Subnational Payments in Papua New Guinea’s Extractive Sector

Scoping Study for PNG Extractive Industries Transparency Initiative

APRIL 2019
Front cover: Kunaiye 2 overlooking the Lihir gold mine, Lihir Island, New Ireland Province, Papua New Guinea. Source: Tim Grice
SUBNATIONAL PAYMENTS
IN PAPUA NEW GUINEA’S EXTRACTIVE SECTOR

About this report

This report presents the results of a scoping study on subnational payments and transfers in Papua New Guinea’s Extractive Sector. The report has been prepared for Papua New Guinea Extractive Industries Transparency Initiative (PNGEITI).

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The report was authored by Dr Tim Grice from Square Circle Global Development.

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Executive Summary

As Papua New Guinea struggles to transition its natural resources into inclusive and sustainable forms of development, the taxes, fees and levies collected from extractive projects provide much-needed revenue to the national government. These ‘resource rents’ help the national government to fund basic services to its citizenry—many of whom live in remote areas with limited access to health, education, electricity and sanitation services.

Mining, oil and gas projects also generate important financial flows at the subnational level, where extraction takes place. These subnational payments and transfers fund a diverse range of public and private spending—from household budgets to landowner business investments, education scholarships to cultural heritage programs, village projects to subnational service delivery.

Background

Through PNG’s participation in the Extractive Industries Transparency Initiative (EITI), a global standard that promotes transparency and accountability in the oil, gas and mining sectors, much progress has been made on the reporting of extractive revenues to the national government.

Yet payment data at the subnational level is either non-existent, too aggregated to be meaningful, inconsistent across projects, or difficult to obtain.

The lack of clear, reliable, timely and useful reporting of subnational payments and transfers is particularly problematic in a country like PNG, where landowners, impacted communities and subnational government entities receive a broad range of payments and transfers. There is a ‘closeness’ about subnational extractive payments in PNG’s extractive provinces—they connect to peoples’ land, their families, and their communities in a way that is meaningfully different to fiscal revenues to the state.

More effective reporting of subnational payments and transfers through PNGEITI can provide local stakeholders access to relevant and timely information on the extractive revenue flows that affect them most. Strengthening PNGEITI subnational reporting can also drive transparency and accountability in PNG’s extractive provinces, contribute to decentralisation and subnational governance efforts, and potentially improve social license to operate for extractive companies.

This project

This scoping study on subnational payments in PNG’s mining, oil and gas sector was commissioned by Papua New Guinea Extractive Industries Transparency Initiative (PNGEITI). Using a combination of stakeholder interviews, data requests and case studies, the purpose of the study was to:

» identify and map the subnational payments and transfers in PNG’s extractive sector;

» document stakeholder views on enhanced subnational reporting through PNGEITI; and

» develop a reporting framework and roadmap for PNGEITI subnational reporting.

The study was implemented as a partnership between PNGEITI and the Pacific Leadership and Governance Precinct with support from Newcrest Mining Limited. The Pacific Leadership and Governance Precinct is a partnership between the governments of Papua New Guinea and Australia to support the development of ethical and capable public sector leaders in PNG.

1 As noted by the Independent Administrator in the 2016 PNGEITI report.

2 PNGEITI requested Precinct support to deliver a three-day workshop on ‘Leadership, data management and transparency in the extractives sector’ that was subsequently held in Port Moresby from 8th-10th March, 2017. From this 2017 workshop, five critical issues affecting transparency in the extractives sector were identified, from which PNGEITI identified subnational reporting as a focus area for continued partnership with the Precinct.
An online subnational payments dashboard was developed for the study. Major findings for the 2013-2017 period include:

1. The total revenue from the PNG extractive sector was PGK16.34 billion, including PGK10.67 billion in payments to national level stakeholders and PGK5.67 billion in payments to subnational entities.

2. Payments from mining projects were weighted towards subnational stakeholders (44.1% national / 55.9% subnational), whereas payments from oil and gas projects were weighted towards national stakeholders (57% national / 43% subnational). State-owned enterprises were weighted strongly towards national stakeholders (78.3% national / 21.7% subnational).

3. Subnational financial flows included discretionary social payments (PGK1.41 billion), mandatory social payments (PGK1.07 billion), share of sales (PGK966.17 million), the Infrastructure Tax Credit Scheme (PGK832.16 million), royalties to landowners (PGK554.41 million), royalties to provincial and local-level governments (PGK539.36 million), development levies (PGK250.85 million), and projects under the Public Investment Program (PGK36.56 million).

4. Major recipients at the subnational level were local communities (PGK3.32 billion) and landowners (PGK1.52 billion), followed by provincial and local-level governments (PGK790.21 million), and special purpose authorities (PGK36.56 million).

5. Companies differ in their national / subnational payment weightings, with Oil Search the largest payer to subnational entities, followed by Newcrest Mining Limited, Mineral Resource Development Company, Ok Tedi Mining Limited, ExxonMobil PNG, Barrick Nuigini, Hidden Valley Joint Venture and St Barbara Limited.

**Figure i. Extractives subnational payments online dashboard**

"TRANSPARENCY IS LIKE WHATEVER YOU GET IS WHATEVER YOU REPORT—SO THERE IS NO SUCH THING AS SETTING A LIMIT. EVEN BEING ACCOUNTABLE FOR ONE TOEA IS TRANSPARENCY."

Provincial government officer
Stakeholder views

A range of themes emerged from the case study visits to Lihir Island, Tabubil and Kiunga, Woodlark Island, and Port Moresby.

STRONG, ALMOST UNANIMOUS SUPPORT FOR PNGEITI SUBNATIONAL REPORTING

Overall, there was strong support for PNGEITI subnational reporting from all stakeholders—including both national and subnational levels of government, as well as extractive companies, landowner associations and businesses, and civil society organisations (CSOs).

Stakeholders saw PNGEITI subnational reporting as an opportunity to improve transparency, accountability and development outcomes at the local level:

“IT’S IMPORTANT TO ENSURE THAT THOSE FINANCIAL BENEFITS ARE MANAGED PROPERLY, SUSTAINABLY AND OF COURSE EVERYONE NEEDS TO KNOW WHERE THE BENEFITS GO TO AND HOW THEY ARE SPENT. AND PARTICULARLY IN THE COMMUNITIES SO THAT THEY ARE PARTY TO DECISION MAKING ABOUT WHERE THE MONEY GOES”.

“DISELA IBIN STAP LONG HIGH-LEVEL TASOL NAU YUPELA BRINGIM IKAM DAUN LONG HAUS LAIN STRET NA MI LUKIM DISELA NA MI HAMAMAS STRET KAIN RIPOT INO SAVE LONG KAM LONG GRASSROOT LEVEL [THIS HAS BEEN AT THE HIGH-LEVEL ONLY - NOW I SEE YOU ARE BRINGING IT DOWN TO THE VILLAGE AND FAMILY LEVEL AND I’M VERY HAPPY BECAUSE THIS KIND OF REPORT DOESN’T USUALLY COME TO THE GRASSROOTS LEVEL]”.

“AS A LANDOWNER, IT IS IMPORTANT THAT WE ARE INVOLVED IN THIS TO MAKE SURE THAT WHATEVER WE DO IS TRANSPARENT AND WE LEAVE A GOOD LEGACY. IT’S ABOUT INTEGRITY SO THAT WE CAN LEAVE A GOOD BLUEPRINT FOR FUTURE GENERATIONS AT OK TEDI!”.

SUBNATIONAL GOVERNANCE OR COORDINATION IS KEY

There was also a strong view that PNGEITI subnational reporting would be difficult to implement without some kind of subnational governance or coordination structure.

A common view was that membership of any PNGEITI subnational coordinating bodies should mirror the PNGEITI Multi-Stakeholder Group (MSG) membership structure with government, private sector and civil society participation.
INCLUSION OF L/O ASSOCIATIONS & BUSINESSES, CSOs, DEVELOPMENT FOUNDATIONS & ALL LEVELS OF SUBNATIONAL GOVERNMENTS

A related theme expressed by stakeholders of this study was that PNGEITI subnational reporting should extend to non-government entities, including landowner associations and peak landowner businesses, as well as development foundations and CSOs who receive payments or transfers from extractive projects.

There was also a view that all subnational government entities who receive extractive payments or transfers should participate in PNGEITI subnational reporting—including provincial and local-level governments, as well as district development authorities and special purpose authorities. Some stakeholders also suggested that village planning committees and CSOs who receive payments or transfers from extractive projects should also take part in PNGEITI subnational reporting.

SETTING MATERIALITY LEVELS LOW

On materiality, the threshold criteria for reporting, a common view was that all subnational payments and transfers should be reported through PNGEITI, regardless of value. This view was often accompanied by a conceptualisation of extractive-derived payments as public money:

“THESE ARE PUBLIC FUNDS THAT WE ARE DEALING WITH. REGARDLESS OF THE AMOUNT, PEOPLE WANT TO KNOW WHAT IS HAPPENING WITH THAT MONEY. IF WE CAN REPORT THROUGH PNGEITI THEN IT GIVES COMFORT TO EVERYONE SO THAT PEOPLE KNOW THAT THE FUNDS ARE BEING MANAGED LIKE THEY EXPECT”.

GOING BEYOND PAYMENTS & TRANSFERS: REPORTING ON MOAs, EXPENDITURE AND SOCIAL AND ENVIRONMENTAL IMPACTS

A number of stakeholders also took the view that PNGEITI subnational reporting should not be limited to payments and transfers.

Instead, arguments were put forward for the reporting of obligations under memoranda of agreement and umbrella benefits agreements, social and environmental impacts, and expenditure of extractive-derived funds.

CHALLENGES INCLUDE CAPACITY, TRAINING AND CONCERN OF ‘ACCESSING OF SUBNATIONAL FUNDS’

Finally, there was also acknowledgment of factors that may limit the effectiveness of subnational reporting, namely institutional capacity; insufficient training; lack of political support; and fears about the state accessing subnational funds.

“If you expect good reporting on the outcome you need to build the capacity and there needs to be training so that people know what they are going to be reporting on, especially in terms of financial benefits that are derived from this mine”.

On materiality, the threshold criteria for reporting, a common view was that all subnational payments and transfers should be reported through PNGEITI, regardless of value. This view was often accompanied by a conceptualisation of extractive-derived payments as public money:
Global experiences

Key learnings from the implementation of EITI subnational reporting in other countries include:

» a broader participative change process is necessary to build stakeholder engagement and trust;

» subnational MSGs can help to identify community concerns, shape the contents of subnational reports, and resolve ‘blockages’ that may hinder the collection of subnational data;

» the outcomes of subnational reporting can enhance community development planning and monitoring;

» national EITI data must be disaggregated to be useful at the subnational level; and

» some PNGEITI-implementing countries have ‘gone beyond payments’ to include reporting on expenditure and social and environmental impacts.

PNG case studies

Case studies from Newcrest Mining Limited’s Lihir gold mine in New Ireland Province, Ok Tedi Mining Limited in Western Province, Geopacific’s Woodlark Gold project in Milne Bay, and the PNG LNG Project highlight the range of subnational payments in PNG’s extractive provinces.

Subnational financial flows include direct payments to subnational government entities, national government transfers to subnational government entities, and a range of mandatory and voluntary social expenditure across a broad range of stakeholders and sectors.
PNGEITI Subnational Framework

There are concerns regarding the governance and distribution of subnational revenue streams in PNG’s extractive sector. Balancing this, is the enthusiasm of many stakeholders to improve subnational governance, and the view that PNGEITI subnational reporting can play a key role. As PNG seeks to promote economic growth post-APEC, improving subnational governance in one of the country’s key sectors can support improved transparency, accountability and inclusive development impacts.

To advance this agenda, this report proposes a framework for PNGEITI subnational reporting that draws on a series of key questions, recommendations, risks and success factors:

1. SHOULD PNGEITI IMPLEMENT SUBNATIONAL REPORTING?

2. WHAT SUBNATIONAL GOVERNANCE STRUCTURE?

3. WHO SHOULD BE INCLUDED AND WHO SHOULD REPORT?

4. HOW SHOULD MATERIALITY BE DEFINED?

5. WHAT SHOULD BE REPORTED?

6. HOW TO IMPLEMENT SUBNATIONAL REPORTING?

**Figure i. Summary of proposed framework for PNGEITI Subnational Reporting**

DEVELOP, RESOURCE AND IMPLEMENT A PLAN FOR PNGEITI SUBNATIONAL REPORTING IN EXTRACTIVE PROVINCES

ESTABLISH PNGEITI SUBNATIONAL MSGS WITH LINKS TO THE PNGEITI MSG & SECRETARIAT

SUBNATIONAL GOVERNMENT ENTITIES AND NON-GOVERNMENT ENTITIES, INCLUDING L/O BUSINESSES & ASSOCIATIONS

DON’T BOIL THE OCEAN: PILOT SUBNATIONAL REPORTING WITH AN ADAPTIVE ROLLOUT IN THREE PROVINCES

STANDARDISE PAYMENT CATEGORIES AND ALLOW FOR REPORTING OF EXPENDITURE, IMPACTS AND MOA COMMITMENTS

SET QUANTITATIVE AND QUALITATIVE MATERIALITY THRESHOLDS
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<th>Description</th>
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<tr>
<td>CEPA</td>
<td>Commission and the Conservation and Environment Protection Authority</td>
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<td>CSOs</td>
<td>Civil Society Organisations</td>
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<tr>
<td>DDA</td>
<td>District Development Authority</td>
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<tr>
<td>DNPM</td>
<td>Department of National Planning and Monitoring</td>
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<tr>
<td>DoP</td>
<td>Department of Petroleum</td>
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<td>DPLGA</td>
<td>Department of Provincial and Local Government Affairs</td>
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<td>DSTP</td>
<td>Deep-sea Tailings Placement</td>
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<td>EFT</td>
<td>Electronic Funds Transfer</td>
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<td>EITI</td>
<td>Extractive Industries Transparency Initiative</td>
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<td>GloCo</td>
<td>PNG LNG Global Company</td>
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<td>IA</td>
<td>Independent Administrator</td>
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<td>IFMS</td>
<td>Integrated Financial Management System</td>
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<td>ITCS</td>
<td>Infrastructure Tax Credit Scheme</td>
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<td>KPHL</td>
<td>Kumul Petroleum Holdings Limited</td>
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<td>LGL</td>
<td>Lihir Gold Limited</td>
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<td>LLG</td>
<td>Local-Level Government</td>
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<td>MOA</td>
<td>Memorandum of Agreement</td>
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<td>MRA</td>
<td>Mineral Resources Authority</td>
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<td>MRDC</td>
<td>Mineral Resources Development Company Limited</td>
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<td>MSG</td>
<td>Multi-Stakeholder Group</td>
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<td>MTDP</td>
<td>Medium Term Development Plan</td>
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<td>MTPA</td>
<td>Million Tonnes Per Annum</td>
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<td>NEC</td>
<td>National Executive Council</td>
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<td>OTML</td>
<td>Ok Tedi Mining Limited</td>
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<td>PCMCs</td>
<td>Provincial Coordination and Monitoring Committees</td>
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<td>PDL</td>
<td>Petroleum Development License</td>
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<td>PGAS</td>
<td>Provincial Government Accounting System</td>
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<td>PLLSMA</td>
<td>Provincial and Local Level Services Monitoring Authority</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<td>PNG</td>
<td>Papua New Guinea</td>
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<td>PNG LNG</td>
<td>Papua New Guinea Liquefied Natural Gas Project</td>
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<td>PNGEITI</td>
<td>Papua New Guinea Extractive Industries Transparency Initiative</td>
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<tr>
<td>PPMC</td>
<td>Provincial Planning and Monitoring Committees</td>
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<tr>
<td>SOE</td>
<td>State-owned enterprise</td>
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<td>SPA</td>
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1 Background

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1.2 PNG’s extractive sector
1.3 The mining sector in PNG
1.4 The oil and gas sector in PNG
1.5 PNG Extractive Industries Transparency Initiative
1.6 PNG EITI subnational reporting

Mr. Phillip Pasap, Lihir Island, New Ireland Province. Source: Tim Grice
Background

1.1 PNG human development context

Simultaneously socially diverse and geographically fragmented, the Independent State of Papua New Guinea (PNG) is a postcolonial sovereign nation in the Western Pacific with abundant land- and marine-based natural resources.

PNG’s population of more than 8 million people inhabit a land area of approximately 462,840 square kilometres. With over 850 indigenous languages, PNG has more languages than any other country. PNG’s official languages are English, Tok Pisin and Hiri Motu. The most widely spoken indigenous language is Enga, with about 200,000 speakers, followed by Melpa and Huli. Urbanisation is a relatively new phenomenon in PNG, with approximately 13% of Papua New Guineans living in urban centres. These differences in languages and geographies, coupled with the ethnic and cultural diversity of the peoples of PNG, tend to produce individual identities and allegiances that are highly localised.

PNG has a constitutional monarchy with three tiers of government: national, provincial and local. The National Parliament is a unicameral legislature led by a prime minister and cabinet, known as the National Executive Council (NEC). There are 20 provinces in PNG, not including the Autonomous Region of Bougainville and the National Capital District. Each province has a provincial assembly and administration, whereas the autonomous region is represented by the Autonomous Bougainville Government, and the National Capital District Commission is the municipal government of the City of Port Moresby.

In the years following its independence in 1975, PNG recorded improvements in a number of key social and economic development indicators. Between 1980 and 2012, life expectancy at birth increased by 10.3 years, mean years of schooling increased by 2.7 years, expected years of schooling increased by 1.7 years, and gross national income per capita increased by about 27%. Yet like many other resource-rich developing nations, PNG has struggled to transition its mineral wealth into broad-based, sustainable forms of development. Across key indicators such as gross national income (GNI) per capita, life expectancy at birth, school enrolment rates, and access to water, sanitation and electricity, PNG falls behind other lower-middle income and Asia Pacific countries.

PNG is ranked 154 out of 188 nations on the United Nations’ Human Development Index (HDI), below its Pacific neighbours Fiji (91), Tonga (101), Samoa (105), Vanuatu (134), Micronesia (127), Kiribati (137) and Solomon Islands (156).

Following 12 consecutive years of economic growth to 2015, with an average growth rate of 6.2%, recent estimates from the 2018 PNG economic survey suggest that the non-resource economy contracted in 2015 by 5.9% after inflation. As PNG adjusts to depressed commodity prices, the 2019 economic outlook is characterised by revenue constraints, budget cuts and foreign exchange shortages. In the year following PNG’s hosting of APEC, these challenging fiscal conditions are constraining the government’s ability to stimulate economic growth and provide basic services to its citizenry, many of whom live in remote areas with limited access to health, education, electricity, and financial services.

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1 Source: http://countrymeters.info/en/Papua_New_Guinea. Manual population projections based on the data from the 2011 PNG census, with a growth rate of 2.9 per cent per annum since the 2000 census, generate similar population estimates.
2 Source: https://www.ethnologue.com/country/PNG
3 Source: Gordon, R., G. (2005). Ethnologue: Languages of the World, 15th edition, SIL International. Tok Pisin is an official language of PNG and is not only a lingua franca that enables communication with speakers of other languages, but also a first language in its own right. English and Hiri Motu are also official languages of PNG.
7 PNG is a lower-middle-income country with a gross national per capita income of US$2,386. Source: https://data.worldbank.org/country/papua-new-guinea
1.2 PNG’s extractives sector

The indigenous peoples of New Guinea have mined and traded stone implements and ochre for thousands of years. In 1954, an investigation into the mineral deposits and mining industry of Papua New Guinea conducted by the then-colonial administrator, the Commonwealth of Australia, reported that deposits in the ‘Territory of Papua’ included gold, silver, copper, copper matte and copper ore, manganese ore, osmiridium, and platinum.

Noting that “a fairly intensive search has been and is being made for petroleum, but there has not been any commercial production up to the present”, the report estimated the value of PNG’s mineral reserves at £4,062,662 as of June 1951.

The modern-day extraction of PNG’s mineral, oil and gas reserves is carried out by major and mid-sized transnational and multinational extractive companies, junior operators, foreign state-owned companies, and increasing participation from the state of PNG.

As shown in Figure 1.1 below, in 2016 the extractives sector contributed 84% of exports and 28% of GDP, yet extractives revenues (corporate taxes and dividends from mining and petroleum) were at their lowest level since 1992, contributing only 3.2% of government revenue.

One reason for this drop in revenues to the state is the timing of tax deprecations for capital investment programs in place for many of the major operators, resulting in low or no corporate tax payable.

Despite this decline, PNG ranks 32 out of 183 countries on an index that evaluates the mining sector’s contribution to national economies—or put another way, PNG ranks high on an index that measures an economy’s dependence on the mining sector.

12 The mineral deposits and mining industry of Papua New Guinea. Department of National Development, Bureau of Mineral Resources, Geology and Geophysics. Source: https://d28rz98af9fiks.cloudfront.net/14926/Rep_009.pdf. The report also noted that gold was the first mineral mined in Papua and has “been mined continuously, except for the war years 1914-1918 inclusive, since 1888”.
13 The State holds the right to acquire a participating interest in any mining or petroleum project in PNG at par value, or ‘sunk cost’. In return, the State can receive a share of the profits of the project, paid as dividends in accordance with its rights as a shareholder.
15 As noted in the PNG Economic Survey, the IMF and others have concluded that PNG’s tax treatment of the resources sector is relatively generous by international standards. “…[T]he tax arrangements for PNG’s mining and petroleum sectors are very generous compared to other resource-rich countries and do not reflect the maturity of the PNG resource sector.” (IMF 2016, p.9).
1.3 The mining sector in PNG

Gold, copper and silver are the main mineral resources in PNG, which hosts some of the largest copper-gold ore bodies in the world. PNG ranks 11th in the world for gold reserves and 14th for production, and is also a major producer of copper, silver, nickel and cobalt.17

As shown in Figure 1.2, existing mining projects include Lihir (Newcrest Mining Limited), Porgera (Barrick (Niugini) Ltd), Ok Tedi (State-owned enterprise), Hidden Valley (Newcrest-Harmony JV), Ramu Nickel (Highlands Pacific), Simberi (St Barbara), Eddie Creek (Niuminco), Crater Mountain (Anomaly Ltd), Tolukuma (Asidokona Mining Resources Pty Ltd) and Kainantu (K92 Mining Ltd).18 PNG’s state-owned enterprises (SOEs) are Kumul Minerals Holdings Ltd (which operates all mining assets including Ok Tedi Mining Ltd), Kumul Petroleum Holdings Ltd (the State nominee for all commercial matters relating to oil and gas projects), and Mineral Resources Development Company Ltd (a trustee shareholder for beneficiary landowners and provincial governments).

Proposed future projects of significance include Frieda River (PanAust), Wafi-Golpu (Newcrest-Harmony), the possible reopening of the Panguna Mine in Bougainville, and the proposed Solwara project (Nautilus and Kumul Mineral Holdings Ltd), which would be the world’s first deep-sea mining project19.

The Mining Act 1992, administered by the Mineral Resources Authority (MRA), is the principal legislation that governs mining activity in PNG20. The Mining Act has been under review since 2009 and a draft act has been circulated to stakeholders for consultation. However, the revised Mining Act has not been presented to the National Executive Council for ratification.

Although all subsoil minerals in PNG belong to the state, before a mining project can be developed, mining companies must enter into a development forum process to agree on the compensation and benefits package for the project. Parties to the development forum process include the state, provincial and local-level governments, and affected landowners and communities.

The agreed compensation and benefits streams are captured in a memorandum of agreement (MOA) and ratified by the National Executive Council (NEC).

In addition to the formal mining sector, up to 80,000 small-scale alluvial miners are also operational in key mining regions in PNG, with exports from the alluvial sector of up to K410 million predicted for 2018.21 Recognising the significance of the informal sector, the MRA has put in place a number of measures to improve the governance of the informal sector as well as the capacity of informal operators.22

Figure 1.2 PNG mining project map provided by the PNG Chamber of Mines and Petroleum

18 According to the PNGEITI 2017 report, these mines were all operational in 2017.
19 The Solwara project is currently facing a range of challenges including project financing, technical challenges, and government and landowner approvals.
20 The Mining Act has been under review since 2009 but has not been passed into legislation by NEC.
21 Source: https://www.thenational.com.pg/alluvial-gold-exports-expect-k410-million-for-country/
22 See, for instance, MRA’s ‘Handbook of Small Scale Gold Mining for PNG’. Also, MRA conduct conventions and tradeshows for alluvial mining.
1.4 The oil and gas sector in PNG

Oil seeps were first found in 1911 near Vailala in Papua. This spurred many decades of petroleum exploration with some minor amounts of gas and oil being found in the 1950s onshore and 1960s offshore. In 1968, PNG’s first black oil was discovered at the Lagifu 2 well in what was to become the Kutubu Oil Project operated by Oil Search Limited.

In 2014, large-scale integrated development of PNG’s gas fields commenced with the Papua New Guinea Liquefied Natural Gas Project (PNG LNG). The project started out with a design rate of 6.9 million tonnes per annum (MTPA). In 2017, the PNG LNG project produced 8.3 million tonnes of LNG, an increase of 20 percent from the original design specification.

