally disclosed subnational payment data reported by ExxonMobil (p.90). However, it appears likely that the reported payments should be classified as social expenditure, as they constitute of in-kind expenditure on e.g., health.</p> <p><u>Summary</u></p> <p>Overall, the 2019 PNG EITI Report notes that “<i>information relating to transfers and payments to subnational (provincial and local level) governments in PNG is difficult to obtain and reconcile</i>” (p.80). It adds that one relevant data can be found in the National Economic and Fiscal Commission (NEFC) budget fiscal reports. However, the Secretariat was not able to access NEFC reports covering 2019. No specific threshold for subnational payments has been included in the EITI reporting. The MSG agreed to include only the unilateral disclosures for subnational data. Despite this, the 2019 EITI Report seeks to reconcile some subnational payments, using data provided by companies and by MRA.</p>
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<p>Subnational transfers (Requirement #5.2)</p> <p><i>Partly met (with considerable improvements)</i></p>	<p>The Secretariat's assessment is that Requirement 5.2 is partly met with considerable improvements since the previous Validation. The corrective action from the previous Validation has been partly addressed. However, the landscape of subnational transfers and payments remains opaque, and it is not possible for citizens to track how much revenues subnational government entities are receiving and whether this represents the statutory share. Stakeholder consultations suggest that the distribution of benefits from the extractive sector to the local level is a highly relevant and controversial topic, with demand for further public information.</p> <p>Stakeholders expressed diverging opinions on whether the objective of enabling stakeholders at the local level to assess if the transfer and management of subnational transfers of extractive revenues are in line with statutory entitlements had been achieved. Overall, there appeared to be no shared view among government, company and civil society representatives regarding the classification and categorisation of subnational transfers. Stakeholders consulted noted the importance and materiality of subnational revenue flows as well as flagged the 2019 scoping study on subnational payments and transfers as well as planned work to address the recommendations from the study. Currently, it is challenging or impossible for citizens to fully track whether subnational governments are receiving their statutory share of revenues.</p> <p>Based on documentation provided and stakeholder consultations, the following revenue streams could be considered to be subnational transfers (indirect transfers from companies to subnational government entities via national government):</p> <p><u>Mining sector</u></p> <p>Share of sales/equity dividends: Share of sales/equity dividends are paid by extractive companies to MRDC, which in turn transfers them to trust accounts held by the parties (provincial and local governments as well as landowners). The Mining Act 1992 provides some background on share of sales/equity dividends. However, more detailed terms are specified in MOAs and Trust Deeds. The 2019 PNG EITI Report doesn't seem to include data for share of sales/equity dividends for the mining sector in 2019.</p> <p><u>Oil and gas sector</u></p> <p>Oil and gas royalties: Oil and gas royalties are calculated at 2% of wellhead value and paid to Department of Petroleum (DoP) or Department of Finance (DoF), which further distribute them to the local level. In case of oil search, companies pay oil and gas royalties to DoP, which transfers funds to MRDC, which in turn transfers/pays them to provincial and local-level governments as well as landowners. The 2019 PNG EITI Report includes information on ExxonMobil and PNG LNG, including some reconciled data (p.195); however, does not seem to cover the revenue-sharing formula.</p> <p>Share of sales/equity dividends: Share of sales/equity dividends in the oil and gas sector is executed in a similar manner as for the mining sector. The 2019 PNG EITI Report provides a framework for reporting on subnational transfers (pp.82-83). However, it appears that further clarity is needed to provide</p>
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	<p>distinction between subnational payments, subnational transfers and social expenditures and their classification. The report includes reconciliation of equity distribution and share of sales (pp.192-193), but not a specific revenue-sharing formula for transfers from MRDC to local governments and landowners. Nonetheless, stakeholders consulted didn't express any strong opinions related to comprehensiveness of these data.</p> <p>Development levies: Development levies are calculated at 2% of the wellhead value of all oil and gas products produced in a particular license area and paid to the national government through the DoP before they are redistributed to MoF and affected local governments. The main legal document governing the distribution of the development levies is the Oil and Gas Act 1998. The 2019 PNG EITI Report provides reconciliation of the development levy information. Stakeholders consulted didn't express any particular views on comprehensiveness of data provided in the report.</p> <p>Some information on the revenue-sharing formulas for subnational transfers is provided in the scoping study on subnational payments and transfers. At the same time, as mentioned in the previous section (see <i>Requirement 4.6</i>), there appears to be differing opinions related to categorisation and classification of revenue flows on the subnational level. Moreover, several stakeholders stressed that reconciliation of data could be strengthened through disclosure of data sourced directly from provincial and local governments. Current disclosures rely on information collected from central government agencies.</p>
<p>Social and environmental expenditures (Requirement #6.1)</p> <p><i>Mostly met (with considerable improvements)</i></p>	<p>The Secretariat's assessment is that Requirement 6.1 is mostly met with considerable improvements since the previous Validation. Stakeholders consulted did not express strong opinions whether the objective of enabling public understanding of extractive companies' social and environmental contributions and providing a basis for assessing extractive companies' compliance with their legal and contractual obligations to undertake social and environmental expenditures had been fulfilled. At the same time, it was noted that EITI reporting had become more granular and comprehensive with regard to providing data on social and environmental expenditures.</p> <p>Based on stakeholder consultations, it appears that no specific materiality threshold was set for social expenditures. At the same time, the 2019 PNG EITI Report states that environmental permit fees and environmental user charges were considered to be material environmental expenditures in the fiscal year under review (p.8).</p> <p>It was also confirmed that there are no social expenditures that are required by law, but there are some that are required by contracts. The 2019 PNG EITI Report includes unilateral disclosure of mandatory social payments, including information on whether they have been paid in cash or in-kind (pp.84-96). Stakeholders consulted noted that in some cases recipients are not available, therefore EITI reporting is based on information provided by companies. Considering the challenges related to contract disclosure, the International Secretariat notes the MSG's efforts to provide more granular disclosures on social expenditures. At the same time, there appears to still be some confusion regarding categorisation and distinction between social and subnational payments that might require further work. Non-governmental beneficiaries of</p>