Although proven oil and gas reserves rank lower than most other oil and gas producing countries (99/103), in 2016, PNG exported approximately PKG 8 billion in LNG, making it the country’s top revenue-generating export product. The same year, approximately PKG 900 million of oil was exported.

The PNG LNG project includes the Hides, Angore and Juha gas fields as well as the Kutubu, Agogo, Moran and Gobe Main oil fields. ExxonMobil PNG operates the LNG PNG project on behalf of five co-venture partners: ExxonMobil (33.2% and operator), Oil Search Ltd (29.0%), Santos Ltd (13.5%), Kumul Petroleum Holdings Ltd (PNG SOE) (16.8%), JX Nippon Oil and Gas Exploration Company (4.7%) and Mineral Resources Development Company (PNG government, on behalf of landowners) (2.8%).

Petroleum Retention License (PRL) 15 has been issued for the Elk-Antelope gas fields which are reported to hold an additional 8 MTPA in capacity. In 2016, all active petroleum development licenses (PDLs) were owned by companies associated with the PNG LNG project, the oil fields operated by Oil Search, and the Hides Gas to Electricity Project. Oil Search is the sole owner and operator of the Hides Gas Project, where gas is extracted from the Hides field, processed at the Hides production plant, and used to power the electricity plant of the Porgera gold mine.

All oil and gas assets are owned by the state of PNG. The Oil & Gas Act 1998 and its 2015 amendment, administered by the The Department of Petroleum (DoP), is the principal legislation that governs oil and gas activity in PNG. The act contains various provisions for compensation, equity benefits, royalties and other revenue streams.

For the PNG LNG Project, the state, provincial and local-level governments, landowners and affected communities entered an Umbrella Benefits Sharing Agreements (UBSA) that details compensation and benefits streams arising from the project. A series of license-based benefits sharing agreements (LBBSA) also detail how provincial and local levels of governments, as well as landowners within each license area, are to allocate their share of the project’s compensation and benefits.

Figure 1.3 PNG oil and gas project map provided by the PNG Chamber of Mines and Petroleum

23 See, for instance, Section 118, 159, 167 and 168 of the O&G Act 1998.
1.5 PNG Extractive Industries Transparency Initiative

The Extractive Industries Transparency Initiative is a global standard that promotes transparency and accountability in the oil, gas and mining sectors. Following the establishment of an informal multi-stakeholder group in 2012, the PNG government announced its commitment to EITI in 2013.\(^{30}\)

At its recent board meeting on 30 October 2018, the EITI Board decided that PNG had achieved "meaningful progress in EITI implementation, but further institutional reforms are necessary."\(^{32}\)

The PNGEITI Multi-Stakeholder Group (PNGEITI MSG) is chaired by the Treasurer and consists of 11 representatives of the government of PNG (4 voting, 7 non-voting members), 4 representatives from state-owned enterprises (3 voting, 1 non-voting), 8 representatives from civil society (7 voting, 1 non-voting) and 7 representatives from extractive industries (see Figure 1.4 for the PNGEITI MSG structure).

Through the activities of PNGEITI, PNG is seeking to improve public understanding of the management of the extractive industries, increase the accountability of both government and industry, and improve the attractiveness of PNG as a destination for foreign investment.\(^{33}\)

30 In 2013, NEC Decision No. 90/2013 approved for PNG to sign up to the EITI and endorsed the minister responsible for Treasury matters to lead its implementation.  
31 For EITI, the MSG agreed that the extractive industries include mining, oil and gas. Quarrying, forestry and fisheries have been excluded. 
32 Source: https://eiti.org/scorecard-pdf?filter%5Bcountry%5D=46&filter%5Byear%5D=2018 
33 Other examples include PNG’s participation in the Open Government Partnership and the Consultative Implementation Monitoring Committee.
1.6 PNGEITI subnational reporting

Although much progress has been made on historical PNGEITI reporting, payment data at the subnational level is either non-existent, missing key stakeholder entities, too aggregated to be meaningful, or inconsistent across projects, and as noted by the Independent Administrator (IA) in the 2017 PNGEITI report, ‘difficult to obtain’.

The lack of clear, reliable, timely and useful reporting on subnational payments and transfers is particularly problematic in a country like PNG, where landowners, affected communities and subnational government entities receive a broad range of payments and transfers. It is important for local governance and development outcomes that all recipients of subnational payments maintain a base level of transparency and accountability over funds received.

In addition to the potential to improve transparency and accountability at the local level, enhanced subnational reporting could improve social license to operate for extractive companies. PNG has had more than its fair share of social and environmental flash points linked to the extractives sector34—with compensation and benefits payments a consistent thread through most disputes, often presenting simultaneously as both the cause and the solution. Greater transparency and reporting of extractive payments can help to improve stakeholder understanding of compensation and benefits paid by extractive companies, which, in some cases at least, may improve local acceptance or approval of extractive projects.

In addition to development impact and social license, there is a further impetus for subnational reporting: the PNG government has adopted a range of policies focusing attention on subnational services and development. These include the Alotau Accord II; the Medium Term Development Plan; the District Development Authority (DDA) Act 2014; the review of the Organic Law on Provincial Governments and Local-Level Governments 1995; the development of National Service Delivery Frameworks and Partnership Agreements; the Integrated Community Development Policy 2007; the Church-State Partnership program; and Vision 2050. Consistent with this stated decentralisation agenda, systematic reporting of material subnational payments through PNGEITI is an important step towards improved transparency and accountability at the subnational level.

Finally, in addition to this local and national impetus, the EITI Standard 2016 requires that EITI-implementing countries report material subnational payments and transfers. This includes the reporting of material payments from extractive companies to subnational government entities (Requirement 4.6), as well as the reporting of material transfers of extractive revenues between national and subnational levels of government (Requirement 5.2). However, although PNGEITI’s recent assessment from the EITI Board was “meaningful progress” overall, the assessment for Requirements 4.6 and 4.2 were ‘Inadequate Progress’.35

Therefore, the opportunity is to roll out PNGEITI reporting in extractive provinces to improve the reporting of subnational extractive transfers and payments. This, in turn, can:

- provide local stakeholders access to relevant and timely information on the extractive revenue flows that affect them most;
- promote transparency at the subnational level, potentially reducing corruption and improving development planning/outcomes;
- improve social license to operate for extractive companies; and
- contribute to PNG’s broader decentralisation of service delivery.

34. Including closure of the Panguna Mine in Bougainville due to civil war and the exit of BHP Billiton from Ok Tedi due to the environmental damage caused to the Fly River. More recently, the PNG LNG Project has been the subject of critique in a report that focuses on the economic contribution of the project titled: ‘The Broken Economic Promises of PNG LNG’. Source: https://www.jubileeaustralia.org/latest-news/new-jubilee-report-shows-that-efic-funded-png-lng-project-has-hurt-png

35. Source: https://eiti.org/scorecard-pdf?filter%5Bcountry%5D=46&filter%5Byear%5D=2018
Approach & Methodology

2.1 This project
2.2 Consultation meetings
2.3 Data and information requests
2.4 Case studies
2.5 Online extractive payments dashboard
2.6 Kavieng workshop

Relocation house, Woodlark Island. Source: Tim Grice
Approach & Methodology

2.1 This project

This scoping study on subnational payments in PNG’s mining, oil and gas sector was commissioned by PNGEITI, which promotes revenue transparency and accountability in the country’s mining and petroleum sectors.

The purpose of the scoping study was to:

1. Identify and map the subnational payments and transfers in PNG’s extractives sector;
2. Document stakeholder views on enhanced subnational reporting through PNGEITI; and
3. Develop a reporting framework and roadmap for PNGEITI subnational reporting.

The study was implemented as a partnership between the PNGEITI Secretariat and the Pacific Leadership and Governance Precinct with support from Newcrest Mining Limited. The Pacific Leadership and Governance Precinct is a partnership between the Governments of Papua New Guinea and Australia to support the development of ethical and capable public sector leaders in PNG.

PNGEITI requested Precinct support to deliver a three-day workshop on ‘Leadership, data management and transparency in the extractives sector’ that was subsequently held in Port Moresby from 8th-10th March, 2017. From this 2017 workshop, five critical issues affecting transparency in the extractives sector were identified, from which PNGEITI identified subnational reporting as a focus area for continued partnership with the Precinct.

The methodology for the scoping study included consultation meetings, a subnational workshop in Kavieng, data and information requests, the development of an online extractives payments and transfers dashboard, and case studies.

2.2 Consultation meetings

First, consultation meetings were held with stakeholders based in Port Moresby who have a role in subnational payments or transfers in the extractives sector. In each meeting, a project information sheet was provided and the purpose of the project was discussed. Annex A contains a matrix of stakeholders who were consulted in person as part of this phase of the project.

2.3 Data and information requests

Following the consultation meetings, a data and information request was sent to all national stakeholders who play a direct role in subnational payments and transfers. This included those stakeholders who are either a payer or recipient of a subnational payment, as well as entities who play a governance role in subnational payments, transfers or expenditure from extractive-derived funds.

In addition to the financial data request, each stakeholder was asked to answer the following three contextual questions regarding their role in subnational payment flows in the extractives sector:

1. Overall, what role does your department / entity play in subnational payments or transfers in the extractives sector? Please list any specific roles or responsibilities that relate to subnational entities, particularly with respect to payments or management of funds.
2. Do you have any significant challenges managing the subnational payments/transfers for which your department or agency has responsibility? If so, please describe.
3. Do you have any suggestions for improving the transfer, reporting or broader governance process for subnational payments in the extractives sector (in particular in the areas for which your department or agency has responsibility)?
Levels of compliance with the data and information requests were significantly lower than meeting requests, with only the Mineral Resource Authority, National Economic and Fiscal Commission, Internal Revenue Commission and the Conservation and Environment Protection Authority (CEPA) responding.

Data was also sourced from the 2013 - 2017 PNGEITI reports produced by the Independent Administrator.

2.4 Case studies

The purpose of the case studies was twofold: first, to understand subnational payment flows and entities around specific projects, and second, to understand the views of subnational stakeholders towards PNGEITI subnational reporting.

Case studies selected in consultation with the PNGEITI Secretariat and in consultation with MSG members were:

» The PNG LNG Project, operated by ExxonMobil PNG on behalf of joint venture partners, with a footprint in Hela, Gulf, Southern Highlands, Western and Central Provinces (selected as the major oil and gas project with a dispersed geographical footprint);

» Newcrest Mining Limited’s Lihir Gold Mine in New Ireland Province (selected as a major gold mining project);

» Ok Tedi Mining Limited in Western Province (selected as a state-owned enterprise); and

» Geopacific Resources Limited’s Woodlark project in Woodlark Island (selected as a junior in the feasibility and financing stage).

Field visits were carried out for the Lihir case study (Lihir Island and Kavieng), the Ok Tedi case study (Tabubil and Kiunga) and the Woodlark case study (Woodlark Island and Alotau).

For the PNG LNG Project, a field visit that was planned to Mendi in Southern Highlands Province was cancelled on two separate occasions—the first due to the earthquake in February 2018, and the second due to civil unrest in June 2018. Instead, discussions were held with ExxonMobil PNG and the Central and Western Provincial Governments in a meeting convened in Port Moresby. Representatives of Southern Highlands, Hela and Gulf Provinces were invited to the meeting but did not attend.

For each field visit, meetings were held with provincial governments, local-level governments, extractive companies, landowner associations, landowner businesses, and civil society representatives, including women and youth representatives.

Annex A contains a record of all meetings conducted during the case study visits.

At the start of each meeting, an explanation was provided on the role of PNGEITI, and an overview was given on the subnational payments project. Next, five key themes were explored in an open interview where stakeholders could ask questions:

1. Should PNGEITI reporting be rolled out to the subnational level?

2. How should PNGEITI subnational reporting be governed/ co-ordinated?

3. Which stakeholders should be included in PNGEITI subnational reporting?

4. What should be reported and how should materiality be defined?

5. What challenges are there for rolling out PNGEITI subnational reporting?

Video interviews were also conducted with key stakeholders, and this footage is showcased in a companion ‘video report’ for this project.

Following the field visits, subnational payment data was requested from all extractive companies. Data was provided by all extractive companies selected for the case studies.
2.5 Online extractive payments dashboard

An online extractives payments and transfers dashboard was developed as a way to better understand the flow of payments in PNG’s extractives sector (see Figure 2.1 for screenshots of the dashboard).

The dashboard contains all data in the PNGEITI reports for the 2013–2017 period as well as data specifically collected for this project. There are some concerns about the validity of data sourced in PNGEITI reports and provided by stakeholders. Where data is updated after this report is published, the online dashboard will be maintained and hosted on the PNGEITI website.

The extractives payments and transfers dashboard allows for interactive comparisons across:

» level of payment;
» type of payments;
» sector;
» company;
» payers;
» recipients; and
» year.

1 If the online database is not available on the PNGEITI website, it will still be available for the years that this report covers at www.squarecircle.org

Figure 2.1 Extractive payments dashboard screenshots
Note: Further information about the data/colour coding is provided in Section 5
2.6 Kavieng workshop

Finally, a workshop was run on ‘Governance, transparency and reporting in the mining sector’ at the Kavieng Beach Resort from 16–18 May. A total of 34 participants (25 male, 9 female) representing the three tiers of government, landowner associations, civil society and the extractives sector attended the workshop.

During the workshop, a session was run where participants reviewed key questions around the reporting of subnational payments and transfers through PNGEITI. In what proved to be quite a dynamic session, participants worked in multi-stakeholder groups and then presented their thoughts to the broader workshop group. The key themes raised by participants have been taken into account in this report.

Caption: Participants at the 2018 PNGEITI Kavieng workshop.
3.1 Strong, almost unanimous support for PNGEITI’s subnational reporting

3.2 Support for subnational governance or coordination

3.3 Inclusion of landowner associations and businesses, CSOs, development foundations and all levels of subnational government

3.4 Support for setting materiality levels low

3.5 Going beyond payments and transfers: reporting on MOA commitments, expenditure, and social and environmental impacts

3.6 Challenges include capacity, training, and concern about accessing subnational funds

Raining at the hauswin outside Lihir Mining Area Landowners Association, Lihir Island, New Ireland Province. Source: Tim Grice
3.1 Strong, almost unanimous support for PNGEITI’s subnational reporting

Overall, there was strong support for PNGEITI subnational reporting from all stakeholders. This support was expressed by both national and subnational levels of government, as well as extractive companies, landowner associations and businesses, and CSOs at the national and subnational levels.

Subnational reporting through PNGEITI was seen by stakeholders as a vehicle to enhance the transparency and accountability of extractive-derived payments. For instance, a landowner and community leader on Lihir said:

“All of the benefits don’t belong to individuals – all of the benefits and financial payments belong to all of us on Lihir, so it is good that they are reported so that all of us on Lihir can understand the benefits that we have received – because the mine has been here for 20 years and plenty of the people on Lihir aren’t clear on how the money has been spent or the benefits that we have received from the company and government, so if they are reported it is good that the public can understand.”

Similarly, a landowner business leader from Ok Tedi remarked:

“I just heard about EITI yesterday and after going through the pamphlets I’ve seen that the vision is very good—to make sure that funds are transparent—and I believe that information has to be cascaded down to the provincial level to make sure that whatever at the provincial and local level is transparent. It will formulate a standard guideline so that is a very important concept that has been introduced by the state – making sure that everything is open and transparent so that what people are doing is not hidden.”

After hearing about PNGEITI for the first time in a community meeting held for the project, a female leader in Tabubil said:

“For me personally, if there are upcoming agreements that need to be signed, there must be provisions in there that are aligned to PNGEITI reporting.”

Another way that support for PNGEITI subnational reporting was expressed was by positioning participation as ‘partnership’. Rather than being viewed as exclusively a national-led or top-down initiative, PNGEITI subnational reporting was spoken about as an opportunity for local and provincial stakeholders to play a more active role in the reporting process:

“It’s a good initiative that you are bringing it down to the subnational level and I think it’s good to have partnership with the Nimimar Local-level government.”

“‘As a landowner, it is important that we are involved in this to makes sure that whatever we do is transparent and we leave a good legacy. It’s about integrity – so that we can leave a good blueprint for future generations at Ok Tedi.”

Many stakeholders also positioned stronger accountability and transparency through PNGEITI as a lever for improved development outcomes at the local level, with one government officer on Lihir suggesting that PNGEITI provisions should be included in future MOAs:

“Interesting, when considering the impact of PNGEITI on transparency, accountability and development outcomes, there was a tendency for stakeholders to adopt a temporal perspective—looking back over a lack of transparency and accountability in the history of the project, or forward at what is to come:

“It would have been a bonus if EITI was here in day 1 so that all those monies for the past 20 years were spent in a manner where there is accountability in it and it builds up the capacity of especially the local level area and the community.”

Lihir Nimimar LLG

“‘It’s a good initiative because it will bring more transparency to...”
resource owners, beneficiaries, stakeholders, everyone – including the government. As a local government, it’s also good that we should know and also if we do receive them, it’s good that you are now alerting us so that we can also report on them. I believe EITI is a good thing, yes!” Woodlark LLG

“I believe PNGEITI is one of the things that we are looking forward to – especially us the landowners – because when it comes to production there will be the royalties paid to us and we need transparency, especially handling with the royalties to make sure that the maximum benefits go to the landowners.” Woodlark landowner

A final theme in support of PNGEITI subnational reporting was on the benefits for local communities:

“It’s important to ensure that those financial benefits are managed properly, sustainably and of course everyone needs to know where those financial benefits go to and how they are spent. And particularly in the communities so that they are party to decision making about where the money goes”.

“Disela ibin stap long high-level tasol nau yupela bringim ikam daun long haus lain stretna mi lukim disela na mi hamamas stretna kain ripot ino save long kam long grassroot level.”

[This PNGEITI reporting] has been at the high-level only – now I see you are bringing it down to the village and family level and I’m very happy because this kind of report doesn’t usually come to the grass roots level].

“Mipela no klii long dispela rot we mipela bai save hau moni bai go out na moni kam olem wanem go olem wanem na mipela no save na mipela paul long wanem rot ikam na go aut mipela no klii”.

[We’re not sure how we can find out where the money goes and is spent so we’re confused where it goes].

In all of these ways, stakeholders expressed support for PNGEITI subnational reporting.

Across all of the stakeholder interviews, there was no explicit argument put forward against the implementation of PNGEITI subnational reporting. This lack of direct objection does not, of course, mean that all stakeholders are in support of PNGEITI subnational reporting. It is certainly possible (perhaps likely) that some stakeholders were responding to interview questions and workshop discussions in a way that they thought was socially acceptable (i.e., it is uncommon, although not unheard of, to make an argument against transparency and accountability). As an example of a potential argument against subnational reporting, there may be a view within provincial and local-level governments that expenditure is already reported through the PNG Government Accounting System (PGAS), and therefore additional reporting through PNGEITI is redundant. Similarly, some executives within landowner associations may not welcome enhanced transparency around extractive-derived payments.

Nonetheless, the level of overt support for PNGEITI subnational reporting is a strong platform for subnational implementation.

1  Implementation challenges are discussed in section 3.6
3.2 Support for subnational governance or coordination

In addition to the strong support for PNGEITI subnational reporting, there was a view that PNGEITI subnational reporting would be difficult to implement without some kind of provincially-based governance or coordination structure. This view was expressed strongly in the Kavieng workshop, and echoed in the site case study visits to Lihir Island, Tabubil, Kiunga and Woodlark Island, as well as discussions with the Central and Western Provincial Governments on the PNG LNG project.

A common view was that membership of any PNGEITI subnational coordinating bodies should mirror the PNGEITI MSG membership structure. This view was expressed by a provincial government officer in the Kavieng workshop:

“Within the provinces we should have a provincial MSG. The membership should consist of representatives from the provincial governments, LLGs, DDAs, MRA as the regulator, landowner companies and associations, and the developer”.

The desire to establish a subnational governance or coordination structure was strongest in New Ireland, which is perhaps not surprising when one considers the long-held push for greater autonomy in New Ireland (e.g., the Malagan Declaration and recent provisions for greater decentralisation of government services under the Alotau Accord II), as well as the principles of ‘self-reliance’ and ‘financial independence’ that underpin the Lihir Destiny vision within the Lihir Sustainable Development Plan.

One suggestion from the stakeholder consultation meetings was to link any provincial MSG coordination structure with the Provincial Planning and Monitoring Committees (PPMCs), which are established to perform the role of the Provincial and Local Level Services Monitoring Authority (PLLSMA) as required under section 110 of the Organic Law on Provincial Governments and Local-level Governments. A related suggestion was that provincial representatives have seats on the PNGEITI MSG. The proposed role of PPCMs and the membership of the PNGEITI provincial governance structure are both discussed in Section 8.2 of this report.
3.3 Inclusion of landowner associations and businesses, CSOs, development foundations & all levels of subnational governments

A strong view was also expressed by stakeholders that PNGEITI subnational reporting should extend to non-government entities, including landowner associations and businesses, and development foundations. This view was shared by stakeholders in New Ireland and Western Province on the Lihir and OTML case studies, provincial governments from Central Province and Western Province at the PNG LNG case study meeting, and stakeholders on Woodlark island.

This inclusive view of PNGEITI subnational reporting was exemplified in a comment made by a representative of the New Ireland Provincial Administration at the Kavieng workshop:

“Any stakeholder who receives mine-derived funds should be reporting. That includes landowner businesses, landowner associations, LLGs, provincial governments and DDAs, and the mining company itself”.

For their part, the peak landowner businesses consulted for the study on Lihir (Anitua Ltd) and in Tabubil (Mineral Resources Star Mountains Ltd) also signalled their willingness to participate in PNGEITI reporting.

For instance, the chairman of Mineral Resources Star Mountains Ltd explained:

“As a company we engage reputable accounting firms to make sure that our books are audited and are also open to Ok Tedi, our major customer. So all I want is our auditor KPMG/Deloitte to make sure that our accounts are very transparent and we present them to our shareholders so that our people in the community know where the investments are and that they feel a sense of ownership over their investment”.

Representatives of Ok Tedi Development Foundation and the Lihir Mining Area Landowner Association also expressed their willingness to participate in PNGEITI subnational reporting.

In addition to the focus on landowner associations and businesses, another view was that all subnational government entities who receive extractive payments or transfers should also participate in subnational reporting—including provincial and local-level governments, as well as district development authorities and special purpose authorities who receive royalties or other extractive payments or transfers.

A strong view was also expressed on Lihir that Ward Development Committees (WDCs) and Village Planning Committees (VPCs) who receive transfers of royalties from the Nimamar Local-level government should also play a role in subnational reporting.

Finally, some stakeholders suggested that peak CSOs who receive funding from extractive companies should be included in PNGEITI subnational reporting, including women and youth associations, and peak sports groups. Although the funds that CSOs receive from extractive projects are often relatively small, some stakeholders felt that inclusion of these groups would promote transparency and accountability among the broader community.
3.4 Support for setting materiality levels low

With respect to the issue of subnational materiality, the threshold criteria for reporting, a common view was that all subnational payments and transfers should be reported through PNGEITI subnational reporting, regardless of value.

For instance:

“Transparency is like whatever you get is whatever you report—so there is no such thing as setting a limit. Even being accountable for one toea is transparency”.  

This view was often accompanied by a conceptualisation of extractive-derived payments as public money:

“These are public funds that we are dealing with. Regardless of the amount, people want to know what is happening with that money. If we can report through PNGEITI then it gives comfort to everyone so that people know that the funds are being managed like they expect”.  

A minority of stakeholders suggested quantitative thresholds for materiality, including PGK250,00 and PGK10,000.

3.5 Going beyond payments and transfers: Reporting on MOA commitments, expenditure, and social and environmental impacts

A number of stakeholders also took the view that PNGEITI subnational reporting should not be limited to payments and transfers.

Instead, arguments were put forward for the reporting of obligations contained within MOAs, compensation and resettlement agreements and UBSAs:

“Through EITI we could report the top 5 or 10 commitments in the MOAs”.

“A lot of conversation has been floating around nau long plenti of MOA commitments ino bin delivered. Otherwise resource owners will be complaining that they are taking a lot of money out of our land but we are not receiving anything back”.

Stakeholders also suggested reporting on trust funds, such as mine closure funds raised in the example below:

“So that if the mine closes tomorrow they know that we have this money that we can try to use to rehabilitate”.

Another suggestion from stakeholders was to report on the social and environmental impacts of extractive projects.

Finally, there was a view that government associations in particular should report on expenditure of extractive-derived funds:

“Report on everything based on actual receipts - including expenditure”.

These suggestions are discussed further in section 8.5.
3.6 Challenges include capacity, training, and concern about accessing subnational funds

A final theme was around the factors that may limit the effectiveness of subnational reporting, namely institutional capacity; insufficient training; lack of political support; and fears about the state accessing subnational funds.

Although raised, the concern about lack of institutional capacity was not expressed frequently in stakeholder consultations. In general, the major subnational stakeholders who may participate in PNGEITI subnational reporting have sufficient capacity to do so—including human resources and financial accounting systems. Some stakeholders face specific challenges, including intermittent internet access and low staffing levels. At one extreme, on Woodlark Island, the local-level government has to travel to Milne bay on an 8-hour boat ride to access the provincial treasury. This trip can only be made during certain times in the year:

“Local government is quite isolated here. It is about 8 hours on a 40 horse power dinghy to travel to Alotau. 200 liters of fuel so to provide basic administrative support it is very costly for the local government to access services and goods for its operations”.

Most other local and provincial-level governments in extractive provinces are not as geographically isolated as the Woodlark example. Nonetheless, there are varying degrees of resources and capacity available to subnational entities which may constrain effective participation in PNGEITI subnational reporting.

Another concern raised by stakeholders was the need for training on PNGEITI systems, roles and expectations:

“If you expect good reporting on the outcome you need to build the capacity and there needs to be training so that people build capacity and they know what they are going to be reporting on especially in terms of financial benefits that are derived from this mine”.

Concerns about lack of political support were also raised by a minority of stakeholders, usually framed positively in terms of the need to ‘work politically’ to foster the backing of key people/positions within subnational entities:

“The provincial administrator is Chief Accountable Officer of the province under the financial management act - general order 23 any corporate information that comes out of the provincial administration should be approved and authorised by the provincial administrator”.

And finally, a concern was raised by one stakeholder that disclosure of payments received and held—in particular monies in trust funds—might lead to the state attempting to access these funds:

“I gutpela long ripotim ol funds tasol wanpela sik nau sapos yumi save olsem i gat sampela trust funds that are lying around na govman nau long kain situation yumi stap nau oli paindim money nogut oli kam nau na kisim dispela moni. So i gat gutpela sait long en na igat sait we i nogut”.

[It is good to report all of the funds but one problem at the moment is that if we have funds that are lying around, with the situation that the government is facing, if they see that there are funds they might try to access them. So there is a good side to it [reporting] and a bad side.]

A related concern was raised by a company representative about the need to maintain confidentiality for stakeholder payments that identify individuals or families. The specific concern was that disclosing some payments at the individual or family level, such as livelihood investment payments for resettlement programs, could create social or security risks for the parties involved.
4 EITI Global Requirements for Subnational Reporting

4.1 EITI Standard 2016 requirements for subnational reporting

4.2 Global practice in subnational reporting

Market in Alotau, Milne Bay. Source: Tim Grice
## EITI Global Requirements

### 4.1 EITI Standard 2016 requirements for subnational reporting

The EITI Standard 2016 contains a range of requirements on subnational payments, subnational transfers and social expenditure that are relevant to PNGEITI subnational reporting.

#### 4.1.1 Subnational payments - Requirement 4.6

Requirement 4.6 of the EITI Standard 2016 addresses subnational payments from extractive companies to subnational government entities:

> “It is required that the multi-stakeholder group establish whether direct payments, within the scope of the agreed benefit streams, from companies to subnational government entities are material. Where material, the multi-stakeholder group is required to ensure that company payments to subnational government entities and the receipt of these payments are disclosed and reconciled in the EITI report.”

Table 4.1 combines the requirements from Requirement 4.6 with the guidance provided in Guidance Note 10 and the relevant clauses from the EITI Validation Guide.

<table>
<thead>
<tr>
<th>Guidance Note Step</th>
<th>Source</th>
<th>Description</th>
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| **STEP 1**<br>IDENTIFYING DIRECT PAYMENTS FROM COMPANIES TO SUBNATIONAL GOVERNMENTS | Guidance Note 10 | The MSG is advised to conduct a review and gain an understanding of:  
• What taxes, fees and other payments companies are required to make to subnational levels of government. Typical benefit streams include taxes on properties, surface/land fees, and fees for usage of water or other resources. These payments may be constitutionally mandated, required by national or local legislation or regulation, or set out in a license or contract.  
• Which subnational entities receive these payments (e.g., regions, states, municipalities, district councils, chiefdoms or regional assemblies)?  
• Do these entities collect the payments directly or through another agency at national/federal or another subnational level? |
<p>| <strong>STEP 2</strong>&lt;br&gt;ASSESSING THE MATERIALITY OF DIRECT PAYMENTS FROM COMPANIES TO SUBNATIONAL ENTITIES | EITI Standard 4.6 | It is required that the multi-stakeholder group establish whether direct payments, within the scope of the agreed benefit streams, from companies to subnational government entities are material. |
|                     | EITI Validation | Validation is expected to document and evaluate the MSG’s definition of materiality with regards to direct subnational payments. |</p>
<table>
<thead>
<tr>
<th>Guidance Note Step</th>
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<tr>
<td><strong>STEP 2</strong>&lt;br&gt;(CONTINUED)</td>
<td>Guidance Note 10</td>
<td>Where the MSG has determined that there are direct payments from companies to subnational governments, the MSG needs to establish the materiality of these payments. The general approach set out in requirement 4.1(a) should inform this process:</td>
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<td><strong>In advance of the reporting process, the multi-stakeholder group is required to agree which payments and revenues are material and therefore must be disclosed, including appropriate materiality definitions and thresholds. Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. A description of each revenue stream, related materiality definitions and thresholds should be disclosed. In establishing materiality definitions and thresholds, the multi-stakeholder group should consider the size of the revenue streams relative to total revenues. The multi-stakeholder group should document the options considered and the rationale for establishing the definitions and thresholds.</strong></td>
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<td>Where the multi-stakeholder group determines that payments from companies to subnational entities are material, these payments and revenues should be disclosed and reconciled in the EITI Report. Where the multi-stakeholder group determines that payments from companies to subnational entities are not material, the basis for this assessment should be documented. It may be useful to provide a summary in the EITI Report.</td>
</tr>
<tr>
<td><strong>STEP 3</strong>&lt;br&gt;DISCLOSURE AND RECONCILIATION OF DIRECT PAYMENTS FROM COMPANIES TO SUBNATIONAL ENTITIES</td>
<td>EITI Standard 4.6</td>
<td>Where material, the multi-stakeholder group is required to ensure that company payments to subnational government entities and the receipt of these payments are disclosed and reconciled in the EITI Report.</td>
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<tr>
<td></td>
<td>EITI Validation</td>
<td>Where direct subnational payments exist and are considered material, Validation is expected to document whether these revenue flows have been fully reconciled and disclosed in accordance with provision 4.6.</td>
</tr>
<tr>
<td></td>
<td>Guidance Note 10</td>
<td>Where the multi-stakeholder group determines that payments from companies to subnational entities are material, these payments and revenues should be disclosed and reconciled in the EITI Report. It may be useful to provide a summary in the EITI Report. The results of the MSG’s investigations (and references to supporting materials) should be reflected in the terms of reference for the Independent Administrator. The Independent Administrator will:</td>
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<td><strong>• Review the MSG’s assessment of the materiality of direct payments from companies to subnational entities.</strong></td>
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<td><strong>• Where applicable, review the MSG’s proposal regarding the materiality threshold, and the entities that will be asked to report.</strong></td>
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<td><strong>• Propose reporting templates for company and government, and the assurances to be provided.</strong></td>
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<td><strong>• Collect and reconcile this data, and present the findings in the Independent Administrator’s report.</strong></td>
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<td>A particular challenge relates to ensuring that all subnational government agencies participate in the process. This may require additional outreach (including by the central government), training and capacity building.</td>
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</table>
4.1.2 EITI subnational transfers

Requirement 5.2 of the EITI Standard 2016 addresses subnational transfers between national and subnational government entities:

“a) Where transfers between national and subnational government entities are related to revenues generated by the extractive industries and are mandated by a national constitution, statute or other revenue sharing mechanism, the multi-stakeholder group is required to ensure that material transfers are disclosed. Implementing countries should disclose the revenue sharing formula, if any, as well as any discrepancies between the transfer amount calculated in accordance with the relevant revenue sharing formula and the actual amount that was transferred between the central government and each relevant subnational entity. The multi-stakeholder group is encouraged to reconcile these transfers. Where there are constitutional or significant practical barriers to the participation of subnational government entities, the multi-stakeholder group may seek adapted implementation in accordance with Requirement 8.1.

b) The multi-stakeholder group is encouraged to ensure that any material discretionary or ad hoc transfers are also disclosed and, where possible, reconciled.”

Table 4.2 below combines the requirements from Requirement 5.2 with the guidance provided in Guidance Note 10 and the relevant clauses from the EITI Validation Guide.

Table 4.2 Requirements and guidance for subnational transfers

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<thead>
<tr>
<th>Obligation</th>
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<tbody>
<tr>
<td><strong>STEP 1</strong></td>
<td><strong>ESTABLISHING MANDATED TRANSFERS BY NATIONAL CONSTITUTION, STATUTE OR OTHER REVENUE SHARING MECHANISM</strong></td>
<td>Validation is expected to document constitutional, statutory and other mandatory revenue sharing requirements and the MSG’s definition of materiality regarding mandatory subnational transfers.</td>
</tr>
</tbody>
</table>
| **EITI Validation** | | In identifying whether there are any transfers between national and subnational government entities which are collected from extractive industries and are mandated by national constitution, statute or other revenue sharing mechanism, the multi-stakeholder group may find it helpful to establish:

- Whether there is any legislation, regulation or agreement that mandates transfers of resource-related revenues from the national or federal government to specific subnational entities (e.g., in producing areas).
- If so, is there an agreed formula or procedure for determining the amount and timing of the transfers?
- Which government entity(ies) is responsible for the calculation, transfer and collection of these revenues?

Where transfers are not mandatory, but occur on an ad-hoc basis, the multi-stakeholder group is encouraged to disclose, and where possible reconcile, such transfers. For further information, see step 4 below. |
<p>| <strong>Guidance Note 10</strong> | | |</p>
<table>
<thead>
<tr>
<th>Obligation</th>
<th>Source</th>
<th>Description</th>
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</table>
|           | EITI Standard 5.2 | Where the MSG has determined that there are direct payments from companies to subnational governments, the MSG needs to establish the materiality of these payments. The general approach set out in requirement 4.1(a) should inform this process:  

 _In advance of the reporting process, the multi-stakeholder group is required to agree which payments and revenues are material and therefore must be disclosed, including appropriate materiality definitions and thresholds. Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. A description of each revenue stream, related materiality definitions and thresholds, should be disclosed. In establishing materiality definitions and thresholds, the multi-stakeholder group should consider the size of the revenue streams relative to total revenues. The multi-stakeholder group should document the options considered and the rationale for establishing the definitions and thresholds._ |
| | Validation | Validation is expected to document constitutional, statutory and other mandatory revenue sharing requirements and the MSG’s definition of materiality regarding mandatory subnational transfers. |
| | Guidance Note 10 | Where the MSG has determined that there are transfers between national and subnational government entities derived from revenues from extractive industries, the MSG should conduct further scoping work to determine the materiality of these transfers.  

 _Similar to payments and revenues, the general approach set out in requirement 4.1(a) should inform this process: In advance of the reporting process, the multi-stakeholder group is required to agree which payments and revenues are material and therefore must be disclosed, including appropriate materiality definitions and thresholds. Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. A description of each revenue stream, related materiality definitions and thresholds should be disclosed. In establishing materiality definitions and thresholds, the multi-stakeholder group should consider the size of the revenue streams relative to total revenues. The multi-stakeholder group should document the options considered and the rationale for establishing the definitions and thresholds. Where the multi-stakeholder group determines that transfers between national and subnational government entities related to revenues from extractive industries are material, these transfers should be disclosed in the EITI Report. Where the multi-stakeholder group determines that transfers between national and subnational government entities derived from revenues from extractive industries are not material, the basis for this assessment should be documented. It may be useful to provide a summary in the EITI Report._ |
**STEP 3**

**ESTABLISHING A REPORTING PROCEDURE FOR DISCLOSING MANDATED TRANSFERS**

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<th>Obligation</th>
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<tr>
<td></td>
<td>EITI Standard 5.2</td>
<td>The multi-stakeholder group is encouraged to reconcile these transfers. Where there are constitutional or significant practical barriers to the participation of subnational government entities, the multi-stakeholder group may seek adapted implementation in accordance with Requirement 8.1. b) The multi-stakeholder group is encouraged to ensure that any material discretionary or ad hoc transfers are also disclosed and where possible reconciled.</td>
</tr>
<tr>
<td></td>
<td>EITI Validation</td>
<td>Where mandatory subnational transfers exist and are material, Validation is expected to document whether these have been disclosed in accordance with provision 5.2.a together with any revenue sharing formula.</td>
</tr>
<tr>
<td></td>
<td>Guidance Note 10</td>
<td>The MSG should establish a reporting procedure for disclosing mandated transfers between national and subnational entities that are material, highlighting any deviations from the agreed revenue sharing formula. A reconciliation procedure is encouraged. If agreed, reconciliation might follow the same steps suggested for the reconciliation of direct payments from companies to subnational entities. Implementing countries should disclose the revenue sharing formula, if any, as well as any discrepancies between the transfer amount calculated in accordance with the relevant sharing formula and the actual amount that was transferred between the central government and each relevant subnational entity.</td>
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### STEPS 4-6

#### ADDRESSING DISCRETIONARY OR AD-HOC TRANSFERS

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<tr>
<th>Obligation</th>
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<th>Description</th>
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|            | EITI Standard 5.2 | The multi-stakeholder group is encouraged to reconcile these transfers. Where there are constitutional or significant practical barriers to the participation of subnational government entities, the multi-stakeholder group may seek adapted implementation in accordance with Requirement 8.1.  

b) The multi-stakeholder group is encouraged to ensure that any material discretionary or ad hoc transfers are also disclosed and where possible reconciled. |
|            | EITI Validation  | Validation is also expected to document if mandatory subnational transfers have been reconciled. Reconciliation is encouraged, but not required and should not be considered in assessing compliance with the EITI Standard.  

Validation is expected to document whether the MSG has included ad-hoc subnational transfers in the EITI reporting process. Disclosures of ad-hoc subnational transfers are encouraged but not required, and should not be considered in assessing compliance with the EITI Standard (5.2.b). |
|            | Guidance Note 10 | The MSG is encouraged to establish a reporting procedure that discloses discretionary or ad-hoc transfers of resource-related revenues by including this work in the terms of reference for the Independent Administrator. A reconciliation procedure is encouraged. The multi-stakeholder group should document the approach followed in addressing subnational transfers. It may be useful to provide a summary in the EITI Report. |
4.1.3 Social expenditures

Requirement 6.1 of the EITI Standard 2016 addresses social expenditures by extractive companies:

“a) Where material social expenditures by companies are mandated by law or the contract with the government that governs the extractive investment, implementing countries must disclose and, where possible, reconcile these transactions. Where such benefits are provided in-kind, it is required that implementing countries disclose the nature and the deemed value of the in-kind transaction. Where the beneficiary of the mandated social expenditure is a third party, i.e., not a government agency, it is required that the name and function of the beneficiary be disclosed. Where reconciliation is not feasible, countries should provide unilateral company and/or government disclosures of these transactions.

b) Where the multi-stakeholder group agrees that discretionary social expenditures and transfers are material, the multi-stakeholder group is encouraged to develop a reporting process with a view to achieving transparency commensurate with the disclosure of other payments and revenue streams to government entities. Where reconciliation of key transactions is not possible, e.g., where company payments are in kind or to a non-governmental third party, the multi-stakeholder group may wish to agree on an approach for voluntary unilateral company and/or government disclosures.”

Table 4.3 below combines the requirements from Requirement 6.1 with the guidance provided in Guidance Note 17 and the relevant clauses from the EITI Validation Guide.

Table 4.3 Requirements and guidance for social payments

<table>
<thead>
<tr>
<th>Obligation</th>
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<tr>
<td><strong>STEP 1</strong></td>
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<td>In order to identify whether companies provide social expenditures, the MSG is advised to consult:</td>
</tr>
<tr>
<td><strong>IDENTIFY WHETHER COMPANIES MAKE SOCIAL EXPENDITURES, INCLUDING WHETHER THESE ARE MANDATORY OR DISCRETIONARY</strong></td>
<td>EITI Validation</td>
<td>• Extractive companies and industry associations with a view to understanding the type and nature of any social expenditures, and whether social expenditures are discretionary or part of the companies’ legal and/or contractual obligations.</td>
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<td>• The legal and regulatory framework governing the extractive sector to identify whether social expenditures are mandated by law. Where mandated by law, the MSG may wish to include a reference to the relevant legal provisions in the EITI Report.</td>
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<td>• Agreements and contracts, where available, in order to understand whether social expenditures are obligatory or voluntary.</td>
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<td>It is recommended that the findings from this work are documented in MSG minutes, scoping studies or in the EITI Report itself.</td>
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### Step 2

**Assessing the Materiality of Social Expenditures**

<table>
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<tr>
<th>Obligation</th>
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<tr>
<td></td>
<td>EITI Standard 6.1</td>
<td>Where material social expenditures by companies are mandated by law or the contract with the government that governs the extractive investment, implementing countries must disclose and, where possible, reconcile these transactions.</td>
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<tr>
<td></td>
<td>EITI Validation</td>
<td>Validation is expected to document the MSG’s definition of materiality with regards to mandatory social expenditures. Where mandatory social expenditures exist and are material, Validation is expected to verify whether these have been disclosed and reconciled in accordance with provision 6.1.a, including any gaps. Validation is expected to document whether the MSG has disclosed discretionary social expenditures in accordance with provision 6.1.b. Such disclosures are encouraged but not required, and should not be considered in assessing compliance with the EITI Standard.</td>
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</table>
|                     | Guidance Note 10        | Where the MSG has determined that extractive companies make i) mandatory or ii) discretionary social expenditures, the MSG needs to establish whether these payments are material. The general approach set out in Requirement 4.1(a) should inform this process:  

  *In advance of the reporting process, the multi-stakeholder group is required to agree which payments and revenues are material and therefore must be disclosed, including appropriate materiality definitions and thresholds. Payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report. A description of each revenue stream, related materiality definitions and thresholds should be disclosed. In establishing materiality definitions and thresholds, the multi-stakeholder group should consider the size of the revenue streams relative to total revenues. The multi-stakeholder group should document the options considered and the rationale for establishing the definitions and thresholds.*

  In some cases, the data needed to make this assessment will already be publicly available from companies, government authorities or other sources. In other cases, it may only be possible to estimate the size of the payments through consultations with stakeholders. While social expenditures may be insignificant in absolute value compared to taxes and royalties, the impact on small local economies and social and institutional arrangements may still be considerable. In accordance with Requirement 6.1, where the MSG determines that mandatory social expenditures are material, the EITI Report must disclose and, where possible, reconcile these transactions (see step 3 below). If the MSG concludes that these flows are immaterial, the basis for this assessment should be documented. In such circumstances, it may be useful to provide a summary in the EITI Report. Where the MSG determines that discretionary social payments or transfers to government entities are material, the MSG is encouraged to cover these flows in the EITI Report (requirement 6.1.b). A reconciliation procedure is encouraged where feasible. If agreed, reconciliation might follow the same approach suggested for mandatory social expenditures (see step 3 below). |
### EITI Global Requirements continued

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<tr>
<td><strong>STEP 3</strong></td>
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<tr>
<td>DISCLOSURE AND RECONCILIATION OF SOCIAL EXPENDITURES</td>
<td>EITI Standard 6.1</td>
<td>Where material social expenditures by companies are mandated by law or the contract with the government that governs the extractive investment, implementing countries must disclose and, where possible, reconcile these transactions. Where such benefits are provided in kind, it is required that implementing countries disclose the nature and the deemed value of the in-kind transaction. Where the beneficiary of the mandated social expenditure is a third party, i.e., not a government agency, it is required that the name and function of the beneficiary be disclosed. Where reconciliation is not feasible, countries should provide unilateral company and/or government disclosures of these transactions. Where the multi-stakeholder group agrees that discretionary social expenditures and transfers are material, the multi-stakeholder group is encouraged to develop a reporting process with a view to achieving transparency commensurate with the disclosure of other payments and revenue streams to government entities.</td>
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<td>Obligation</td>
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<tr>
<td>STEP 3 (CONTINUED)</td>
<td>Guidance Note 10</td>
<td>Where the MSG has established that social expenditures payments or transfers to government entities are material, additional work may be needed to design appropriate reporting templates and agree on procedures for disclosure and, where possible, reconciliation of the data. In order to agree on an appropriate reporting procedure, the MSG is advised to review:</td>
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<td>• The nature of the social expenditures, including whether the social expenditure is provided in-kind, for example, through access to services or infrastructure, through financial transactions, or a combination. In accordance with requirement 6.1.a, where such benefits (i.e., mandatory social expenditures) are provided in-kind, it is required that the EITI Report discloses the nature and the deemed value of the in-kind transaction.</td>
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<td>• The parties involved in the transaction (i.e., the provider and the recipient of the social expenditure), which, in addition to the extractive company, may include a government entity or a third party recipient such as a charitable organisation or other type of association. The beneficiary of the social expenditure is the recipient of the benefit, i.e., the person or body who owns or controls or uses the asset or service. In accordance with requirement 6.1.a, ‘where the beneficiary of the mandated social expenditure is a third party, i.e., not a government agency, it is required that the name and function of the beneficiary be disclosed’.</td>
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<td>Depending on the nature of the social expenditure and the parties involved in the transaction, the MSG needs to determine whether the transactions can be reconciled, or whether it is more appropriate that the company making the payment and/or government entity receiving the benefits unilaterally disclose the nature and the value of the transaction (requirement 1.5.c.ii). Where the social expenditure is a financial transaction between an extractive company and a government entity, or a community development fund, reconciliation will in most cases be feasible. However, where the social expenditure is provided in-kind or the payment is made to a contractor for the implementation of a project or to an NGO, reconciliation may well be challenging. In such cases the reporting template should be designed so that the extractive company describes the nature of the social contribution provided and the deemed monetary value at the time that the expenditure was made. Similarly, where the beneficiary is not a government agency but a third party, the reporting template should enable the name and function of the beneficiary to be disclosed. The MSG is advised to explain and document the agreed approach for reporting on social expenditures. The MSG may also wish to task the Independent Administrator with proposing templates for reporting on social expenditures.</td>
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</table>
EITI Global Requirements continued

4.2.1 Validation of subnational reporting in other EITI countries

The following 26 countries have undergone validation on Requirements 4.6 and/or 5.2: Albania, Burkina Faso, Cameroon, Colombia, Cote d’Ivoire, Ghana, Honduras, Iraq, Kyrgyz Republic, Madagascar, Mali, Mauritania, Mongolia, Mozambique, Niger, Nigeria, Norway, Peru, Philippines, PNG, Sao Tome and Principe, Solomon Islands, Tanzania, Togo, Ukraine, Zambia.1

For each of these countries, the results of EITI validation across Requirements 4.6, 5.2 and 6.2 are shown in Figure 4.1. For Requirement 4.6, 8 countries were rated as having made satisfactory progress and 6 countries were rated as having meaningful progress. For Requirement 5.2, 6 countries were rated as having made satisfactory progress and 5 countries were rated as having meaningful progress. For Requirement 6.2, 5 countries were rated as having made satisfactory progress and 26 countries were rated as having meaningful progress. The higher proportion of countries making meaningful progress for social expenditure may reflect the fact that social expenditure is often declared unilaterally by extractive companies.

4.2.2 Subnational reporting in other EITI-implementing countries

Even prior to the introduction of the EITI Standard 2016, a number of countries—such as Peru and the Philippines—had taken measures to improve subnational reporting in their EITI annual reporting process. With the EITI Standard 2016 now including enhanced requirements for reporting subnational payments and transfers.

First, and perhaps the greatest lesson from these experiences around the globe, is that a broader change process is required to make meaningful progress on subnational reporting. With the different stakeholder networks and political economies that often engulf extractive projects, subnational EITI implementation is more effective when it is accompanied by a broader change management process to build stakeholder engagement and trust, and to implement specific arrangements for subnational reporting that suit local stakeholders. Actively engaging stakeholders was key to the Peru subnational reporting experience, as was strong government commitment to the subnational reporting process (see Case Study 1). Similarly, in the Philippines, government participation was key to address subnational regulations that lacked clarity and created convoluted jurisdictional overlaps.

Second, subnational reporting does not succeed because an independent administrator, stationed at the nation’s capital, requests data from subnational stakeholders. Instead, experience in EITI countries shows that some kind of subnational MSG or coordination structure is generally required to identify community concerns, determine the ideal contents of subnational reports, and illuminate regional contextual factors that may hamper or facilitate the collection of subnational data.