	<p>mandatory social payments are disclosed mostly in vague terms, with makes it difficult for community members to track these payments.</p> <p>According to the scoping study and based on stakeholder consultations, the special support grants (SSGs) under the public investments programs (PIPs) in the mining sector and infrastructure development grants in the oil and gas sector, as well as the Infrastructure Tax Credit scheme, might be also considered as social expenditures.</p> <p>Environmental permit fees and environmental user charges were considered to be material in the 2019 fiscal year (p.8) and were reconciled (p.14). Stakeholders consulted confirmed that there appears to be no other material environmental expenditures applicable in PNG in the fiscal year under review.</p>
New corrective actions and recommendations	
<ul style="list-style-type: none"> • In accordance with Requirement 4.6, Papua New Guinea should agree on materiality and classification of direct subnational payments by extractive companies to local government entities, including payments made to subnational government entities through MRDC. PNG is required to ensure that all company payments to subnational government entities, when material, are disclosed and reconciled. PNG might wish to use the scoping study on subnational payments and transfers as a basis for further MSG discussions and considerations. PNG is also encouraged to further analyse the legal background for subnational payments and consider possibilities for systematic disclosure of subnational data. • In accordance with Requirement 5.2, Papua New Guinea should agree on materiality and classification of direct subnational transfers. PNG is required to ensure that all subnational transfers to subnational government entities are clearly categorised, including revenue-sharing formulas and, when material, are disclosed. Data quality assurances should be established. PNG may wish to use the scoping study on subnational payments and transfers as a basis for further MSG discussions and considerations. PNG is also encouraged to further analyse the legal background for subnational transfers and consider possibilities for systematic disclosure of subnational data. • In accordance with Requirement 6.1, Papua New Guinea is required to ensure that all social expenditures are clearly categorised and that material mandatory social expenditures are comprehensively disclosed. • To strengthen disclosures regarding the subnational contribution of the extractive sector, Papua New Guinea is encouraged to adopt mechanisms for disseminating clear, comprehensive and reliable community-level information on actual subnational payments and transfers, accompanied by an analysis of whether these funds are in line with the legal and regulatory framework. These disclosures and analyses should include benefits collected and distributed by MRDC. 	

Background

Overview of the extractive industries

An overview of the extractive industries is accessible on the [country page](#) of the EITI webpage for Papua New Guinea.

History of EITI implementation

The history of implementation is accessible on the [country page](#) of the EITI webpage for Papua New Guinea.

Explanation of the Validation process

An overview of the Validation process is available on the EITI website.¹⁸ The [Validation Guide](#) provides detailed guidance on assessing EITI Requirements, while the more detailed [Validation procedure](#) include a standardised procedure for undertaking Validation by the EITI International Secretariat.

The International Secretariat's country implementation support team include Regional Director Gay Ordenes and Country Officer Emanuel Bria, while the Validation team was comprised of Disclosure and Civil Society Engagement Director Lyddia Kilpi, Senior Adviser on Evidence and Learning Christopher Wilson, and Disclosure Manager Olesia Tolochko. The internal review for quality assurance was conducted by Executive Director Mark Robinson, Asia Director Gay Ordenes, Technical Director Alex Gordy and LAC Director Francisco Paris.

Confidentiality

The detailed data collection and assessment templates are publicly accessible, on the internal Validation Committee page here.

The practice in attribution of stakeholder comments in EITI Validation reports is by constituency, without naming the stakeholder or its organisation. Where requested, the confidentiality of stakeholders' identities is respected, and comments are not attributed by constituency. This draft report is shared with stakeholders for consultation purposes and remains confidential as a working document until the Board takes a decision on the matter.

Timeline of Validation

The Validation of Papua New Guinea commenced on 1 April 2022. A public call for stakeholder views was issued on 1 March 2022. Stakeholder consultations were held virtually on 9-20 May. The draft Validation report was finalised on 26 July 2022. Following comments from the MSG

¹⁸ See <https://eiti.org/validation>

received on 20 September 2022, the Validation report was finalised for consideration by the EITI Board.

Resources

- Validation data collection file – <https://pngeti.org.pg/download/129/2022-validation-templates/7937/2-stakeholder-engagement.docx>
- Validation data collection file – <https://pngeti.org.pg/download/129/2022-validation-templates/7935/1-transparency.xlsx>
- Validation data collection file – <https://pngeti.org.pg/download/129/2022-validation-templates/7936/3-outcomes-impact.docx>