The governance structure of regional MSGs and their links to national MSGs vary. For example, in the Philippines, regional MSG pilot projects were formed by Bantay Kita (a national natural resource governance advocacy coalition) before the national MSG was established to help inform national EITI implementation and amplify the impacts at the local level (see Case Study 2). Bantay Kita is a member of the Philippines national EITI board and has used their position to successfully advocate for a range of issues including the provision of disaggregated data. In addition, Bantay Kita works with the national EITI secretariat to develop regional summaries of the Philippine EITI report. In Peru, pilot subnational MSGs have been created to help implement EITI at the subnational level (see Case Study 1). These pilot MSGs have been instrumental in the publishing of subnational EITI reports. Regional MSG pilots have also been a valuable tool for monitoring and disseminating national EITI reporting in Indonesia, where subnational MSG membership typically includes representatives from local mining companies, regional governments, representatives from indigenous populations, and CSOs (see Case Study 3). In Ghana, Nigeria and Indonesia, subnational governments have seats in the national MSGs.

Third, another key lesson from the global experience is that the discussions that occur in subnational MSGs can create more impactful community development plans and budget allocations. This was the case in T’boli, Philippines, where the subnational MSG process helped stakeholders develop a community development plan incorporating the perspectives of women, community
leaders, and indigenous elders. A related lesson from the global experience is that subnational reporting is more effective when key stakeholders are properly engaged to translate EITI processes into the impacts that specific communities are seeking. This was exemplified by the early, yet slow progress in Ghana, where stakeholders were skeptical of the EITI process and sometimes objected to the participation of civil society (see Case Study 3). Progress seemed to be quicker and more significant in Peru, where effective community outreach activities resulted in stakeholders being more enthusiastic about the EITI process, and CSOs faced few barriers to participation.

Fourth, national EITI data must be disaggregated to be useful at the subnational level. For example, the practice of disclosing aggregated data, rather than disaggregated data relevant to the subnational level, was a major barrier in the Philippines (see Case Study 1).

Fifth, some implementing countries have extended subnational reporting to include social and environmental impacts (e.g., Indonesia) and expenditure reports on how extractive funds are used by stakeholders (e.g., Philippines). Potential uses for subnational data have also been outlined by the Natural Resource Governance Institute (NRGI). These include:

- Land rights and licensing
- Revenue collection
- Social expenditures
- Local content
- Social and environmental impact
- Local government spending

2 https://resourcegovernance.org/sites/default/files/documents/sn_transparency_pps_v2.pdf
**4.2.2 Peru: The pioneers of subnational EITI in Latin America**

Peru has a long track record with EITI implementation, with 12 fiscal years of EITI reporting. Peru was the first country in Latin America to become EITI compliant, and it hosted the EITI Global Conference in 2016.

In 2017, the EITI Board determined that Peru had made “meaningful progress” in implementing the EITI Standard 2016. Although social conflict and lack of trust from communities is prevalent in the Peruvian mining sector, there is a strong transparency commitment from the government of Peru, combined with effective partnerships between industry and civil society.

Peru has piloted subnational EITI implementation in two regions (Moquegua and Piura), and the Peru EITI 2016-2018 EITI work plan involves implementing subnational EITI in three new regions.

Factors that have contributed to this progress in subnational reporting include:

» Strong government commitment to subnational transparency (e.g., subnational EITI commissions)

Opportunities for further improvement in subnational reporting include better documentation of scoping decisions, improved data quality assurance procedures, and documentation of the impact of EITI work.

**4.2.1 The Philippines: Lessons from effective MSGs**

Progress towards subnational payment transparency continues to improve in the Philippines. In 2016, it was announced that The Department of Budget and Management (DMB) committed to provide local governments with disaggregated information in response to suggestions from the 2012 EITI report. As a result, all collecting agencies are now required to provide all information requested by PH-EITI to the DMB, allowing subnational governments to validate that they are receiving their allocated shares. As of 2016, the DMB began disclosing the share of extractive revenues that local governments receive from each company.

Another initiative in the Philippines was driven through a collaborative effort between PH-EITI and the Bureau of Local Government and Finance, which implemented an online reporting system for local government units (LGUs). The 'Environment and Natural Resource Data Management Tool' generates disaggregated data on local allocations and receipts. LGUs, in turn, use the tool to report revenues from the extractive sector. Use of the tool by LGU treasurers has been mandated, and training on the tool was given in the PH-EITI Roadshow 2017.

Bantay Kita, a national coalition advocating for transparency in the extractives industry, has also implemented two subnational pilot projects in the Compostela Valley and T'boli. The success of the projects was largely attributed to the careful creation of subnational MSGs and their ability to foster trust between stakeholders and understand local context.

Subnational templates have been developed to standardise the disclosure of payments and revenues from extractives companies to local governments and indigenous populations, as well as how such revenues are used.

3. [https://eiti.org/fr/implementing-country/2](https://eiti.org/fr/implementing-country/2)
4.2.3 Ghana: Good start, lagging results

Ghana is recognised for its leadership in tracking subnational data since 2003 and including subnational revenue flows in their first EITI-audited report published in 2007.

During the early stages of subnational revenue tracking, there were no major discrepancies between company payments and government receipts; however, concerns were raised over the calculation and use of royalties as well as subnational disbursement transparency.

Although later reports highlight improvements in the tracking of subnational disbursements, further improvements are necessary to achieve compliance with EITI Standard 2016. During a collaborative community discussion conducted by GHEITI (Ghana EITI), it was agreed that there needs to be greater transparency between district assemblies and community members regarding contributions to local development programs. Unlike the case in Peru, there is skepticism among some stakeholders regarding the global EITI process, with the major objection being that the scope of current reporting does not address core community concerns.

For example, citizens’ groups have suggested the need for social and environmental auditing of extractive companies, and feel this suggestion has been ignored during the EITI process. Further, also unlike Peru, many citizens’ groups object to civil society participating in the process.

4.2.4 Indonesia: Effective use of subnational information

In Indonesia, multi-stakeholder dialogue and the availability of subnational data has facilitated the identification of significant discrepancies between national and subnational revenue sharing.

On 19 June 2014, Publish What You Pay (PWYP) Indonesia conducted a multi-stakeholder workshop to disseminate the EITI Indonesia Report and compare subnational data against national data. The proceedings highlighted numerous significant discrepancies between data in the EITI Indonesia report, central government disclosures, and funds received by local governments.

In addition, after reviewing the management of revenue sharing for the improvement of service delivery in West Lombok and West Sumbawa, it was discovered that allocated revenue for social and economic projects was minimal, and development results were underwhelming. The presentations and discussions at the workshop resulted in the lessons outlined below:

» The inclusion of aggregated and disaggregated data is crucial for proper assessment and dissemination of subnational information.

» Reports should be used to compare allocated social development revenue to actual impacts to assess efficacy.

» Corporate social responsibility payments should be included in the EITI report.

» Spatial transparency (e.g., illuminating jurisdictional overlap) and revenue tracking should be a priority.

» National and subnational data should be synchronised.

» Laws and regulations should be adjusted to support the EITI standards and processes.
5.1 Overview of financial flows in the extractives sector
5.2 Total national versus subnational financial flows
5.3 National versus subnational financial flows
5.4 Subnational financial flows by sub-sector and over time
5.5 National and subnational financial flows by company
5.6 Subnational financial flows by company
5.7 Subnational financial flows by recipient
5.1 Overview of financial flows in the extractives sector

The resource rents that derive from the extractives sector in PNG are collected through a diverse range of taxes, royalties, equity payments, dividends, levies, fees, bonds, compensation payments, and mandatory and voluntary social payments.

As shown in Table 5.1, these extractive revenues can be usefully classified by payer types (company, national government and subnational governments) and recipient types (national government, subnational government, and non-government groups, including landowners). Where the company is the payer, the payment flow is a 'direct payment' under the EITI Standard 2016. Where the national government or a subnational government entity is the payer, the payment flow is considered a ‘subnational transfer’ under the EITI Standard 2016.

Companies make direct payments to national governments and subnational governments, as well as direct mandatory and voluntary social payments to landowners and communities.

National government entities (including SOEs) make transfers to other national government agencies and subnational levels of government.

Perhaps what is less known is that subnational levels of government also make transfers to other levels or extensions of subnational government. For instance, some local-level governments transfer royalties to ward development committees, which are established under Section 26 of the Local-level Governments Administration Act 1997.

Subnational levels of government, including provincial and local-level governments, also make recurrent and one-off payments to community groups from royalty funds.

Table 5.2 presents an overview of all national- and subnational-level transactions in the sector, grouped by mining-specific payments, petroleum-specific payments, and payments that are common to both mining and petroleum projects.

---

1 Transfers from subnational government entity to subnational government entity are not explicitly addressed in the EITI Standard 2016. In this report, these subnational-to-subnational payment flows are considered to be subnational transfers.
### Table 5.2 Overview of payments and transfers in PNG’s extractives sector

#### Mining

<table>
<thead>
<tr>
<th>National</th>
<th>Subnational</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mine Closure Bond</strong></td>
<td>Conservation and Environment Protection Agency</td>
</tr>
<tr>
<td><strong>Production Levy</strong></td>
<td>Mining companies =&gt; Mineral Resources Authority (MRA)</td>
</tr>
</tbody>
</table>

#### Petroleum

<table>
<thead>
<tr>
<th>National</th>
<th>Subnational</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decommissioning Bonds</strong></td>
<td>Conservation and Environment Protection Agency</td>
</tr>
<tr>
<td><strong>License Fees</strong></td>
<td>Department of Petroleum and Energy</td>
</tr>
<tr>
<td><strong>Additional Profits Tax</strong></td>
<td>Internal Revenue Commission</td>
</tr>
<tr>
<td><strong>Share of Sales</strong></td>
<td>State-owned enterprises (SOEs)</td>
</tr>
</tbody>
</table>

#### Subnational

<table>
<thead>
<tr>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Development Levy</strong></td>
</tr>
<tr>
<td><strong>Equity Distribution</strong></td>
</tr>
<tr>
<td><strong>Royalties</strong></td>
</tr>
</tbody>
</table>

#### Mining and Petroleum

<table>
<thead>
<tr>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Group Tax</strong> (taxes withheld from employees’ salaries)</td>
</tr>
<tr>
<td><strong>Mining and Petroleum Tax</strong> (corporate income tax)</td>
</tr>
<tr>
<td><strong>Business Payments Tax</strong></td>
</tr>
<tr>
<td><strong>Dividend Withholding Tax</strong></td>
</tr>
<tr>
<td><strong>Interest Withholding Tax</strong></td>
</tr>
<tr>
<td><strong>Management Fee Withholding Tax</strong></td>
</tr>
<tr>
<td><strong>Royalty Withholding Tax</strong></td>
</tr>
<tr>
<td><strong>Foreign Company Withholding Tax</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Subnational</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Environment Permit Fees</strong></td>
</tr>
</tbody>
</table>

#### Other: State-Owned Enterprises and Government

<table>
<thead>
<tr>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Infrastructure Tax Credits</strong></td>
</tr>
<tr>
<td><strong>Special Support Grants</strong></td>
</tr>
<tr>
<td><strong>Dividends</strong></td>
</tr>
<tr>
<td><strong>Mandatory Social Expenditure</strong></td>
</tr>
<tr>
<td><strong>Discretionary Social Expenditure</strong></td>
</tr>
<tr>
<td><strong>Compensation Payments</strong></td>
</tr>
</tbody>
</table>

#### Other Payments

- Infrastructure provisions and barter arrangements
- Payments to subnational entities
- Transfers to subnational entities
- Transfers between SOEs and other government agencies

#### Notes

- Bold = Material revenue streams
- ^ = Spending reported to DNPM and offset reported to IRC
Overview of Financial Flows continued

5.2 Total national versus subnational financial flows

As shown in Figure 5.1, the total revenue from the extractives sector between 2013 – 2017 was PGK16.34 billion. This included PGK10.67 billion in payments to national-level stakeholders and PGK5.67 billion in payments to subnational entities.

In the mining sector, the majority of payments and transfers were made to the subnational level: PGK1.60 billion (58.9% of total revenue) was paid or transferred to subnational entities compared to PGK1.26 billion (44.07% of total revenue) to the national level.

The reverse is true for the oil and gas sector: PGK3.04 billion (56.99% of total revenue) was paid or transferred to subnational entities compared to PGK2.30 billion (43.01% of total revenue) to the national level.

A similar pattern was observed across SOEs: PGK6.37 billion (78.26% of total revenue) was paid or transferred to subnational entities compared to PGK1.77 billion (21.74% of total revenue) to the national level.

The yearly and cumulative growth of all extractive sector payments, broken down by the national and subnational levels is shown in Figure 5.2.

Payments to national-level entities show a high of PGK3.12 billion in 2017 driven by share of sales from the PNG LNG Project. Payments to subnational entities range between PGK977.59 million in 2013 to a peak of PGK1.23 billion in 2017.

---

1 As noted in the PNGEITI 2016 report.
5.3 National versus subnational financial flows

As shown in Figure 5.3, the most significant national-level payments from 2013-2017 were share of sales (PGK4.59 billion), group tax (PGK2.91 billion), corporate income tax (PGK1.72 billion), dividends (PGK989 million) and other taxes (PGK247.28 million).

Subnational financial flows\(^2\) included discretionary social payments (PGK1.41 billion), mandatory social payments (PGK1.07 billion), share of sales (PGK966.17 million), Infrastructure Tax Credit Scheme\(^3\) (PGK 935.17 million), royalties to landowners (PGK554.51 million), royalties to provincial and local-level governments (PGK539.36 million), development levies (PGK250.85 million) and the Public Investment Program.

\(^1\) Group tax is paid by employees not by extractive companies.

\(^2\) The graph includes all financial flows that accrue to the subnational level, including direct payments, subnational transfers and social expenditure, as well as other project funds such as the Infrastructure Tax Credit Scheme and funds for the Public Investment Program. These different categories of payments are discussed further in Section 6 of this report.

\(^3\) Reliable data on the location of ITCS projects was not available. ITCS projects have been classified as a ‘subnational’ financial flow.
5.4 Subnational financial flows by sub-sector and over time

As shown in Figure 5.4 below, the oil and gas sector was the major payer to subnational entities, with the largest payment category being discretionary social payments. The largest payment category for mining projects was mandatory social expenditure.

As shown in Figure 5.5 below, subnational revenues fluctuate over time. For instance, discretionary social spending dropped significantly between 2014 and 2015 in both the oil and gas and mining sectors, whereas share of sales dramatically increased in 2015 due to transactions from the PNG LNG project.

Figure 5.4  2013-2017 extractive payments and transfers by mining, oil and gas, and SOEs

Figure 5.5  2013-2017 yearly and cumulative extractive payments and transfers national
5.5 National and subnational financial flows by company

Extractive projects vary in their relative distribution of financial flows to national and subnational entities (see Figure 5.6).

These differences arise due to the different regulatory regimes between the oil and gas and mining sectors; the specific MOAs, UBSAs and other agreements that are in place for projects; the historical and contemporary political economies in each extractive project (i.e., the networks of stakeholders that shape social, political and economic relations around extractive projects); and the different corporate social responsibility approaches practiced by the various extractive companies.

Some companies, such as Oil Search, have a relatively equal balance of financial flows to national and subnational stakeholders. Other companies are weighted towards national-level stakeholders (e.g., the PNG LNG Project) or subnational-level stakeholders (e.g., Lihir Gold mine).
Overview of Financial Flows continued

5.6 Subnational financial flows by company

As shown in Figure 5.7 below, Oil Search was the largest payer to subnational entities, followed by Newcrest, MRDC, Ok Tedi, ExxonMobil PNG and Barrick.

![Diagram showing subnational financial flows by company from 2013 to 2017. The diagram includes bars representing various companies and the amounts paid to subnational entities. The colors and sizes of the bars correspond to different types of payments, with labels like S-Development Levy, S-Discretionary Social, S-Infrastructure Tax Credit Scheme, S-Mandatory Social, S-Public Investment Program, S-Royalties landowners, S-Royalties provincial/local gos, and S-Share of sales.]
5.7 Subnational financial flows by recipient

Major recipients at the subnational level were local communities (PGK3.32 billion) and landowners (PGK1.56 billion), followed by provincial and local-level governments’ (PGK790.21 million).

1 Royalty fees cannot be disaggregated between provincial and local-level governments in some PNGEITI reports and as a result provincial and local-level governments are reported together here, although provincial governments are also shown as a disaggregated receiving entity in the graph below where funds can be disaggregated (e.g., development levies).

Local Communities: 3,317.93M
Local Stakeholders

Landowners: 1,556.25M
Local Stakeholders

Provincial & Local Gov.: 790.21M
Special Purpose Authorities: 35.56M

Figure 5.8 2013-2017 yearly and cumulative extractive payments and transfers national
Subnational financial flows, stakeholders and agreements

6.1 Subnational payment flows

6.2 Stakeholders involved in subnational payment flows

6.3 Subnational payments overview

- Royalties
- Development Levies
- Special Support Grants and Infrastructure
- Development Grants
- Dividends, Equity Payments and Share of Sales
- Social Expenditure: Mandatory and Discretionary
- Infrastructure Tax Credit Scheme

Newcrest’s Lihir Gold Mine, Lihir Island, New Ireland Province. Source: Tim Grice
Subnational Financial Flows

6.1 Subnational payment flows

Table 6.1 (Mining) and Table 6.2 (Oil and Gas) contain an overview of the subnational payment types in PNG’s extractive sector.

Each payment is classified by the category type under the EITI 2016 standard; the payer, recipient and intermediary (if applicable); whether the payment is mandatory or voluntary; the legal basis for the payment; the current PNGEITI reporting status; and the formula used for the payment where applicable.

These payments are discussed in more detail in section 6.3 and Annex B contains further details on each of the payments.

<table>
<thead>
<tr>
<th>1 TYPE</th>
<th>2 PAYER</th>
<th>3 RECIPIENT</th>
<th>4 INTERMEDIARY</th>
<th>5 MANDATORY OR VOLUNTARY</th>
<th>6 LEGAL BASIS</th>
<th>7 PNGEITI STATUS</th>
<th>8 FORMULA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MINING</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royalties</td>
<td>✗</td>
<td>✗</td>
<td>✨✨✨✨</td>
<td>✗</td>
<td>✗</td>
<td>✨✨✨</td>
<td>2% of gross revenue calculated monthly</td>
</tr>
<tr>
<td>Special Support Grants (Public Investment Program)</td>
<td>✗</td>
<td>✗</td>
<td>✨✨✨</td>
<td>✗</td>
<td>✗</td>
<td>✨</td>
<td>0.5% – 1% of net sales value from mine products</td>
</tr>
<tr>
<td>Mandatory Social Payments</td>
<td>✗</td>
<td>✗</td>
<td>✨✨✨✨</td>
<td>✗</td>
<td>✗</td>
<td>✨</td>
<td>Agreed terms contained within MOAs and compensation agreements</td>
</tr>
<tr>
<td>Discretionary Social Payments</td>
<td>✗</td>
<td>✗</td>
<td>✨✨✨✨</td>
<td>✗</td>
<td>✗</td>
<td>✨</td>
<td>✵</td>
</tr>
<tr>
<td>Infrastructure Tax Credit Scheme</td>
<td>✗</td>
<td>✗</td>
<td>✨✨✨</td>
<td>✗</td>
<td>✗</td>
<td>✨</td>
<td>0.75% of assessable income</td>
</tr>
<tr>
<td>Equity Distribution / Dividends</td>
<td>✗</td>
<td>✗</td>
<td>✨</td>
<td>✗</td>
<td>✗</td>
<td>✨</td>
<td>✵</td>
</tr>
<tr>
<td>Share of Sales</td>
<td>✗</td>
<td>✗</td>
<td>✨</td>
<td>✗</td>
<td>✗</td>
<td>✨</td>
<td>✵</td>
</tr>
</tbody>
</table>

Table 6.1 Overview of subnational payments in PNG’s mining sector
### Table 6.2  Overview of subnational payments in PNG’s oil and gas sector

<table>
<thead>
<tr>
<th>1. TYPE</th>
<th>2. PAYER</th>
<th>3. RECIPIENT</th>
<th>4. INTERMEDIARY</th>
<th>5. MANDATORY OR VOLUNTARY</th>
<th>6. LEGAL BASIS</th>
<th>7. PNGEITI STATUS</th>
<th>8. FORMULA</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OIL &amp; GAS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Royalties</td>
<td>COMPANY</td>
<td>PROVINCIAL GOV.</td>
<td></td>
<td></td>
<td>MANDATORY</td>
<td></td>
<td>2% of wellhead value for oil and gas projects</td>
</tr>
<tr>
<td>Development Levy</td>
<td>COMPANY</td>
<td>PROVINCIAL GOV.</td>
<td></td>
<td></td>
<td>MANDATORY</td>
<td></td>
<td>2% of the wellhead value of all petroleum product from the licence area</td>
</tr>
<tr>
<td>Equity Distribution</td>
<td>COMPANY</td>
<td>PROVINCIAL GOV.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share of Sale / Dividends</td>
<td>COMPANY</td>
<td>PROVINCIAL GOV.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mandatory Social Payments</td>
<td>COMPANY</td>
<td>PROVINCIAL GOV.</td>
<td></td>
<td></td>
<td>MANDATORY</td>
<td></td>
<td>Agreed terms contained within UBSAs and compensation agreements</td>
</tr>
<tr>
<td>Infrastructure Tax Credit Scheme</td>
<td>COMPANY</td>
<td>PROVINCIAL GOV.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.75% of assessable income</td>
</tr>
<tr>
<td>Discretionary Social Payments</td>
<td>COMPANY</td>
<td>PROVINCIAL GOV.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Some agreed terms contained within MOUs</td>
</tr>
</tbody>
</table>

**LEGEND**

1. TYPE
   - DIRECT PAYMENT
   - TRANSFER
   - SOCIAL EXPENDITURE
   - IPBA

2. PAYER
   - COMPANY
   - NATIONAL GOV. TREASURY
   - NATIONAL GOV. DEPT. OF FINANCE
   - NA

3. RECIPIENT
   - PROVINCIAL GOV.
   - LOCAL LEVEL GOV.

4. INTERMEDIARY
   - LANDOWNERS
   - SPECIAL PURPOSE AUTHORITIES
   - AFFECTED COMMUNITIES
   - DNPM / PROVINCIAL GOV.
   - COMMUNITIES
   - EQUITY HOLDERS
   - STATE PARTNERS IN PNG LNG
   - NA

5. MANDATORY OR VOLUNTARY
   - MANDATORY
   - VOLUNTARY

6. LEGAL BASIS
   - MINING ACT
   - NEC DECISION
   - PROJECT MOAs
   - COMPENSATION AGREEMENTS
   - SOME TIMES PAID UNDER CONTRACTUAL TERMS
   - ITCS GUIDELINES
   - NA
   - PROJECT AGREEMENTS
   - OIL & GAS ACT

7. PNGEITI STATUS
   - UNILATERALLY DECLARED
   - RECONCILED
   - COMPANIES TREASURY
   - NA
   - SOEs

8. FORMULA
   - NA
Subnational Financial Flows continued

6.2 Stakeholders involved in subnational payment flows

Table 6.3 on page 69 contains an overview of the roles that different national and subnational stakeholders play in receiving, transferring, recording and reporting subnational payments.

6.3 Subnational payments overview

Pages 70-86 contains a descriptive overview of subnational payments, including historical payment data.
### Subnational revenue streams received, transferred or reported

<table>
<thead>
<tr>
<th>NATIONAL LEVEL STAKEHOLDERS</th>
<th>Subnational revenue streams received, transferred or reported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral Resource Authority (MRA)</td>
<td>Transfers Special Support Grants as part of Public Investment Program. Reports on royalties.</td>
</tr>
<tr>
<td>Department of Petroleum and Energy (DoP)</td>
<td>Transfers royalties and development levies from extractive companies to landowners (royalties) and provincial and local-level governments (development levies).</td>
</tr>
<tr>
<td>Mineral Resource Development Company</td>
<td>Transfers royalties and equity dividends from extractive companies to landowners and provincial and local-level governments.</td>
</tr>
<tr>
<td>Department of National Planning and Monitoring</td>
<td>Approves and reports on Infrastructure Tax Credits projects.</td>
</tr>
<tr>
<td>Internal Revenue</td>
<td>Approves tax credits for Infrastructure Tax Credits projects.</td>
</tr>
<tr>
<td>Department of Provincial and Local Government Affairs</td>
<td>Oversees reporting for subnational government entities.</td>
</tr>
<tr>
<td>Department of Treasury</td>
<td>Development levy (keep records of payments).</td>
</tr>
<tr>
<td>Department of Finance</td>
<td>Development levy (Trust branch administers payments to trust accounts of provincial governments).</td>
</tr>
<tr>
<td>Provincial Governments</td>
<td>Receives royalties and development levies from extractive companies/MRDC and may transfer funds to sub district or local-level governments</td>
</tr>
<tr>
<td>Subdistrict Governments</td>
<td>May receive royalties, development levies or SSGs from provincial governments.</td>
</tr>
<tr>
<td>Local-level governments</td>
<td>May receive royalties, development levies or SSGs from provincial governments or direct from extractive companies (royalties).</td>
</tr>
<tr>
<td>Special Purpose Authorities</td>
<td>May receive development levies from MRDC.</td>
</tr>
<tr>
<td>District Development</td>
<td>May receive development levies from MRDC.</td>
</tr>
<tr>
<td>Ward Development</td>
<td>May receive portion of royalties from local-level governments.</td>
</tr>
<tr>
<td>Landowner Associations</td>
<td>May receive social expenditure from extractive companies for administration support or projects.</td>
</tr>
<tr>
<td>Landowners</td>
<td>May receive mandatory social expenditure from extractive companies for access to land and water, and environmental and social impacts.</td>
</tr>
<tr>
<td>Resettlement Groups</td>
<td>May receive social expenditure from extractive companies as part of relocation packages.</td>
</tr>
<tr>
<td>Local Businesses</td>
<td>May receive mandatory or discretionary social expenditure such as business grants from</td>
</tr>
<tr>
<td>Local CSOs</td>
<td>May receive mandatory or discretionary social expenditure from extractive companies or payments from subnational government entities.</td>
</tr>
<tr>
<td>Community Development Foundations</td>
<td>May receive mandatory or discretionary social expenditure from extractive companies (e.g., Ok Tedi Development Foundation, Lihir Sustainable Development Plan).</td>
</tr>
</tbody>
</table>

Table 6.3  Stakeholder roles in subnational payments in PNG’s extractives sector
Subnational Financial Flows continued

Royalties

Royalties are one of the primary vehicles through which provincial governments, local-level governments and landowners access resource revenues in PNG’s extractives sector, providing a direct share in the value of the resource that is being extracted. At 2% of gross revenue for mining projects or wellhead value for oil and gas projects, royalties represent the most significant (in terms of value) subnational government revenue from mining projects, and are second only to development levies for oil and gas projects. Royalties are also one of the primary ways that landowners access payments from the extractives sector.

Royalty payments for the 2013-2017 period by company, sub-sector and year are provided in Figure 6.1 for subnational government entities and Figure 6.2 for landowners. An overview of the flow of royalties from mining and oil and gas projects is provided below. Annex B contains further information on royalty payments including payment flows, calculations, legislative details, reporting and auditing procedures where known, and receiving entities.

Royalties in the Mining Sector

In the mining sector, royalties are paid as direct payments from mining companies to subnational governments (provincial and local-level governments), whereas royalties are paid directly to landowners as mandatory social expenditure (see Annex B for more detailed descriptions of payment flows).

Royalties are calculated at 2% of gross revenue by mining companies on a monthly basis. Payments are made directly to provincial...
and local-level government bank accounts within provincial and district treasuries. Landowner royalties are typically paid to the sub-clan/family level by electronic transfer.

Mining companies report the distribution of royalties to MRA on a monthly basis. Both mining companies and MRA report amounts paid and received to the PNGEITI IA and, as such, mining royalties are considered to be a 'reconciled' payment in PNGEITI reports. This payment status is questionable, given that actual receiving entities (provincial and local-level governments in particular) do not currently report on receipt of mining royalties.

Royalties are provided for in the Mining Act 1992 under Section 148. However there is no specification of the rate, payment procedures or allocation of royalties in the act. Instead, a reference is made that ‘royalties for mine products shall be paid in accordance with the Mining (Royalties) Act 1992’, which evidently does not exist.

The legislative genesis of the 2% royalty rate for mining projects appears to date back to NEC Decision 46/95 2012, which includes the following stipulations:

» that royalties for mining and petroleum projects be increased to 2% from 1.25% (clause i)

» that for medium-scale mines developed on mining leases, landowners receive at least 80% of royalties, with negotiation of the final split with provincial governments (clause i)

» that royalty received by provincial governments also be used for PIP funded development purposes (clause s)
that at least initially, the funding of individual royalty and special support grant projects be coordinated nationally by the Department of Mining and Petroleum (clause w).

Specific sharing arrangements for mining royalties are also contained within MOAs. For instance, in the Lihir MOA 1995, Clause 5 specifies that the National Government will pay 50% of royalties from mine products from the Project to the New Ireland Provincial Government, and Clause 15 further states that the Provincial Government shall ensure that the National Government distribute royalties in the following manner:

a. 20% directly to the Special Mining Lease Landowners in cash;

b. 30% directly to the Nimamar Development Authority; and

c. 50% to the Provincial Government.

In Clause 31 of the Hidden Valley MOA 2005, the breakdown of royalties is as follows:

a. 42% - Provincial Government

b. 14% - Immediate Impact Area LLG’s

c. 2.5% - Affected Communities

d. 2.5% - Others

e. 39% Landowners

A breakdown of the royalty allocations across mining projects is contained in Table 6.4. The receiving entities for each of the projects as reported by the MRA are provided in Table 6.5. In at least some mining projects, such as the Lihir gold mine, the local-level government transfers a portion of royalty funds to WDCs on an ad hoc basis. Whether or not this transaction is categorised as a transfer between subnational government entities depends on whether WDCs are considered a government entity. Under the Local-Level Government Administration Act 1997, the membership of WDCs includes the local-level government members elected for the ward, as well as a maximum of five associate members (of whom at least two shall be women). The functions of the WDC are:

a. to be the principal community advisory unit for the ward to the Local-level Government; and

b. to determine the needs of the ward in relation to services, programmes and infrastructure.

Under Clause 35 of the Act, a LLG may delegate various functions and duties to WDCs. However, an act of a WDC does not bind the LLG until it is approved by the LLG, except where the local-level government has, by resolution, previously authorised the ward development committee to do the act. Based on this membership structure, role and powers of the WDC, the committee is probably not considered a government body for EITI purposes. Nonetheless, where it does occur, the transfer of royalties from LLGs to WDCs represents a significant flow of extractive revenues to the local level in terms of visibility to local communities.

The Oil and Gas Act 1998 contains provisions for the calculation of royalties in Section 159 and the distribution of royalties in Section 168. Provisions for the distribution of royalties are also found under individual UBSAs.

For instance, Clause 6.6 of the PNG LNG UBSA provides that:

a. 30% equity and royalty benefits will be for future generation trust fund; and

b. a further 30% equity and royalty benefits will be for an investment trust fund.

The remaining 40% or royalties are paid as cash to landowners.

Other provisions for the breakdown and distribution of royalties are contained in Clause 6.8b:

a. In the first instance, in the ratio of 72:28 between the PDL Area, and Pipeline and LNG Plant Area (PDL Area 72%, and Pipeline and LNG Plant Area 28%).

b. The 72% portion will then be shared between PDL Area landowners, and affected PGs and LLGs of the PDL areas in the 70:30 ratio respectively (landowners getting 70% of 72%, and affected PGs and LLGs getting 30% of 72%).

c. Similarly, the 28% portion will be shared between Pipeline and LNG Plant area landowners, and the affected PGs and LLGs of the area in the 70:30 ratio (landowners getting 70% of 28%, and affected PGs and LLGs getting 30% of 28%).

d. The sharing of royalty benefits...
### Table 6.4 Royalties percentage distribution from mining projects in PNG

<table>
<thead>
<tr>
<th>Project</th>
<th>Company/Operator</th>
<th>Amount reported paid (PGK)</th>
<th>Amount reported received (PGK)</th>
<th>Variance (PGK)</th>
<th>Variance (%)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lihir</td>
<td>Lihir Gold Ltd</td>
<td>60,052,061</td>
<td>37,532,538</td>
<td>22,519,523</td>
<td>60</td>
<td>A</td>
</tr>
<tr>
<td>Ok Tedi</td>
<td>Ok Tedi Mining Ltd</td>
<td>21,265,859</td>
<td>23,257,613</td>
<td>-1,991,753</td>
<td>-3</td>
<td></td>
</tr>
<tr>
<td>Porgera</td>
<td>Barrick (Niugini) Ltd</td>
<td>20,216,568</td>
<td>21,190,547</td>
<td>-973,979</td>
<td>-5</td>
<td></td>
</tr>
<tr>
<td>Ramu Nickel</td>
<td>MCC Ramu NiCo Ltd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hidden Valley</td>
<td>Morobe Consolidated Goldfields Ltd</td>
<td>4,192,744</td>
<td>8,114,606</td>
<td>-3,921,863</td>
<td>-48</td>
<td></td>
</tr>
<tr>
<td>Kainantu</td>
<td>K92 Mining Ltd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Simberi</td>
<td>Simberi Gold Co. Ltd</td>
<td></td>
<td>996,526</td>
<td>-996,526</td>
<td>-100</td>
<td></td>
</tr>
<tr>
<td>Mt Crater</td>
<td>Anomaly Ltd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Edie Creek</td>
<td>Niuminco Edie Creek Ltd</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>105,727,232</strong></td>
<td><strong>91,091,830</strong></td>
<td></td>
<td><strong>14,635,402</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Remarks

- This variance is largely offset by the negative variance in payments to landholders (below). It may be that Lihir and MRA have categorised the payments differently. Taken together, the variance is PGK750,000.

Table 45: Reconciliation of mining royalty payments paid to local/provincial government (as reported by the MRA)
Subnational Financial Flows continued

Calculated at 2% of the wellhead value of all petroleum product produced from the licence area, development levies were the most significant (in terms of value) subnational government revenue from oil and gas projects in the 2013-2017 period, generating PGK250.85 million for provincial and local governments. Calculation of development levies through the existing ‘net profit’ method, as opposed to a ‘wellhead value’ method, has come under criticism from local politicians and the IMF.

Where a petroleum or gas project is liable for both royalties and development levies, royalty payments may be claimed as a tax deduction.

Development Levies are paid to the national government through a trust account administered by the Department of Petroleum and Energy. These payments are then redistributed to affected provincial governments and local-level governments for community infrastructure projects.

Two oil and gas developers pay development levies: Oil Search, which pays by cheque to DoP and ExxonMobil on behalf of joint-venture partners of the PNG LNG Project, which pays via electronic funds transfer to a Bank of PNG trust account, and sends remittance via electronic funds transfer to a Bank of PNG Project, which pays via electronic funds transfer to local politicians and the IMF.

Following receipt of development levy payments, DoP then deposits all

1 e.g., https://mine.onepng.com/2018/05/png-ing-benefits-royalties-and.html
2 Source: https://books.google.com.au/books?id=xRmHdWAQBAJSpBg=PA18&pg=PA18&dq=development-levies+png&source=bl&ots=8R85uYo0gX&sa=X&ved=2ahUKEwilwmiCv0Gn6gXgR6gKHYsDWs4Q6AEwIwAtVASAAx2AhUEwi-3o2o4v3eAhXEHIKb9tAEiQ64eWdH3HoECAEQA-Q&f=false
received levies into a trust account held by the Department of Finance. Finance then administer payments from the trust account to the relevant local or provincial government.

The legislative basis for development levies is established under Section 160 of the Oil and Gas Act 1998, where “petroleum development licensees are required to pay development levies at a rate of 2% of the wellhead value of all petroleum product from the licence area in accordance with Section 98 of the Organic Law on Provincial Governments and Local-level Governments to the affected provincial or local-level governments of a petroleum project development levies”.

Provisions for development levies are also contained in UBSAs, such as the UBSA for the PNG LNG Project, where the parties distribute development levies between upstream and downstream as follows:

- 72% in favour of the PDL Area local-level governments and affected provincial governments
- 28% in favour of the Pipeline and LNG Plant Area local-level governments and affected provincial governments

It is also noted in the PNG LNG UBSA that provincial and local-level governments will negotiate further sharing amongst themselves before the end of September 2009 and advise the Minister in writing of the agreement reached. Further, and consistent with the Oil and Gas Act 1998, the PNG LNG UBSA specifies that development levies will be paid to a trust fund in accordance with the Public Finances Management Act 1995, annually in arrears on or before 31 January in the year following the year of production to which the development levy relates.

Development levies are not paid in the mining sector, although at one point in time the then-Department of Mines proposed a “Tax Credit Conversion Scheme”, where expenditures controlled by developers under the Tax Credit Scheme should be progressively converted into tax-creditable development levies during the operational life of a major mining project.4

Figure 6.3 contains the breakdown of development levy payments for the 2013–2017 period by company, sub-sector and year. Annex B provides further information on development levies including payment flows, calculations, legislative basis, reporting and auditing.

SSGs/PIPs in the Mining Sector

PNG’s Public Investment Program is a funding mechanism established by the government for the purpose of capital formation and capacity building to improve public sector performance. The PIP translates development priorities identified in the Medium Term Development Plans (MTDPs) into a coordinated set of investment activities that deliver development outcomes that have been identified and prioritised in the MTDPs. The agency charged with administering the PIP is the Department of National Planning and Monitoring (DNPM).

Under the PIP, Special Support Grants (SSGs) are paid to provincial governments, local-level governments and SPAs in the mining sector.

The PNGEITI 2016 report states that SSGs are paid by the national government to extractive provinces at a rate of 0.5% of net sales value from mine products and 2% from petroleum products. However, the legislative basis for these rates, or indeed the application of SSGs in the oil and gas sector, is unclear.

Although there are no provisions for SSGs in the Mining Act, clause V of NEC Decision 46/95 2012 provides that SSGs are funded as PIPs. Clause W instructs the Department of Personnel Management to approve the recruitment of three engineers to the Mining and Petroleum department to assist with identifying royalty and SSG projects, and in the case of PIP submissions, preparing and letting tenders and overseeing project implementation. The Mineral Resources Authority Act 2005 also provides for the MRA, on behalf of the State, to administer and be responsible for the administration of...
any public investment programme relating to mining (Clause 5h).

Specific MOAs for mining projects contain arrangements for SSGs. For instance, Clause 4 of the MOA for Hidden Valley contains various provisions relating to the SSG payment for the project, including that “The State will provide to the Provincial Government a Special Support Grant or any other alternative grant equivalent to 0.50% of the value of fob revenue for the sale of mine products from the Project which will be utilised annually”.

The Lihir MOA provides that “the National Government shall pay 70% to the Provincial Government and 30% directly to the Nimamar Community Government. Payments, which are to be quarterly, will only be released upon receipt by the National Government of satisfactory quarterly progress reports from the Provincial Government”.¹

Yet there have been long-held disputes over the disbursement SSGs in New Ireland. In the Lihir MOA, a clause was included that “matters concerning the outstanding Special Support Grant (SSG) payments due under the terms of the MoA between the State, NIPG, NRLLG and the LMALA will be negotiated by a complementary process consistent with the IBP Review progress”.¹

The PNGEITI report states that Western, Gulf, Central, Southern Highlands, Enga, Morobe and New Ireland Provinces all receive SSGs. The allocation of SSGs is published within the National Budgets under the PIP section for each province mentioned above.

Figure 6.4 contains the breakdown of SSG payments for the 2013–2017 period by company, sub-sector and year. Table 6.6 contains PIP funds received and disbursed in 2017.²

Annex C provides further information on royalty payments including payment flows, calculations, legislative basis, reporting and auditing.

<table>
<thead>
<tr>
<th>PIP project</th>
<th>Funds received from DNPM (PGK)</th>
<th>Funds disbursed (PGK)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20843 Ok Tedi MOA</td>
<td>0</td>
<td>283,169</td>
</tr>
<tr>
<td>20844 Hidden Valley MOA</td>
<td>500,000</td>
<td>205,517</td>
</tr>
<tr>
<td>20845 Ramu Nickel MOA</td>
<td>1,000,000</td>
<td>733,728</td>
</tr>
<tr>
<td>20847 Lihir Outstanding MOA</td>
<td>2,500,000</td>
<td>2,199,723</td>
</tr>
<tr>
<td>20848 Mining Agreement – Porgera</td>
<td>0</td>
<td>3,801,249</td>
</tr>
<tr>
<td>20849 Sinivit MOA</td>
<td>Not reported</td>
<td>Not reported</td>
</tr>
<tr>
<td>20850 Simberi MOA</td>
<td>0</td>
<td>59,558</td>
</tr>
<tr>
<td>21433 Women in Mining</td>
<td>0</td>
<td>14,883</td>
</tr>
<tr>
<td>20254 Tolukuma MOA</td>
<td>0</td>
<td>405,732</td>
</tr>
<tr>
<td>21741 Advanced Mining Projects</td>
<td>0</td>
<td>337,079</td>
</tr>
<tr>
<td>22797 Human Resource Training for the Mining Sector</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Table 6.6 2017 PIP funds received and disbursed

¹ See Clause 3.6 of the Lihir MOA.

² Source: PNGEITI 2017 report.
Subnational Financial Flows continued

Infrastructure development grants in the Oil and Gas sector

Information development grants are paid in the oil and gas sector only.

Section 173 of the Oil and Gas Act 1998 contains provisions for ‘project grants’ to be paid in addition to the other benefits granted to affected provincial and local-level governments:

1. In addition to the other benefits granted to affected Local-level Governments and affected Provincial Governments under this Part, the State shall make grants to affected Local-level Governments and affected Provincial Governments of a petroleum project in accordance with this section.

2. The State shall in a development agreement and may in any other agreement agree with the affected Local-level Governments and affected Provincial Governments of a petroleum project upon the amount and nature and timing of grants to be made by the State to those affected Local-level Governments and affected Provincial Governments in relation to the petroleum project.

3. Grants made in accordance with this section may be in the form of monetary payments or in the form of provision of infrastructure or services or other benefits.

4. The provision to an affected Local-level Government or an affected Provincial Government of a benefit in the form of infrastructure (or any other benefit) which is funded by the licensee in respect of the petroleum project pursuant to

Section 219C of the Income Tax Act 1959 shall be taken to be a grant made in accordance with this section.

5. The State may, in addition to grants made to affected Local-level Governments or affected Provincial Governments under this section, make grants to project area landowners or customary owners of land in a petroleum project area.

Referencing this part of the Act, Clause 6.1d of the PNG LNG UBSA states that “[PGK1.2 billion] will be allocated equally over two five-year periods, commencing in 2010, for infrastructure development and maintenance in the affected project areas and provinces.”
There appears to be some confusion among extractives sector stakeholders in PNG regarding sector stakeholders in PNG regarding dividends, share of sales and equity payments.

**Equity dividends**

The Mining Act 1992 and the Oil and Gas Act 1998 both provide for the State and landowners to acquire equity in extractive projects.

For instance, the Oil and Gas Act gives the State “the right (but not the obligation) to acquire, directly or through a nominee, all or any part of a participating interest not exceeding 22.5% in each petroleum project”.

Out of the State equity entitlement, the State is able to grant to the project area landowners and the affected local-level governments an equity benefit to be shared between the parties in proportions agreed by them in a development agreement, but in default of such agreement in the proportions determined by the Minister, by instrument. Moreover, the Act has provisions for affected provincial and local-level governments and project area landowners of a petroleum project to negotiate an interest in a petroleum project in addition to the participating interest in that project granted under Section 167.

There are no such provisions for the state or landowners to acquire equity in a mining project in the Mining Act 1992, although the PNGEITI 2017 report appears to incorrectly state that under Mining Act Clause 16A: “The State has the right, but not the obligation, to acquire up to 30% of a mining project, at par value, or ‘sunk cost’.”

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1 Clause 165, Oil and Gas Act 1998
2 Clause 167, Oil and Gas Act 1998
3 Clause 175, Oil and Gas Act 1998
4 Page 73, PNGEITI 2016 Report
Rather, under Clause 16A of the Act, “The State, MRDC and the Company shall each have the right to acquire and, as appropriate, transfer a Participating Interest in the Mining Project in accordance with the option Agreement”. Clause 16A (2) states that “The State shall, subject to and in accordance with the option Agreement, nominate MRDC or the Company to acquire its Participating Interest referred to in subsection.”

NEC Decision 46/95 2012 provides that, “out of the state’s equity in future projects (after Lihir, which is normally 30%), developed on Special Mining Leases, 5% be allocated free to landowners by the consortium of developers, and for projects developed on petroleum development licenses, 2% be given free to landowners also by the consortium”. 5 A number of other provisions regarding equity in mining and petroleum projects are also referenced in NEC Decision 46/95 2012, including requirements that there be no state equity in small or medium-scale mining projects; that the current [at that time] equity in Bougainville Copper Limited, OTML, Misima Mines and the Kutubu JV be retained; and that MRDC be the only vehicle for holding future state equity involvement in projects.

Provisions for subnational government entities and landowners to acquire equity in an extractive project are also found in UBSAs and MOAs.

For example, the PNG LNG Project’s UBSA provides project area landowners (upstream, pipeline and plant), and affected provincial and local-level governments a 7% equity participating interest in the LNG Project consisting of:

a. an estimated 2.78% interest arising from entitlements by virtue of participating interests in the existing PDLs and by virtue of the 2% interest accruing to Project Area Landowners from the State’s 22.5% participating interest, provided for in Section 167 of the Act and relevant provisions LNG Gas Agreement in the new PDLs with respect to the PRLs included in the LNG Project (CDOA Equity); and

b. an estimated 4.22% interest by virtue of a commercial option (“Equity Option 11) for an undivided and fixed 25.75% shareholding in Kroton granted by the State (“Kroton Equity”).

Likewise, provisions for equity are found in MOAs for mining projects and, in the case of Ok Tedi, an NEC decision to increase the Fly River Provincial Government’s and specific purpose community entities equity holdings to 33% and reduce the State of PNG’s holding to 67%.

MRDC was incorporated in 1975 to manage mining and petroleum resource equity interests on behalf of the State and landowners. With state equity in extractive projects now managed through Kumul Petroleum Holdings Ltd and Kumul Mineral Holdings Ltd under Kumul Consolidated Holdings Ltd, MRDC’s role is to manage landowner and subnational government equity interests in both mining and petroleum projects.

Equity payments made by MRDC in 2017 are listed in Table 6.7. 6 The PNGEITI 2016 report treats both equity and dividends as two separate payment categories, although it is not altogether clear in the report, relevant acts and legislation, or indeed conceptually, how equity payments (which result from an entity’s interest in an extractive project) and dividend payments (which also result from an entity’s interest in an extractive project) are meaningfully different.

Dividends are defined as referring to “payments from SOEs to the State, representing the State’s share of profits in the project in accordance with its right as a shareholder”7, yet dividend payments are also listed as being made to landowners (see Annex C for recipient list for dividend payments). Equity distributions, on the other hand, are defined in the 2016 PNGEITI report as payments received by SOEs as a percentage of profits received from joint ventures, in proportion to ownership stake. 8

The payment flow for landowner and local and provincial government equity dividends is that extractive companies make payments to MRDC, who in turn make payments to trust accounts held by the parties. The payment flow for state equity dividends is that extractive companies make payments to SOEs, who in turn make payments to the Treasury.

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6 Data sources from the PNGEITI 2017 report.
7 10.4.1.2, PNGEITI Report 2016
8 Refer Section 10.4.3.1 of the PNGEITI Report 2016.
Share of Sales

Share of sales are unilaterally declared by State partners in the PNG LNG Project. The PNGEITI 2016 report states that share of sales are the sales proceeds received by state partners in the project; and derived from the joint marketing of LNG by venture partners in the PNG LNG project, noting that there was overlap with figures provided for share of sales and equity distributions.

However, share of sales are also listed for the following subnational entities in the PNGEITI 2016 report:

» Mineral Resources Enga (MRE), which is owned by the Enga Provincial Government, the Papua New Guinea National Government and the Porgera Landowners Association

» Petroleum Resources Kutubu Ltd (PRK) - Southern Highlands Provincial Government

» Petroleum Resources Gobe Ltd (PRG) - Gulf and Southern Highlands

» Petroleum Resources Moran Ltd (PRM) - Southern Highlands

» Petroleum Resources North West Moran Ltd - Southern Highlands

<table>
<thead>
<tr>
<th>Subsidiary/trust entity</th>
<th>Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mineral Resource Enga Ltd (MRE)</td>
<td>106,426,131</td>
</tr>
<tr>
<td>Petroleum Resources Kutubu Ltd (PRK)</td>
<td>61,619,928</td>
</tr>
<tr>
<td>Petroleum Resources Gobe Ltd (PRG)</td>
<td>2,784,567</td>
</tr>
<tr>
<td>Petroleum Resources Moran Ltd (PRM)</td>
<td>4,908,291</td>
</tr>
<tr>
<td>Petroleum Resources North West Moran Ltd</td>
<td>108,142</td>
</tr>
<tr>
<td>Mineral Resources Star Mountains Ltd (MRSM)*</td>
<td>-</td>
</tr>
<tr>
<td>Mineral Resource Ok Tedi No. 2 Ltd (MROT)*</td>
<td>-</td>
</tr>
<tr>
<td>Mineral Resource Madang Ltd (MRM)</td>
<td>-</td>
</tr>
<tr>
<td>Gas Resources Gigira Ltd</td>
<td>142,602,953</td>
</tr>
<tr>
<td>Gas Resources Gobe Ltd</td>
<td>2,971,594</td>
</tr>
<tr>
<td>Gas Resources Angore Ltd</td>
<td>16,650,110</td>
</tr>
<tr>
<td>Gas Resources Hides Ltd</td>
<td>28,259,603</td>
</tr>
<tr>
<td>Gas Resources Juha Ltd</td>
<td>16,612,921</td>
</tr>
<tr>
<td>Gas Resources Kutubu Ltd</td>
<td>143,450,973</td>
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<tr>
<td>Gas Resources Moran Ltd</td>
<td>2,503,416</td>
</tr>
<tr>
<td>Gas Resources North West Moran Ltd</td>
<td>51,200</td>
</tr>
<tr>
<td>Gas Resources PNG LNG Plant Ltd</td>
<td>29,588,746</td>
</tr>
</tbody>
</table>

Table 6.7 MRDC subsidiaries: reported receipts and payments for 2017
Subnational Financial Flows continued

Extractive companies in PNG make a wide range of payments to subnational stakeholders that are classified as mandatory and voluntary social expenditure under the EITI Standard 2016.

The EITI Standard 2016 allows for a fairly broad definition of social expenditure, stating that it “can take multiple forms, and may involve cash payments such as donations, grants or other types of cash transfers, the transfer of assets such as the construction of roads or schools, or the provision of services like training and health care”.

While the PNGEITI MSG has previously provided guidance on types of social expenditure in PNG, standardised reporting categories are not followed by extractive companies when unilaterally declaring social expenditure. Given that the majority of social expenditure occurs at the subnational level, there is a need to define and standardise the categories for social expenditure across the sector as part of any PNGEITI subnational reporting framework.

Mandatory social expenditure

Where material social expenditures by companies are mandated by law or the contract with the government that governs the extractive investment, they are classified as ‘mandatory’ social expenditure under the EITI Standard 2016.

As shown in Figure 6.6, there was PGK1.07 billion in mandatory social expenditure from 2013-2017, including PGK228.06 million in 2017.

1 See EITI Guidance Note 17. Also note that social expenditure is not limited to non-government entities: “extractive companies often make contributions to regional or local governments, communities, NGOs or other third parties in the areas where they operate”.

---

Figure 6.6 2013-2017 mandatory social expenditure

Table of companies and payments:

<table>
<thead>
<tr>
<th>Companies</th>
<th>Payment Type: S-Mandatory Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ok Tedi Mining Ltd (Mt Fubilan mine)</td>
<td>538.27M</td>
</tr>
<tr>
<td>Lihir Gold Ltd (Lihir Caldera mine, Lihir)</td>
<td>480.85M</td>
</tr>
<tr>
<td>Barrick (Niugini) Ltd (Porgera mine)</td>
<td>156.32M</td>
</tr>
<tr>
<td>MCC Ramu NiCo Ltd (Ramu mine)</td>
<td>16.43M</td>
</tr>
<tr>
<td>Simberi Gold Company Ltd (Simberi mine)</td>
<td>27.75M</td>
</tr>
<tr>
<td>Oil Search (operator oil projects)</td>
<td>75.35M</td>
</tr>
<tr>
<td>Morobe Consolidated Goldfields Ltd</td>
<td>1.89M</td>
</tr>
<tr>
<td>Anomaly Ltd (Mt Crater mine)</td>
<td>1.00M</td>
</tr>
<tr>
<td>Eda Oil Ltd</td>
<td>0.00M</td>
</tr>
<tr>
<td>ExxonMobil PNG (operator PNG LNG)</td>
<td>0.00M</td>
</tr>
<tr>
<td>JX Nippon (and subsidiaries)</td>
<td>0.00M</td>
</tr>
<tr>
<td>Kumul LNG Ltd</td>
<td>0.00M</td>
</tr>
<tr>
<td>Kumul Mineral Holdings (KMH)</td>
<td>0.00M</td>
</tr>
<tr>
<td>Kumul Petroleum Holdings (KPH)</td>
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</tr>
<tr>
<td>Mineral Resources Development Company Ltd</td>
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<tr>
<td>Nunminco Edie Creek Ltd (Edie Creek mine)</td>
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</tr>
<tr>
<td>Ramu Nickel Ltd</td>
<td>0.00M</td>
</tr>
<tr>
<td>Santos Ltd (and subsidiaries)</td>
<td>0.00M</td>
</tr>
<tr>
<td>Kumul Consolidated Holdings (KCH)</td>
<td>0.00M</td>
</tr>
<tr>
<td>National Petroleum Company of PNG Limited – Petromin PNG Holdings Limited (Petromin)</td>
<td>0.00M</td>
</tr>
<tr>
<td>Tolukuma Gold Mines Ltd (Tolukuma mine)</td>
<td>0.00M</td>
</tr>
</tbody>
</table>

---

Figure 6.6 2013-2017 mandatory social expenditure

Table of sectors and payments:

<table>
<thead>
<tr>
<th>Companies</th>
<th>Payment Type: S-Mandatory Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ok Tedi Mining Ltd (Mt Fubilan mine)</td>
<td>538.27M</td>
</tr>
<tr>
<td>Lihir Gold Ltd (Lihir Caldera mine, Lihir)</td>
<td>480.85M</td>
</tr>
<tr>
<td>Barrick (Niugini) Ltd (Porgera mine)</td>
<td>156.32M</td>
</tr>
<tr>
<td>MCC Ramu NiCo Ltd (Ramu mine)</td>
<td>16.43M</td>
</tr>
<tr>
<td>Simberi Gold Company Ltd (Simberi mine)</td>
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<tr>
<td>Tolukuma Gold Mines Ltd (Tolukuma mine)</td>
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Figure 6.6 2013-2017 mandatory social expenditure
Both the Mining Act 1992 and the Oil and Gas Act 1998 establish the framework for mandatory social expenditure (see Annex B for more details on the legislative framework for mandatory social expenditure).

For instance, under Section 154 of the Mining Act 1992, the holder of a tenement is liable to pay compensation. As noted under Section 156, the compensation payable may be determined by agreement, or, as stipulated in Section 157, by the determination of the Warden. Similar provisions are found in Section 118 of the Oil and Gas Act 1998.

The majority of mandatory social expenditure in the extractives sector is paid to landowners, landowner groups and community groups, typically from areas affected or impact by extractive projects. The specific obligations for these funds are contained in the various MOAs and UBSAs that establish compensation agreements for extractive projects, as well as the various resettlement agreements that are sometimes subsidiary to MOAs or UBSAs.2

For example, under the terms of the PNG LNG UBSA, Clause 6.1 (f) contains a provision for “high-impact infrastructure” in the Southern Highlands Province with a combined total of PGK460 million (see Clause 6.1 (f)). High-impact projects are to be funded the national government.

The agreement also contains a provision in Clause 6.1 e) that PGK120 million will be “made available by the State to assist landowner companies in business development activities, in accordance with guidelines to be approved by NEC and Section 171 of the Act”.2

In the Lihir MOA, the aggregate financial commitment of LGL under the Revised IBP for a period of five years commencing on 1 January 2006 was PGK100 million indexed to inflation and subject to various clauses.2 This five-year sum was to compensate for all ongoing land and water use and mine-induced impacts on the island, with “...all of the agreements, undertakings, commitments and the spirit of the original IBP [remaining], valid...and in force until and unless amended by the Revised IBP or any other subsequent agreement”.5

Although still operating under the terms of this agreement, Newcrest reported making an average of USD66.12 million in mandatory social expenditure between 2013-2017, a sum that is demonstrably more than the PGK100 million over five years agreed in the Revised IBP, even with CPI taken into account. This positive discrepancy reflects the various other historical agreements under the IBP 1995, including undertakings that were reiterated in the Revised IBP 2007 such as the undertaking in Clause 17 to fund and implement all ‘outstanding and incomplete’ projects and programmes under the original IBP including:

1. Sealing the Putput relocation area access road;
2. Sealing the ring road from Zuen to Palie via the SML area (but excluding those road sections within the SML);
3. Putput water supply;
4. Putput cemetery monument; and
5. Alaia preservation project.

Other commitments in the Lihir Revised IBP included infrastructure development commitments such as reticulated water, garbage collection and septic tank emptying facilities, assistance with preparation of village layout planning, housing assistance, electricity reticulation4, as well as a commitment to provide financial support for LMALA, LGL, NRLLG and LMALA and commit to a process of jointly resolving the issue of financial support for LMALA7.

Because each MOA and UBSA across the sector has different clauses pertaining to mandatory social expenditure, full disclosure of project agreements is a critical step to ensuring that PNGEITI subnational reporting connects back to the key commitments and obligations that established the project.

**Voluntary social expenditure**

Where material social expenditures are not mandated by law or the contract with the government that governs the investment, they are classified as ‘discretionary’.

There is some ambiguity between the mandatory versus discretionary taxonomy in the PNG extractive sector, and this is reflected in the different interpretations of mandatory and social expenditure reflected in the PNGEITI 2016 report. This may be because project operators do, from time to time, enter into contractual agreements that are subsidiary to MOAs and UBSAs. For instance, a contractual agreement may be signed to compensate for a particular grievance related to lands access, or benefits sharing, or resettlement, that

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2 For instance, on Lihir, the Putput and Kapit resettlement agreements formed part of the original Integrated Benefits Package 1995.

3 See Clause 6.1 (d) of the PNG LNG UBSA.
6 See Clause 22 (b) of the Revised Integrated Benefits Package.
8 A point that is not lost on the Independent Administrator in the 2016 PNGEITI report.
is separate to the foundational MOA, UBSA or resettlement agreement for the project. In these situations, the obligation is not mandated by law⁹ or the contract with the government that governs the extractive investment as required to be classified as mandatory social expenditure in the EITI 2016 Standard. The obligation is, however, ‘mandatory’ under contract law, and thus seems to fit the definition of mandatory social expenditure better than the definition of voluntary social expenditure.

As shown in Figure 6.7, there was PGK1.41 billion in discretionary social expenditure from 2013-2017, including PGK111.13 million in 2017.

Although extractive companies provide aggregated totals for voluntary social expenditure in the PNGEITI 2017 report (see Figure 6.7), there is a distinct lack of detail regarding the nature of the payments and the end recipients. This detail is provided to varying degrees in the annual and sustainability reports of extractive companies.

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⁹ Specifically, the Mining Act 1992 or the Oil and Gas Act 1998.
6.1 Subnational payment flows

The Infrastructure Tax Credit Scheme (ITCS) is a tax incentive program that was introduced in 1992, whereby a tax credit is available to mining, petroleum and gas operators for expenditure paid on approved infrastructure projects.

The ITCS is currently suspended pending an audit and review to determine moneys spent and whether ITCS has achieved its intended policy objective. According to the 2016 report of the Tax Review Committee, ‘there is no proper record to account for the money spent on ITCS and its relevance to the intended objective.’

The ITCS essentially allows the State, using mining and petroleum companies as contractors, to build infrastructure without the need for an appropriation from Treasury.

The objectives of the scheme are:

1. To extend by way of capital works and maintenance of Government’s infrastructure on the national development priority sectors, the beneficial impacts of mining, petroleum and primary industry developments to the population of the host province and other parts of PNG.

2. To assist where possible in developing a planning and implementation capacity at the either the Provincial, District, Local Government or Ward levels.

1 The scheme is also available to Tourism operators.
4 2001 Tax Credit Scheme guidelines
Subnational Financial Flows continued

As described in the Tax Credit Scheme Guidelines 2001, the logic that underpinned the ITCS was that the Provincial and National Governments were thought to have insufficient planning, engineering and/or construction capacity to undertake infrastructure developments in remote regions of the country, and that this inability has created discontent for landowners, communities and the developers involved in extractive projects. In comparison, the construction capacity of resource companies was thought to allow for the cost-effective delivery of infrastructure projects in extractive regions.

Under the scheme, up to 0.75% of assessable income for the year can be claimed as a credit against tax payable for monies spent on infrastructure projects. If expenditure in a particular year is less than these limits, the excess can be carried forward for a period of two years.

All ITCS projects must be approved by the DNPM and all subsequent expenditure must be certified by both the Department and the IRC as having been incurred. Capital projects that are required to be built under a resource agreement are ineligible for the credit.

To date over 423 projects across 12 provinces with a total spend of over PGK644 million have been undertaken.

Under the EITI Standard 2016, the ITCS fits the definition of a 'barter arrangement': An agreement between an extractive company and the government where the company uses non-monetary exchange (usually infrastructure) for a country’s natural resources. The resources involved in a barter arrangement may include exploration or production rights for oil, gas, and minerals, and other elements such as access to land, energy and water resources. The infrastructure projects may include railways, roads, ports, power plants, schools and hospitals.

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5 In 1997, the prescribed limit was increased to 2%, but was again reduced to 0.75% in 2000 through NEC Decision 216/2000.

Case Studies

7.1 Lihir Gold Mine, New Ireland Province
7.2 Ok Tedi Mining Limited, Western Province
7.3 Woodlark Gold Project, Milne Bay Province
7.4 PNG LNG Project, Hela, Gulf, Southern Highlands, Western and Central Provinces

Men in Kwikila, Central Province. Source: Tim Grice
Overview

Newcrest Mining Limited’s (‘Newcrest’) Lihir gold mine is located on Niolam Island, part of the Lihir Group of islands, 900 km northeast of Port Moresby. The mine is 100% owned by Newcrest Mining Limited, who merged with Lihir Gold Limited (LGL) in 2010. The Lihir gold mine extracts ore from the Luise Caldera deposit, one of the largest known gold deposits in the world. Production began in 1997 and the mine has since produced over 10 million ounces of gold, with production of 955,156 ounces of gold in FY2018. The Lihir Pit Optimisation Prefeasibility Study (2016) identified key opportunities for growth related to lateral mine development of the open pit.1

Compensation and benefits structure

The foundational agreements that establish the compensation and benefits streams for the Lihir gold mine are the Revised Integrated Benefits Package (2007) and the Memorandum of Agreement (1995). Collectively, these agreements set out the various obligations, rights, and compensation and benefits streams for the project.

As shown in Figure 7.1, the total direct payments, transfers and social expenditure from the project in the 2013-2017 period was PGK1.49 billion, with PGK72.83 million in direct payments to the national government (comprised of group tax, production levy, corporate income tax and other taxes), and PGK 1.02 billion to subnational entities (comprised of mandatory and discretionary social payments, royalties to landowners, royalties to provincial and local-level governments, and projects under the ITCS and PIP).

The highest-value subnational payment during this period was mandatory social expenditure (349.89M), followed by discretionary social expenditure (297.94M), provincial and local-level government royalties (226.06M), projects through the Infrastructure Tax Credit Scheme (87.78M), landowner royalties (56.51M), and the Public Investment Program (9.5M).2

Major recipients were local communities (735.60M), provincial and local-level governments (226.06M), landowners (56.51M) and special purpose authorities (9.5M).

A further breakdown of these subnational payments by key sectors and recipients for the 2016-2017 calendar years is shown in Figure 7.2. The sector that received the highest contribution was infrastructure (138.5M), followed by health (44.7M), compensation (22.92M), other social development (22.79M), education (22.43M), economic (12.15M), other agreements (6.15M), minerals and resources (1.6M), law and order (1.28M), and agriculture and fisheries (.58M).

1 Information in this section has been sourced from various sources including the Newcrest Mining Limited Website (www.newcrest.com.au) and Newcrest’s 2017 and 2018 Annual Reports.

2 The data used in Figure 7.1 was sourced from PNGEITI reports. In the process of reviewing this report, Newcrest identified discrepancies with the figure provided for the ITCS 2014 payment as well as group tax payments. The data included in this report is based on the corrected figures provided by Newcrest. The author understands that Newcrest has contacted PNGEITI and the PNGEITI Independent Administrator to discuss these payments.

3 It is important to note here that some payments and funding streams to ‘local communities’ will also benefit landowners, the former containing the latter.
Londolovit town market, Lihir Island. Source: Tim Grice

Lihir gold mine conveyor, Lihir Island. Source: Tim Grice

Church near Lipuko, Lihir Island. Source: Tim Grice
Case Studies continued

Figure 7.1   Lihir gold mine payments overview for 2013-2017
PNGEITI Subnational Payments

Figure 7.2 Lihir gold mine payments by sector for 2016-2017

Figure 7.3 Lihir gold mine subnational payments 2013-2017
Ok Tedi Mining Limited (OTML) is a state-owned company that extracts gold, silver, and copper in an open pit mine located in the Star Mountains of Western Province, PNG. In addition, OTML has a large portfolio of exploration leases. OTML extracts ores from the Mt Fubilan deposit. Since the start of operations in 1984, OTML has produced 4.75 million tonnes of copper, 14.6 million ounces of gold, and 31.4 million ounces of silver. In 2017 OTML reported a profit of PGK848M (USD 266 million) and a dividend of PGK 380 million (USD 119 million). Over the last 34 years, OTML has made a significant financial contribution to development in the Western Province through direct and indirect employment, royalties, compensation payments, and business opportunities. For example, in 2017, OTML contributed 3.8 percent of PNG’s total GDP and employed a workforce of 96% Papua New Guinean origin. It is also well documented that OTML has been responsible for deleterious environmental and social impacts including sediment aggradation in the Ok Tedi and Fly River systems. In 1996 the then-operator, BHP Billiton reached an out of court settlement with impacted communities known as the ‘Community Mine Continuation Agreement’ (CMCA). In 2002 these impacts resulted in the then-majority owner and operator, BHP Billiton, handing majority ownership to the PNG Sustainable Development Program. In 2013, the PNG government legislated to directly assume the shareholding of PNGSDP.

As an independent and commercially operated state-owned enterprise (SOE), OTML’s efforts are directed towards increasing its contribution to the economic and social development of PNG, particularly the Western Province. Environmental impacts are monitored and reported to the communities and the state. OTML’s continued operation is dependent upon consent by the local communities and the PNG government.

**Compensation and benefits structure**

The foundational agreements that now establish the compensation and benefits streams for Ok Tedi are the Mine Continuation Agreement and an MOA signed on the 21st of January 2017, which formalises the 33% split between the Mine Villages (9%), the Fly River Provincial Government (12%) and Community Mine Continuation Agreement communities (12%).

As shown in Figure 7.4, the total direct payments, transfers and social expenditure from the project in the 2013-2017 period was PGK2.11 billion, with PGK1.31 billion in direct payments to the national government (comprised of group tax², dividends, production levy, equity payments and other taxes), and PGK 797.75 million to subnational entities (comprised of mandatory and discretionary social payments, royalties to landowners, royalties to provincial and local-level governments, and projects under the ITCS and PIP).

The highest-value subnational payment during this period was

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1 Information in this section has been sourced from various sources including the Ok Ted Mining Limited Website (https://www.oktedi.com) and Ok Ted’s 2017 and 2018 Annual Reports.

2 Group tax is paid by employees not by extractive companies.
mandatory social expenditure (538.27M), followed by landowner royalties (105.93M), provincial and local-level government royalties (73.78M), projects through the Infrastructure Tax Credit Scheme (100.28M), and discretionary social expenditure (20.38M).

Major subnational recipients were local communities (617.23M), landowners (105.93M), provincial and local-level governments (73.78M) and special purpose authorities (.8M).

A more granular breakdown of these recipient types for the 2016 calendar year is shown in Figures 7.5 and 7.6.
## Case Studies continued

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<td>2,111.96M</td>
<td>1,314.21M</td>
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### Sectors

- **State-owned enterprises**
  - Overall Amount: 1,314.21M
  - Sub-National Amount: 797.75M

### Project Map

- **Internal Revenue Committee**: 780.43M National Government
- **Treasury**: 478.88M National Government
- **Local Communities**: 617.23M Local Stakeholders

### Payment Type Summary

- **N-Group Tax**: 495.22M
- **N-Dividends**: 478.88M
- **N-Corporate income tax**: 285.22M
- **S-Mandatory Social**: 538.27M
- **S-Royalties landowners**: 105.93M
- **S-Royalties provincial / local gos**: 73.78M
- **S-Share of sales**: 58.58M
- **S-Royalties provincial / local gos**: 32.44M
- **S-Royalties landowners**: 28.12M
- **N-Other taxes**: 20.38M
- **N-Production levy**: 10.5M

### Payment Type

- **National Government**: National Government, Kumul Petroleum Holdings, Internal Revenue Committee, National Government, MRA
- **Provincial and Local Government, Provincial Government**: Provincial and Local Government, Special Purpose Authorities
- **Local Stakeholders, Landowners**: Local Stakeholders, Landowners
- **Provincial and Local Level Government, Provincial Government**: Provincial and Local Level Government, Provincial Government
- **Local Stakeholders, Local Communities**: Local Stakeholders, Local Communities
- **National Government, Null**: National Government, Null
- **Local Stakeholders, Landowners**: Local Stakeholders, Landowners
- **Provincial and Local Level Government, Local Communities**: Provincial and Local Level Government, Local Communities

### Figure 7.4 Ok Tedi Mining Limited payments overview for 2016-2017

The figure shows a breakdown of payments by type and recipient, with a focus on Ok Tedi Mining Limited. The table and map detail various categories such as Group Tax, Dividends, Corporate Income Tax, and Payments to the National and Sub-National levels. The data includes payments to recipients such as Local Stakeholders, Landowners, and various government entities.
Overview

Geopacific Resources Limited (Geopacific), a public company incorporated in Australia, is a junior exploration company with prospective gold and copper exploration licenses in Fiji, Laos and Woodlark Island in Milne Bay, PNG, located approximately 600 km east of Port Moresby.\(^1\)

Woodlark Mining Limited (WML) holds a 100% interest in Mining Lease 508 on Woodlark Island. WML is owned 51% by Geopacific and 49% by Kula Gold Limited (Kula), a public company incorporated in Australia. Geopacific is the largest shareholder of Kula with an 85% holding. Geopacific's total interest in WML is 93%, which includes both the direct interest and the indirect interest through Kula.

Woodlark Island is approximately 70km by 20km and Geopacific holds exploration licences over large areas of the island. Exploration has been carried out by different operators on Woodlark Island for approximately 40 years. The project currently consists of three deposits (Kulumnadau, Busai, and Woodlark King), with a total reserve of 34.7 Mt at 1g/t (1.1Moz) and a resource of 47 Mt at 1.04g/t (1.57Moz).

Geopacific took interest in the Woodlark project in 2017 and released a feasibility study in November 2018. The results of the study include:

- 967 koz of gold produced
- Total revenue of A$1.6B
- Total net cash flow of A$343M (post-tax and capital repayment)

The project is proposed to involve open-cut mining of gold reserves at the Kulumnadau, Busai and Woodlark King deposits using multi-staged pit designs, with a stripping ratio of 3.9:1 over the life of the mine. Waste rock will be deposited in engineered waste rock dumps located adjacent to each pit. Ore will be treated by a conventional carbon-in-leach gold processing plant. The plant will have a capacity of 2.4 Mt per annum, producing a total of 967,000 ounces of gold over a 13-year production life. The project will incorporate a deep-sea tailings placement (DSTP) system including an approximately 12 km pipeline from the process plant to the northeast coast of the island.

Compensation and benefits structure

A draft MOA is in place for the Woodlark project that outlines the various obligations, rights, and compensation and benefits streams for the project.

Figures 7.7 and 7.8 provide an overview of the current subnational payment streams for the project. As an exploration project, key revenue is to the MRA, followed by compensation to local landowners and what has been categorised as community support payments.

Resettlement programs are underway to relocate approximately 120 families from around the mining lease.

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\(^1\) Information in this section has been sourced from various documents on Geopacific Resource’s website (https://geopacific.com.au/).
Geopacific’s exploration camp, Woodlark Island, Milne Bay, Source: Tim Grice

Coastal village in Woodlark Island, Milne Bay, Source: Tim Grice

House in Woodlark Island, Milne Bay, Source: Tim Grice
Case Studies continued

Sum of Amount for each Sector. Color shows details about Beneficiary. The marks are labeled by sum of Amount, % of Total Amount and Beneficiary. The data is filtered on Year, which keeps 2017 and 2018.

Figure 7.7 Geopacific’s compensation and community expenses for Woodlark project in 2017.

Figure 7.8 Geopacific’s compensation and community expenses for Woodlark project in 2017 and 2018.
Location:
Hela, Gulf, Southern Highlands, Western and Central Provinces

Project commencement:
April 2014

Anticipated production:
2017 - 8.3 million tonnes of LNG

Employees:
2580 employees and contractors in production-related roles

Ownership:
ExxonMobil (33.2% and operator), Oil Search Ltd (29.0%), Santos Ltd (13.5%), Kumul Petroleum Holdings Ltd (16.8%; PNG SOE), JX Nippon Oil and Gas Exploration Company (4.7%) and Mineral Resources Development Company (2.8%; PNG government, on behalf of landowners).

Overview
The PNG LNG Project is operated by ExxonMobil PNG on behalf of five co-venture partners: ExxonMobil (33.2%), Oil Search Ltd (29.0%), Santos Ltd (13.5%), Kumul Petroleum Holdings Ltd (16.8%; PNG SOE), JX Nippon Oil and Gas Exploration Company (4.7%) and Mineral Resources Development Company (2.8%; PNG government, on behalf of landowners).

The project includes the Hides, Angore and Juha gas fields as well as the Kutubu, Agogo, Moran and Gobe Main oil fields.

In 2017 the PNG LNG project produced 8.3 million tonnes of LNG, representing an increase of 20 percent from the original design specification of 6.9 million tonnes per annum.

Compensation and benefits structure
The PNG LNG Project’s Umbrella Benefits Sharing Agreement (UBSA) details the compensation and benefits sharing arrangements between the State, provincial and local levels of government, and project area landowners. Other revenue sources received by the State are detailed under the contract(s) that govern the commercial arrangements between the joint venture partners, which are not publicly disclosed.

The signatories to the PNG LNG UBSA are The Independent State of Papua New Guinea, Southern Highlands Provincial Government, Gulf Provincial Government, Central Provincial Government, Local Government, and project area landowners. ExxonMobil PNG is not a signatory to the agreement.

The PNG LNG UBSA details the compensation and benefits arrangements arising from the project, including royalties, equity, development levies, infrastructure development grants and business development grants.

A series of license-based benefits sharing agreements (LBBSA) also detail how provincial and local levels of government, as well as landowners within each license area, are to allocate their share of the project’s compensation and benefits. For instance, signatories to the Angore PRL 11 License Based Benefits Sharing Agreement are the Independent State of Papua New Guinea, The Southern Highlands Provincial Government, Komo, Hayapuga, Hulia and South Koroba Rural Local Level Governments, and project area landowners. The agreement details the specific compensation and benefits that arise from Angore PRL 11, including sharing arrangements for royalties, equity, development levies, infrastructure development grants and business development grants, as well as high-level provisions for local content, resettlement, governance, environmental management, security arrangements and dispute resolution mechanisms.

Case Studies continued

The compensation and benefits that have arisen from the PNG LNG project have been the subject of vexed discussions among and between landowners, subnational and national levels of government, local and international civil society organisations, and academics and commentators from within and outside of the country. The focus of this report is not to summarise these discussions, or to unpack the root causes that have impacted, for instance, landowner identification and royalty distribution—or to analyse the project through a political economy lens.

Figure 7.10 contains a summary of compensation and benefits from the PNG LNG project in 2017. These revenue flows were paid through ExxonMobil as the operator, the PNG LNG Global Company LLC (GloCo), and KPHL. The highest value revenue streams were payments from the GloCo entity to KPHL and MRDC resulting from the share of sales.

Figure 7.11 contains the subnational payments and revenues for the PNG LNG project in 2017. The highest-value subnational payment during this period was royalties to subnational government entities and landowners (PGK 50.96M), followed by payments categorised by ExxonMobil as community investment (PGK 46.90M), ITCS projects (PGK 35.93M through either the GloCo or KPHL stream and reported by IRC; PGK 27.35M through the ExxonMobil stream and reported by DNPM), discretionary social payments (PGK 8.48M), development levies (PGK 7.75M), land deprivation payments and local agreements (PGK 3.68M), and community investment payments in the areas of education, health, community infrastructure and environmental projects as reported in the PNG LNG 2017 Environmental and Social Report report.

5 Rather, the purpose of the current study is to understand in broad terms the compensation and benefits that derive from the project, with the view to informing PNGEITI subnational reporting arrangements.
6 The income tax figure is represents total corporate income tax paid in 2017 for ExxonMobil interests in PNG and is not limited to income derived only from ExxonMobil’s ownership interest in the PNG LNG project.
7 GloCo was incorporated to facilitate project financing and the management of all revenue, sales, marketing, ship chartering, operating costs and revenue payments to the State of PNG.
8 Community investment payments are in the areas of education, health, community infrastructure and environmental projects as reported in the PNG LNG 2017 Environmental and Social Report report (see page 12).
9 There may be some overlap between payments reported as ‘Discretionary Social’ to PNGEITI 2017 and payments reported as ‘Community Investment’ in the PNG LNG 2017 Environmental and Social Report report.
10 Figure provided by ExxonMobil PNG was USD 1,091,584. Reported here as PGK 3.68M based on a USD/PGK Fx rate of .29.
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Figure 7.11 Subnational revenues from the 2017 PNGEITI Report. Source: 2017 PNGEITI Report and data provided by ExxonMobil PNG.
8.1 Should PNGEITI implement subnational reporting?
8.2 What subnational governance structure?
8.3 Who should be included and who should report?
8.4 How should materiality be defined?
8.5 What should be reported?
8.6 How to roll out subnational reporting?
PNGEITI Subnational Framework

There are concerns regarding the governance and distribution of subnational revenue streams in PNG’s extractive sector.

Balancing this, is the enthusiasm of many stakeholders to improve subnational governance, and the view that PNGEITI subnational reporting can play a key role.

As PNG seeks to promote economic growth post-APEC, improving subnational governance in one of the country’s key sectors can support improved transparency, accountability and inclusive development impacts.

To advance this agenda, and based on the review of global best practice, stakeholder interviews, case studies, and the analysis of subnational payment data, a series of key questions have been considered in the development of the proposed PNGEITI subnational reporting framework.

Analysis of each question, including a discussion of recommendations, key risks and key success factors is presented in the following pages.
8.1 Should PNGEITI Implement subnational reporting?

Discussion

With broad support for subnational reporting among national and subnational stakeholders, the national government’s decentralisation agenda, and the EITI Standard 2016 requirement for subnational reporting, it is recommended that PNGEITI develop, resource and implement a plan for subnational reporting in extractive provinces. Subnational reporting through PNGEITI is an opportunity to drive transparency, accountability and better development outcomes at the local and provincial levels.

Recommendation Summary

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<tr>
<td>1.1</td>
<td>Develop, resource and implement a plan for subnational reporting in extractive provinces</td>
</tr>
</tbody>
</table>

Risks

There are clearly a range of risks to the successful implementation of subnational reporting, many of which are discussed in subsequent recommendations. The three global risks for implementation that cut across all recommendations are:

1. Lack of resources to coordinate subnational reporting—both at the national and provincial levels;
2. Lack of institutional and organisational capacity to report subnational data; and
3. Lack of stakeholder support for subnational reporting—either at the national or provincial levels.

Given the multiplicity of stakeholders, institutions, capacity levels, agreement structures and broader political economies that engulf PNG’s extractive projects, it is difficult to generalise when considering risks such as resources, capacity and support, or political will.

Accordingly, the PNGEITI subnational framework attempts to mitigate these risks by adopting an adaptive model of change that can incorporate lessons learned and build partnerships at the subnational level. With that in mind, none of the risks of resources, capacity or support are considered to be ‘knock-out blows’ for the project. Requisite resources and capacity does exist for many subnational stakeholders to effectively participate in PNGEITI subnational reporting, if subnational reporting is owned and driven at the subnational level. Where requisite resources and capacity is found not to exist, sub-national stakeholders may require training and awareness on reporting procedures, and access to resources, to facilitate their effective participation in PNGEITI subnational reporting. At the national level, additional resources may be required for the implementation of the PNGEITI subnational reporting pilot project described in Section 8.6.

Success Factors

Key success factors, which are discussed in more detail throughout other recommendations, include:

1. PNGEITI MSG endorsement of subnational reporting framework;
2. Resourcing for pilot provinces established early 2019;
3. Early engagement with and participation by national and subnational stakeholders;
4. Selection of pilot provinces; and
5. Ownership of subnational reporting at the subnational level.
8.2 What subnational governance structure?

Discussion

Experience from other EITI-implementing countries demonstrates the importance of subnational governance and coordination structures when implementing subnational reporting. A number of countries, such as the Philippines and Peru, have implemented subnational MSGs to oversee subnational reporting in specific jurisdictions. In a geographically dispersed country like PNG, the need for subnational governance—and ownership—of subnational reporting is perhaps even more important.

Throughout the stakeholder interviews and consultation conducted for this study, subnational stakeholders expressed strong support for the establishment of subnational MSGs. Stakeholders also expressed a desire to ‘partner’ with the PNGEITI MSG and Secretariat on subnational reporting.

Drawing from this global experience, and considering the local support, it is therefore recommended that PNGEITI implements a model of subnational MSGs to coordinate subnational PNGEITI activities in extractive provinces.

Similar to the views put forth by stakeholders in this study, it is also recommended that membership of subnational MSGs should include provincial governments, local-level governments, landowner associations, peak landowner businesses, local CSOs and extractive companies. This proposed membership structure essentially mirrors the membership of the national PNGEITI MSG, albeit with different government representation due to the differences between national and subnational government structures. The reason for this proposed membership structure is that, like its national counterpart, the purpose of the subnational MSG is to include major stakeholders that receive or benefit from extractive payments and transfers in the governance structure that oversees the implementation of subnational reporting.

It is also recommended that, where possible, provincial MSGs are established as sub-committees of Provincial Coordination and Monitoring Committees (PCMCs). PCMCs are established under Section 110 (3) and supported by Section 74 of the Organic Law on Provincial and Local-level governments 1995.

Under these provisions, the purpose of PCMCs is:

1. To perform the role of Provincial & Local Level Services Monitoring Authority (PLLSMA) as required under section 110 of the OLP LLG at the provincial level; and

2. To assist the Provincial Administrator and District Administrator perform their roles under sections 74 and 80 of the OLP LLG.

By working within the PCMC structure, collaboration with provincial governments and links back to the Department of Provincial and Local Government Affairs (DPLGA) will be enhanced. If PCMCs are not operational or effective in a particular province, or if it is not practical to establish a sub-committee under a PCMC in a given province, then an agreed reporting line back to PCMCs may be appropriate.

Finally, it is equally important that a clear management structure is established between provincial MSGs and the PNGEITI MSG and...
Secretariat. This national-provincial operating framework should include details on the structure and role of provincial MSGs, basic requirements for information sharing and reporting between the national and provincial MSGs, and performance requirements for subnational reporting. Development of an MOU pro forma to codify this operational framework may also assist to clarify roles and responsibilities between the national and provincial structures.

Further, to ensure that provincial MSGs are aware of their roles and responsibilities, it is also recommended that PNGEITI subnational MSG chartering workshops are conducted to assist with MSG formation, training on EITI, awareness of roles and responsibilities, and development of implementation work plans for subnational reporting.

It should be noted that some extractive projects have footprints in multiple provinces. This is particularly the case for oil and gas projects such as the PNG LNG Project, which has a footprint in five provinces. In these cases, it will be necessary to establish MSGs that include representatives from multiple provinces. In provinces that host multiple projects, it is likely that one provincial MSG can be established that comprises representatives from multiple developers (not unlike the PNGEITI MSG). These decisions about the structure and composition of subnational MSGs are best made following the consultation phase in the pilot rollout proposed in recommendation 8.6.

### Recommendation Summary

<table>
<thead>
<tr>
<th>No</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>PNGEITI implements a model of subnational MSGs to coordinate subnational PNGEITI activities in extractive provinces. Membership of subnational MSGs should include provincial governments, local-level governments, landowner associations, peak landowner businesses, civil society organisations and extractive companies.</td>
</tr>
<tr>
<td>3.2</td>
<td>Where possible, provincial MSGs are established as sub-committees under PCMCS, or where this is not practical, with reporting lines back to PCMCS.</td>
</tr>
<tr>
<td>3.3</td>
<td>Develop a PNGEITI subnational operating framework that clearly defines the way in which provincial MSGs and the PNGEITI MSG and Secretariat will work together. This operational framework may include a pro forma MOU between the national MSG and provincial MSGs.</td>
</tr>
<tr>
<td>3.4</td>
<td>Run PNGEITI subnational MSG chartering workshops for MSG formation, EITI training, awareness on roles and responsibilities and development of subnational implementation work plans.</td>
</tr>
</tbody>
</table>

### Risks

There are a number of risks associated with setting up provincial MSGs that are within or connected to the PCMC structure.

The first is that, by tying provincial MSGs to PCMCs, the effectiveness of the former could be limited by the latter. Although real, this is a ‘risk worth taking’ to support the existing provincial government mechanism designed to support multi-stakeholder development planning and monitoring. Moreover, if a PCMC in a given province is impacting the ability of a provincial MSG to effectively carry out its mandate (for instance, if meetings of the PCMC sub-committee are not able to be scheduled on a regular basis), it is important that within the terms of reference for the provincial MSG, corrective measures can be taken (in this case, for instance, provincial MSGs could schedule their own meetings independent of the PCMC). Further consultation with DPPLGA could be part of the design process for establishing provincial MSGs under the ‘PNGEITI national-provincial operating framework’.

Other risks include the lack of capacity or awareness of the roles and responsibilities of provincial MSGs among their members, or a lack of ownership and ‘buy-in’ to the PNGEITI subnational reporting concept. The Provincial MSG chartering workshops and other measures suggested in this PNGEITI subnational reporting framework are attempts to control for these risks, including allowing an element of ‘self-selection’ in the process used to identify pilot provinces.
Success Factors

» Funding to support implementation.
» Support from DPLLGA, including a communiqué to provincial administrators on participation
» Support from district administrators
» Development of ‘PNGEITI national-provincial operating framework’
» PNGEITI subnational MSG chartering workshops for MSG formation, EITI training, awareness on roles and responsibilities and development of work plans
» Coordination with IA to ensure that subnational piloting links up with the annual reporting process
8.3 Who should be included and who should report?

**RECOMMENDATION 3**

Both subnational government entities and non-government entities, including L/O businesses & associations

**Discussion**

Although the EITI Standard 2016 is primarily focused on government payments and transfers, there is also scope for the MSG to develop frameworks that suit its country context:

“Scoping helps the multi-stakeholder group assess which provisions of the EITI Standard are applicable to their country, which encouraged elements they wish to include in the report, and whether locally relevant issues that are not featured in the EITI Standard should be covered.”


Stakeholders consulted for the case studies expressed a clear preference that both government and non-government entities be included in PNGEITI subnational reporting. Given the benefits and compensation flows of subnational extractive payments in PNG that result from MOAs and UBSAs, as well as the significant mandatory and non-mandatory social expenditure from extractive companies, it is questionable whether any PNGEITI subnational implementation without non-government entities would be seen as either credible or overly useful to local stakeholders.

It is therefore recommended that both government and non-government entities who receive material subnational payments or transfers are included in PNGEITI subnational reporting.

Government entities recommended for inclusion are provincial governments and, if they receive material direct payments or transfers, local-level governments, special purpose authorities, ward development committees and village planning committees:

Non-government entities recommended for inclusion are landowner associations, peak landowner businesses, landowner investment companies, development foundations and peak civil society groups who receive funding from extractive companies.

For their part, landowner associations have different roles in extractive projects. Some landowner associations, such as the Lihir Mining Area Landowners Association, have historically received significant direct payments for administration and community development projects. Other landowner associations, such as at Ok Tedi, receive limited direct payments from mining companies.

There are a number of benefits of including landowner associations who receive material payments or transfers in PNGEITI subnational reporting. First, like any other receiving entity, landowners and affected communities consulted in this study expect their landowner associations that receive material direct payments or transfers to be part of the PNGEITI subnational reporting process. Second, a greater focus on transparency and accountability through PNGEITI can help landowner associations to improve governance practices. Third, including landowner associations in PNGEITI subnational reporting will help to engage landowners in the broader PNGEITI process. For these reasons, it is recommended that landowner associations who receive material direct payments or transfers are included in PNGEITI subnational reporting.

With respect to landowner businesses, it is important to note that they come
PNGEITI Subnational Framework continued

in many shapes and sizes—from small family companies to medium- and large-sized operations such as the Anitua group of companies on Lihir, which employs more than 3000 people, and Fubilan Catering Services (FCS) at Tabubil.²

Although stakeholder views varied, the general opinion expressed in this study was that peak landowner businesses should take part in PNGEITI reporting. The landowner businesses consulted in this study also expressed their willingness to take part in PNGEITI subnational reporting.

Oftentimes, peak landowner businesses are referenced in some way (e.g., for business investment support, investment grants or direct contracts) through MOAs, UBSAs or other agreements with extractive companies. Under these circumstances, it would not seem unreasonable for peak landowner businesses to contribute high-level financial reporting (for instance, employment figures and dividends paid) as part of PNGEITI subnational reporting. Like their counterpart associations, involvement of peak landowner businesses in PNGEITI subnational reporting would also help with the broader awareness of transparency and accountability in the sector. It is therefore recommended that peak landowner businesses are involved in PNGEITI subnational reporting, and that the exact nature of this involvement is decided by Provincial MSGs.

There was also a view from stakeholders that development foundations or implementation bodies, such as Ok Tedi Development Foundation and Lihir Sustainable Development Committee, should be included in PNGEITI subnational reporting. Given the significant value of direct payments that are channeled through these bodies, it is also the recommendation of this study that development foundations are included in PNGEITI subnational reporting.

Another view from stakeholders was that WDCs and VPCs who receive material payments should be included in PNGEITI subnational reporting. On Lihir, for instance, VPCs sometimes receive funds for village projects from royalties received by the Nimamar Local-level government. These payments, which are dispersed from the district treasury office into WDC or VPC bank accounts, may be hundreds of thousands of kina. The view of stakeholders consulted on Lihir was that a grassroots reporting system whereby WDCs/VPCs are required to report the receipt of these funds through the PNGEITI subnational process would promote transparency and accountability at the village level. Given the intent of this suggestion—to promote transparency and accountability among village planning committees who receive material extractive payments—it is recommended that subnational MSGs are afforded discretion to include WDCs/VPCs in the PNGEITI subnational reporting process.

As the WDC/VPC example highlights, though, the involvement of subnational stakeholders in PNGEITI reporting may take on different forms. For instance, where WDCs/VPCs receive royalty funds, and their respective subnational MSG decides that WDCs/VPCs are included in subnational reporting, it may be that reporting of funds received is through the signing of a receipt that is delivered to and collated at the local-level government. Or, where peak landowner business are involved in subnational reporting, it may be to provide top-line financial reporting only. In this way, subnational reporting will be contextualised to the local and provincial levels.

In addition, and given the different payment flows in each extractive province, it is further recommended that discretion is afforded to PNGEITI Provincial MSGs regarding the nature and inclusion of peak CSOs who receive recurrent funding from extractive projects.

Finally, the case study of Woodlark Island demonstrates the significant impact that extractive operations can have on local communities in PNG prior to production. Resettlement projects are already underway on Woodlark, and compensation payments for land use have been made for approximately 40 years. Another example of a long-term project that has progressed through the pre-feasibility and feasibility stages is the Freida River project in Sandaun Province.

At present, non-producing extractive companies do not partake in PNGEITI reporting. However, it is recommended here that, where provincial MSGs are established, it is left to the discretion of the provincial MSG whether exploration companies are included in PNGEITI subnational reporting.

## Recommendation Summary

<table>
<thead>
<tr>
<th>No</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1</td>
<td>Both government and non-government entities who receive material subnational payments or transfers are included in PNGEITI subnational reporting.</td>
</tr>
<tr>
<td>3.2</td>
<td>Government entities recommended for inclusion are provincial governments, and if they receive material payments or transfers, local-level governments, ward development committees, village planning committees, special purpose authorities and district development authorities.</td>
</tr>
<tr>
<td>3.3</td>
<td>Non-government entities recommended for inclusion are landowner associations, peak landowner businesses and investment houses, development foundations and peak civil society groups who receive funding from extractive companies.</td>
</tr>
<tr>
<td>3.4</td>
<td>Where provincial MSGs are established, it is left to the discretion of the provincial MSG whether exploration companies are included in PNGEITI subnational reporting.</td>
</tr>
<tr>
<td>3.5</td>
<td>Some discretion is afforded to PNGEITI provincial MSGs regarding the nature and inclusion of non-government entities.</td>
</tr>
</tbody>
</table>

## Risks

The primary risk of this ‘inclusive’ approach to reporting is that stakeholders do not effectively participate, or that ‘attrition’ is experienced whereby early participation wanes.

The potential benefits of this inclusive approach, however, are improved data and greater stakeholder buy-in to subnational reporting.

Another risk discussed previously is capacity and resources of provincial stakeholders to participate in subnational reporting. Here, it is important that provincial MSGs consider the capacity of any optional reporting entities when deciding whether they should participate in subnational reporting.

## Success Factors

- Continued support from key government entities including DPLGA and provincial administrations
- Continued support from key non-government entities including landowner associations, businesses, development foundations and civil society groups
8.4 How should materiality be defined?

Discussion

Under the EITI Standard 2016, payments and revenues are considered material if their omission or misstatement could significantly affect the comprehensiveness of the EITI Report.

There are two basic options for setting materiality thresholds for EITI reporting: aggregated and disaggregated options. In the aggregated option, the same materiality threshold is set for all payment types. In the disaggregated method, different materiality thresholds are set for different payment types.

The PNGEITI MSG has adopted a dual definition of materiality for national reporting that is based on an aggregated quantitative definition, together with a qualitative materiality criterion.

The quantitative materiality threshold adopted is revenue streams that contribute 2% or more to total known revenue received by the government from the mining and oil and gas sectors, and it is noted in the PNGEITI 2016 report that lowering the materiality threshold further would not have significantly increased coverage of the report. The qualitative materiality threshold used by PNGEITI is “those revenue/payment streams that are considered important or potentially important to the people of PNG, such as payments from trust accounts managed for the benefit of landowners, communities, or the state”. Revenue streams that do not meet either the quantitative or qualitative materiality thresholds are unilaterally reported by either the paying or receiving entity.

Most subnational stakeholders consulted in this study held the view that materiality levels for subnational reporting should be set relatively low, or that all government transfers or direct payments received from mining companies should be reported by all receiving entities (ergo essentially setting a quantitative materiality threshold at zero). The sentiment behind this view seems to be a desire to promote the greatest possible level of transparency and accountability. Indeed, there is a ‘closeness’ about payments at the subnational level that is qualitatively different from many payments at the national level. Subnational payments connect to people’s land, families and communities in a way that renders even what might be considered small payments ‘material’.

When a payment is material, the PNGEITI Standard 2016 requires a reconciliation process involving both the payer and recipient. However, there are cases at the subnational level where non-government recipients are private entities. For instance, an individual or a family may receive a compensation payment or resettlement package with investment payments worth more than, in some instances at least, K500,000. In such cases, it would be both impractical and inappropriate to include these private entities as a PNGEITI subnational reporting entity. More than that, though, it would also be inappropriate to unilaterally report such a payment at a disaggregated level, as doing so may lead to a range of social and/or security risks for involved parties.

Therefore, the materiality threshold for subnational reporting should: (a) only apply to companies, government bodies, peak landowner businesses and associations, and CSOs who are likely to be receiving ongoing

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1 Source: 2016 PNGEITI Report.
payments, and (b) must include a provision where payments to individuals or families are aggregated up to the program level (e.g., resettlement) or sector level (business development).

With that in mind, there are a range of options for defining a quantitative definition of materiality for PNGEITI subnational reporting. Table 8.1 contains a typology of these options based on three different materiality criteria (percentage-based total government revenue, percentage-based total extractive revenue and fixed value) and level (national versus subnational).

Subnational quantitative materiality thresholds based on national government revenue (Option 1) and extractive revenues (Option 3) were ruled out for three reasons. First, linking subnational materiality to total revenues or extractive revenues received by the national government may create situations where subnational revenues move in and out of the materiality threshold from year to year due to the fact that payments and transfers will often be based on an individual project, i.e., they aren’t aggregated and normalised across the entire sector. Relatedly, a materiality definition based on national government total revenues or extractive revenues is likely to lack ‘face validity’ at the subnational level; that is, subnational stakeholders may view such a definition as not particularly meaningful or relevant to their local context.

Percentage-based definitions for materiality based on subnational (likely provincial) total revenues or extractive revenues were also considered but ruled out for two reasons. First, in many cases, payments from the extractives sector make a significant contribution to total subnational revenues. The exact percentage, however, varies across provinces, levels of government, stakeholders and projects.

As such, a percentage-based definition based on total subnational revenue might make sense for one province, but not another; or even one project in a province, but not another project in the same province. Second, a percentage-based definition may be more difficult to ‘operationalise’ and understand than an actual kina value.

With these considerations in mind, it is recommended that a value-based definition is used to define subnational materiality. Specifically, the following quantitative criteria are recommended for government and non-government entities:

<table>
<thead>
<tr>
<th>Sectors</th>
<th>National</th>
<th>Subnational</th>
</tr>
</thead>
<tbody>
<tr>
<td>% OF TOTAL GOVERNMENT REVENUE</td>
<td>1. Percentage of total national revenue</td>
<td>2. Percentage of total subnational revenue</td>
</tr>
<tr>
<td>% OF TOTAL EXTRACTIVES REVENUE</td>
<td>3. Percentage of total extractives national revenue</td>
<td>4. Percentage of total extractives subnational revenue</td>
</tr>
<tr>
<td>VALUE-BASED</td>
<td>5. Fixed value definition</td>
<td></td>
</tr>
</tbody>
</table>

Table 8.1 Quantitative materiality options for PNGEITI subnational reporting

<table>
<thead>
<tr>
<th>Materiality Threshold</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>K20,000</td>
<td>Government entities including provincial governments and, if they receive extractive-derived funds, local-level governments, special purpose authorities, district development authorities, ward development committees and village planning committees.</td>
</tr>
</tbody>
</table>
**PNGEITI Subnational Framework continued**

<table>
<thead>
<tr>
<th>Materiality Threshold</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
<td>K50,000</td>
<td>Non-government entities who are likely to receive recurring payments or transfers, including landowner associations, peak landowner businesses and investment houses, development foundations and peak civil society groups who receive funding from extractive companies.</td>
</tr>
</tbody>
</table>

**Recommendation Summary**

4.1 Quantitative materiality for subnational reporting set at K20,000 for provincial government entities and K50,000 for non-government entities.

4.2 Qualitative materiality is defined as “those subnational revenue/payment streams that are considered important or potentially important to subnational stakeholders and citizens” are included in PNGEITI subnational reporting.

4.3 Materiality thresholds for subnational reporting: (a) apply to peak business or corporate entities, associations or institutions, and government bodies (not to individuals or families) who are likely to be receiving ongoing payments, and (b) must include a provision where payments to individuals or families are aggregated up to the program level (e.g., resettlement) or sector level (business development).

**Success Factors**

- Provincial MSG input into materiality thresholds after first pilot study year
- Provincial MSG review of payments for inclusion under qualitative definition of materiality

**Subnational qualitative materiality threshold**

In addition to the quantitative materiality threshold, it is also recommended that a qualitative materiality threshold be set for subnational reporting. Drawing on the existing PNGEITI definition of qualitative materiality, it is recommended that “those subnational revenue/payment streams that are considered important or potentially important to subnational stakeholders and citizens” are included in PNGEITI subnational reporting.

**Risks**

It is possible that the suggested quantitative materiality thresholds will be too low for certain projects. To control for this risk, it is recommended that these thresholds are set as a trial, to be reviewed after the first year’s pilot study (see Recommendation 6).
Discussion

One of the major challenges with current reporting of mandatory and voluntary social payments is the different reporting categories used by stakeholders. Without standardising these categories, it will be rather difficult to aggregate social payments at the national level. Other benefits of standardising subnational reporting categories include improving reporting standards and developing a common ‘lexicon’ of categories across PNG’s extractives sector.

It is therefore recommended that, for the purposes of PNGEITI reporting, stakeholders report using a standardised framework for social payments.

Previous categories for social expenditure reporting suggested by the MSG to the PNGEITI IA are:

1. Compensation to landowners
   » General compensation
   » Environmental compensation
   » Community asset, relocation and resettlement compensation
   » Lease fees
2. Education
   » Scholarship
   » University sponsorship
   » Other training costs
3. Infrastructure Development
4. Community Development Programs
5. Business Development Programs
6. Health Programs
7. Township Development

Although the PNGEITI 2016 report states that these categories were sent to companies in the reporting template used for mandatory and voluntary social expenditure, neither disaggregated data (by company) or aggregated data (across companies) using these categories is included in the report.

A slightly expanded framework that includes all subnational payments and transfers (not just social expenditure) as well as the ITCS (which is considered a barter arrangement under EITI Standard 2016 Requirement 4.3) is recommended in Table 8.2. The reason for integrating these reporting categories (including ITCS) into one subnational reporting framework is that, taken together, these are the broader financial flows of most relevant to subnational stakeholders.

The framework includes five key pieces of information for each payment:

1. **Payer/Recipient/Mediator** - The payer, recipient and any ‘mediating’ entities in the case of transfers;
2. **Payment Type** - Whether the payment is a government transfer, direct company payment, social expenditure or barter arrangement;
3. **Sector** - What sector the payment belongs to (e.g., education, health, infrastructure);
4. **Direct/Indirect** - Whether the payment was a direct cash contribution or in-kind goods and services, and
5. **Mandatory/Voluntary** - Whether the payment is mandatory (i.e., required under law or an agreement) or voluntary (i.e., not required under law or an agreement).
**Table 8.2 Requirements and guidance for subnational payments**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Subnational data to be collected</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATUTORY COMPENSATION</td>
<td>1. <strong>Payer/Recipient/Mediator</strong> - The payer, recipient and any ‘mediating’ entities in the case of transfers.</td>
</tr>
<tr>
<td>ECONOMIC</td>
<td>2. <strong>Payment Type</strong> - Whether the payment is a government transfer, direct company payment, or social expenditure.</td>
</tr>
<tr>
<td>INFRASTRUCTURE</td>
<td>3. <strong>Sector</strong> - What sector the payment belongs to (e.g., education, health, infrastructure).</td>
</tr>
<tr>
<td>ADMINISTRATION &amp; CAPACITY BUILDING</td>
<td>4. <strong>Direct/Indirect</strong> - Whether the payment was a direct cash contribution or in-kind goods and services.</td>
</tr>
<tr>
<td>HEALTH</td>
<td>5. <strong>Mandatory/Voluntary</strong> - Whether the payment is mandatory (i.e., required under law or an agreement) or voluntary (i.e., not required under law or an agreement).</td>
</tr>
<tr>
<td>EDUCATION</td>
<td></td>
</tr>
<tr>
<td>LAW &amp; ORDER</td>
<td></td>
</tr>
<tr>
<td>AGRICULTURE &amp; FISHERIES</td>
<td></td>
</tr>
<tr>
<td>OTHER SOCIAL DEVELOPMENT</td>
<td></td>
</tr>
<tr>
<td>ROYALTIES</td>
<td></td>
</tr>
<tr>
<td>DIRECT PAYMENTS &amp; TRANSFERS</td>
<td></td>
</tr>
<tr>
<td>OTHER ROYALTIES AND TAXES</td>
<td></td>
</tr>
</tbody>
</table>

Reporting all subnational payments, transfers and social expenditure using this standardised framework will also address key recommendations made by the recent audit of PNGEITI:

“In accordance with Requirement 6.1, PNG should ensure that reporting of mandatory social expenditures be disaggregated by type of payment and beneficiary, clarifying the name and function of any non-government (third-party) beneficiaries of mandatory social expenditures. To strengthen implementation, PNG may also wish to consider the feasibility of reconciling mandatory social expenditures.”

Based on discussions with stakeholders, the review of global practice on subnational reporting, and an analysis of the case studies and the broader context for subnational reporting in PNG, there are a number of other potential inclusions for subnational reporting. These are:

1. MOA and UBSA obligations;
2. Social and environmental impacts; and
3. Expenditure.
First, MOA, UBSA and other major agreements such as ‘compensation and relocation’ agreements often have high-profile obligations that implicate the national government, provincial and local-level governments, landowners, and affected communities. These obligations typically include provincial funding streams (e.g., royalties, SSGs, development levies), major infrastructure (e.g., road sealing) or other obligations (e.g., business investment funds). Grievances can and do emerge when there is a perception—real or otherwise—that these obligations have not been met by one of the parties to the agreement. Although there are existing forums that are meant to review the implementation of these obligations (for instance, the MRA Quarterly Review process for mining projects, or other stakeholder forum processes run by extractive companies), these existing review mechanisms are not always effective, and do not include transparent reporting mechanisms. As a result, there is no standardised way to report progress against the key subnational obligations that underpin subnational payments, transfers and social expenditure.

High-level reporting of key obligations would help to provide contextual information about subnational payment flows, and could be of great benefit to subnational stakeholders. It is therefore recommended that PNGEITI subnational reporting includes the following information on the top 10 MOA obligations for each project:

- Stakeholder responsible
- Recipient
- Brief status update (no more than one short paragraph)

Second, there was also a suggestion by some stakeholders to report social and environmental impacts through PNGEITI subnational reporting. The reporting of social and environmental impacts is perhaps a more difficult area to include in summary form in a PNGEITI report. Each extractive project has a range of positive and negative social and environmental impacts, which should be reported through company sustainability reports and monitored by state agencies. Summarising these impacts would be possible through the PNGEITI process, although not without challenges. It is therefore recommended that, in the pilot phase of subnational reporting (see Recommendation 6), any inclusion of social and environmental impacts is at the discretion of the subnational MSG.

Third, there was strong support for the inclusion of expenditure reporting, particularly for provincial and local-level governments and development foundations.

One challenge to reporting on provincial and local-level government expenditure from extractive revenue sources (e.g., royalties and development levies) is that government entities do not manage extractive revenues as a separate expenditure account under their chart of accounts. Rather, extractive revenues are consolidated into general revenue, and overall expenditure reporting is through the Provincial Government Accounting System (PGAS), without any disaggregation of how extractive payments or transfers were spent. Because of this, it may be difficult for provincial and local-level governments to report on the expenditure of extractive revenues.

Development agencies, on the other hand, tend to receive most or all of their funding from extractive companies. As a result, it is an easier process to produce a report of expenditure of extractive payments or transfers.

With these considerations in mind, it is recommended that expenditure reporting by provincial and local-level governments and development foundations is at the discretion of provincial MSGs for the pilot phase of PNGEITI subnational reporting.

**Recommendation Summary**

<table>
<thead>
<tr>
<th>No</th>
<th>Recommendation</th>
</tr>
</thead>
<tbody>
<tr>
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</tr>
<tr>
<td>5.2</td>
<td>PNGEITI subnational MSGs collate the top 10 MOA obligations for each project.</td>
</tr>
<tr>
<td>5.3</td>
<td>Inclusion of social and environmental impacts is at the discretion of the subnational MSG in the pilot stage of reporting.</td>
</tr>
<tr>
<td>5.4</td>
<td>Inclusion of expenditure reporting by provincial and local-level governments and development foundations is at the discretion of provincial MSGs for the pilot phase of PNGEITI subnational reporting.</td>
</tr>
</tbody>
</table>
PNGEITI Subnational Framework continued

**Risks**

The main risk to standardising the subnational reporting framework is stakeholder non-compliance. It is suggested that this framework be refined after the pilot phase of subnational reporting, and then promoted as the in-country sector standard to which stakeholders should report. The main risk for including additional information on MOAs and potentially social and environmental impacts and expenditure is ‘biting off more than can be chewed’. Allowing MSGs to have some discretion over the inclusion of this information, at least in this first phase of subnational reporting, should address this risk.

**Success Factors**

» National and provincial MSG support for standardised reporting framework

» Provincial MSG input and support for additional reporting items

**Recommendation Summary**

<table>
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<tr>
<th>No</th>
<th>Recommendation</th>
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</tr>
</tbody>
</table>
8.6 How to implement subnational reporting?

Discussion

A full-scale rollout of PNGEITI subnational reporting for the 2018 calendar year reporting cycle in 2019 would be a significant undertaking.

In addition to completing foundational tasks such as developing the subnational reporting operational framework, multiple visits to each extractive province would be required to conduct stakeholder awareness and chartering workshops for provincial MSGs.

Rather than attempting a country-wide implementation of subnational reporting, it is recommended that PNGEITI not attempt to ‘boil the ocean’ and instead pilot subnational reporting with three pilot provinces in 2019.

This ‘adaptive’ approach will help PNGEITI and provincial MSGs to learn lessons about what works—and what doesn’t work—prior to a full rollout of subnational reporting. Moreover, involving key extractive provinces in what would be an action learning process will mean a greater chance of ownership over the subnational reporting process in those provinces (for they will be part of the design process), and will generate on-the-ground learnings that can be taken into account in the final design for PNGEITI subnational reporting.

Criteria for selecting subnational pilot provinces could include:

» support from provincial administrations and treasurers to participate in the pilot project (i.e., a ‘self-selection’ element), and their capacity to do so;

» willingness and capacity of provincial stakeholders to participate in the pilot project; and

» achieving a mix of mining projects and oil and gas projects across the three pilot provinces

Recommendation Summary

6.1 Don’t boil the ocean: Pilot subnational reporting with an adaptive rollout in three provinces.

6.2 Take learnings from the pilot rollout and integrate into the PNGEITI subnational operating framework for full rollout of PNGEITI subnational reporting in 2020.

Risks

This recommendation controls for a number of risks identified in other recommendations.

They key risks for the pilot project itself include failing to gain requisite support from provincial stakeholders, meeting 2019 reporting deadlines in pilot provinces, and resourcing the pilot rollout.

To mitigate the first of these risks, failing to gain requisite support, it is recommended that a key stage of the pilot project includes ‘validating’ the support of stakeholders in potential pilot provinces, perhaps through a two-day training and dialogue workshop around extractive governance and PNGEITI subnational reporting for provincial administrators and provincial treasurers from extractive provinces.
The idea is to create some healthy competition among extractive provinces to 'take the lead' on transparency and reporting. Although the PNGEITI MSG will have the final say over which extractive provinces are selected for the pilot implementation, this initial self-selection process is designed to address the risk of lack of support in the pilot reporting process.

For the second of these risks, meeting 2019 reporting deadlines (i.e., providing subnational data in October 2019), part of the ‘adaptive’ approach to pilot reporting will be to learn lessons about what is possible within given timeframes at the subnational level. It would be likely that the inaugural PNGEITI subnational reports would have some gaps—and understanding how these gaps arise, and how to fix them, is part of the learning process for subnational reporting.

The third risk, resourcing the pilot project, will require some consideration from the PNGEITI MSG. In the proposed pilot phase of subnational reporting, it may be that a tranche of support is required to resource the key deliverables required for the subnational pilot project, such as developing the PNGEITI national-provincial operating framework and chartering provincial MSGs. Once these resources have been developed, and with the ‘proof-of-concept’ for subnational reporting in place following the proposed pilot rollout, the expectation would be that the bulk of the resourcing for subnational reporting would transition to recurrent PNGEITI funding and provincial stakeholders.

**Success Factors**

- Stakeholder support and capacity in pilot provinces
- Resources for pilot study approach
Men in Kwikila, Central Province. Source: Tim Grice
## Annex A: Stakeholders consulted

<table>
<thead>
<tr>
<th>National Stakeholders</th>
<th>Mining</th>
<th>Industry</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government / SOEs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>» Mineral Resource Authority</td>
<td>PNG Chamber of Mines and Petroleum</td>
<td>» PNG Resource Governance Coalition</td>
<td></td>
</tr>
<tr>
<td>» Department of Petroleum and Energy</td>
<td>» ExxonMobil</td>
<td>» Transparency International PNG</td>
<td></td>
</tr>
<tr>
<td>» Mineral Resources Development Company Limited</td>
<td>» Oil Search Limited</td>
<td>» Ernst &amp; Young</td>
<td></td>
</tr>
<tr>
<td>» Dept. Of Provincial and Local-level government Affairs</td>
<td>» Newcrest Mining Ltd</td>
<td></td>
<td></td>
</tr>
<tr>
<td>» Auditors General Office</td>
<td>» Ok Tedi Mining Limited</td>
<td></td>
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<tr>
<td>» Commission and the Conservation and Environment Protection Authority</td>
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<tr>
<td>» Internal Revenue Commission</td>
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<td></td>
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<tr>
<td>» Department of Finance</td>
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<tr>
<td>» Department of Treasury</td>
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</tr>
<tr>
<td>» State Solicitors office</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>» National Economic Fiscal Commission</td>
<td></td>
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</tr>
<tr>
<td>» Department of National Planning &amp; Monitoring</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Government</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>» New Ireland Provincial Government</td>
<td>Newcrest Mining Limited</td>
<td>» Lihir Mining Area Landowners Association</td>
<td></td>
</tr>
<tr>
<td>» Nimimar Local-level government (Lihir)</td>
<td>St Barbara Limited</td>
<td>» Simberi Mining Area Landowners Association</td>
<td></td>
</tr>
<tr>
<td>» Sentral Niu Ailan Local-level government</td>
<td>Nautilus</td>
<td>» Petzmorme Women’s Association</td>
<td></td>
</tr>
<tr>
<td>» Kavieng District Authority</td>
<td>Anitua Mining Limited</td>
<td>» Tutorme Women’s Association</td>
<td></td>
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<tr>
<td></td>
<td>National Catering Services</td>
<td>» Lihir Youth Group</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>» Mineral Resource Capital Limited</td>
<td></td>
</tr>
</tbody>
</table>

NEW IRoELAND - NEWCRESt
Signing up to mobile banking on Woodlark Island. Source: Tim Grice
### Annex B: Subnational financial flows

#### Royalties - Mining

**Payer**
- Developer

**Intermediary**
- NA

**Recipients**
- Provincial govs, local level govs, landowners

- Mining companies pay royalties via electronic funds transfer (EFT) direct to provincial governments, local-level governments and landowners.

- Payments to provincial and local-level governments are made to accounts within the Provincial Government Accounting System (PGAS), which is in the process of transitioning to the Integrated Financial Management System (IFMS).

- Local-level governments at times transfer royalty funds to Ward Development Committees (WDCs). In these instances, cheques or EFTs payments are made to the bank accounts of WDCs.

- Payments from mining companies to landowners are typically made to accounts held by each clan or family representatives. Payments to other community groups specified in MOAs are typically paid via EFT to bank accounts set up to receive royalties.

#### Royalties - Oil and Gas

**Payer**
- Developer

**Intermediary**
- DoP / MRDC

**Recipients**
- Provincial govs, local level govs, landowners

- Oil and gas companies pay royalties to DoP and/or the Department of Finance. ExxonMobil PNG pays royalties via EFT to DoP, who in turn deposits royalty payments to a PNG LNG Trust Account within GoPNG consolidated revenue account. DoP then deposits provincial government and local-level government royalties directly to their nominated bank accounts. Landowner royalties are deposited into subsidiary trust companies (infrastructure and future generation trusts) and directly to beneficiaries (bank accounts or cash).

- Oil Search pays royalties via cheque to DoP who then issues an Official Receipt of the Government.

- DoP then transfer funds to MRDC on a monthly basis, who in turn transfer royalty payments to provincial and local-level governments, and make direct payments to landowners and other groups on a monthly basis.

#### Formula

- Mining royalties are calculated by mining companies at 2% of gross revenue and paid directly to beneficiaries on a monthly basis.

- Provisions for the distribution of the distribution of royalties to subnational government, landowner and community entities are found in MOAs for specific projects.

- Oil and gas royalties are calculated by oil and gas companies at 2% of ‘wellhead value’.

- Provisions for the distribution of the distribution of royalties to subnational government, landowner and community entities are found in UBSAs for specific projects.
**Royalties - Mining**

Royalties are provided for in the Mining Act 1992 under Section 148, however there is no specification of the rate, payment procedures or allocation of royalties in the Act. Instead, a reference is made that ‘Royalties for mine products shall be paid in accordance with the Mining (Royalties) Act 1992’, which evidently does not exist.

The legislative genesis of the 2% royalty rate for mining projects appears to date back to NEC Decision 46/95 2012, which includes the following stipulations:

- that royalties for mining and petroleum projects be increased to 2% from 1.25% (clause l)
- that for medium scale mines developed on Mining Leases, landowners receive at least 80% of royalties, with negotiation of the final split with Provincial governments (clause i)
- that royalty received by Provincial governments be also used for PIP funded development purposes (clause s)
- that at least initially, the funding of individual royalty and special support grant projects be coordinated nationally by the Department of Mining and Petroleum (clause w)

**Royalties - Oil and Gas**

The Oil and Gas Act 1998 contains provisions for the calculation of royalties in Section 159:

159. ROYALTY.

1. Subject to Subsection (2), a tenement holder shall pay to the State royalty at a rate of 2.00% of the wellhead value of all petroleum produced from the licence area.

2. For the purposes of Subsection (1), the wellhead value of any petroleum is the value of the petroleum determined in accordance with Section 158 less any deductions prescribed in the regulations to the extent and in the manner prescribed.

3. [Repealed.]

4. Notwithstanding the provisions of the Income Tax Act 1959, where, in a financial year, in relation to the same licence area, a person has paid— (a) royalty under this section; and (b) development levy under Section 160, the royalty paid by that person under this section shall be deemed to be income tax paid by that person in respect of its liability to income tax under the Income Tax Act 1959 on its assessable income from petroleum operations derived from the petroleum project to which the royalty relates.

Section 159 of the Act contains provisions for royalties to be distributed to provincial governments, local-level governments and project area landowners:

168 ROYALTY BENEFIT.

1. Subject to this section and Section 169, the State grants to the project area landowners, the affected Local-level Governments and the affected Provincial Governments of a petroleum project, if any, a royalty benefit in respect of that petroleum project.

2. The royalty benefit granted under this section shall be shared between the project area landowners the affected Local-level Governments and the affected Provincial Governments of the project in proportions agreed by them in a development agreement, but in default of such agreement in the proportions determined by the Minister, by instrument.
<table>
<thead>
<tr>
<th>Royalties - Mining</th>
<th>Royalties - Oil and Gas</th>
</tr>
</thead>
<tbody>
<tr>
<td>3. The royalty benefit granted under this section shall be payable monthly, by the Minister, out of royalties payable to the Minister pursuant to Section 159</td>
<td>As noted in the PNGEITI 2017 Report, royalties and levies, particularly those received for oil and gas, are held in trust. The category, number and balance of trust accounts in use could not be reliably identified, even by the Auditor General.</td>
</tr>
<tr>
<td>4. The royalty benefit granted under this section shall be paid to the trustee and held on trust for the grantees in accordance with Section 176</td>
<td>The NEFC Annual Report includes details on revenues received by provincial governments, including oil and gas royalties.</td>
</tr>
<tr>
<td>5. If in respect of a petroleum project there are no project area landowners or affected Local-level Governments or affected Provincial Governments, no royalty benefit shall be payable, and all royalties received pursuant to Section 159 shall be paid over to consolidated revenue.</td>
<td>2017 mining royalties and dividends paid to provincial and local-level governments are recorded in the 2019 PNG Budget.</td>
</tr>
<tr>
<td>6. This section shall only apply in respect of petroleum projects which commence development pursuant to licences granted subsequent to the commencement date, and shall not affect arrangements in existence on the commencement date in relation to petroleum projects which on the commencement date are in production or have commenced development.</td>
<td>Any audits of mining royalty payments to provincial and local level governments by the Auditor General appear to be ad-hoc. Any audits of mining royalty payments to landowners or community entities appear to be ad-hoc.</td>
</tr>
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</table>

Mining companies report the distribution of royalties to MRA on a monthly basis.

The NEFCs Annual Report includes details on revenues received by provincial governments, including mining royalties.

2017 mining royalties and dividends paid to provincial and local-level governments are recorded in the 2019 PNG Budget. Any audits of mining royalty payments to landowners or community entities appear to be ad-hoc. Any audits of mining royalty payments to landowners or community entities appear to be ad-hoc. Information on royalties can also be found in the annual reports of oil and gas companies.

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<tr>
<td>Both mining companies and MRA report amounts of royalties paid and received to the PNGEITI IA and, as such, mining royalties are considered to be a ‘reconciled’ payment in PNGEITI reports. This payment status is questionable, given that actual receiving entities (provincial and local-level governments in the case of direct payments) do not currently report on receipt of mining royalties.</td>
<td>Oil and gas royalties are reconciled based on data provided by oil and gas companies, DoP and MRDC. PNGEITI 2017 Report states that MRDC also report the royalty and equity distributions received from subsidiary landholder companies and on payments to relevant trust funds. Royalties in the Oil and Gas sector represent both direct payments (from Oil and Gas Companies to the State) and transfers (from the national government to provincials government and local-level governments) under the PNGEITI 2016 Standard. Royalties are reconciled by data provided by the paying entity (Oil and Gas Companies) and the receiving entity (Finance via DoP). The transfer of Royalties to provincial governments and local-level governments is not reconciled.</td>
</tr>
</tbody>
</table>
Development Levies - Oil and Gas

<table>
<thead>
<tr>
<th>Payer</th>
<th>Intermediary</th>
<th>Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developer</td>
<td>NA</td>
<td>Provincial govs, local level govs, landowners</td>
</tr>
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</table>

Development Levies are paid to the national government through a trust account administered by the Department of Petroleum and Energy. These payments are then redistributed to affected provincial governments and local-level governments for community infrastructure projects.

Two oil and gas developers pay development levies: Oil Search, which pays by cheque to DoP, and ExxonMobil on behalf of joint-venture partners of the PNG LNG Project, which pays via EFT to a Bank of PNG trust account, and sends remittance advices to DoP.

Following receipt of development levy payments, DoP deposits all received levies into a trust account held by the Department of Finance. Finance then administer payments from the trust account to the relevant local or provincial government.

Development levies are paid annually in arrears on or before 31 January in the year following the year of production to which the development levy relates.

Development levies are calculated at 2% of the wellhead value of all petroleum product produced from the licence area.

Where a petroleum or gas project is liable for both royalties and development levies, royalty payments may be claimed as a deduction against income tax payable.
PNG’s Public Investment Program (PIP) is a funding mechanism established by the government for the purpose of capital formation and capacity building to improve public sector performance. The PIP translates development priorities identified in the Medium Term Development Plans (MTDPs) into a coordinated set of investment activities that deliver development outcomes that have been identified and prioritised in the MTDPs. The agency charged with administering the PIP is the Department of National Planning and Monitoring (DNPM).

Under the PIP, Special Support Grants (SSGs) are paid to provincial governments, local-level governments and SPAs in the mining sector.

The PNGEITI 2016 report states that SSGs are paid by the national government to extractive provinces at a rate of 0.5% of net sales value from mine products and 2% from petroleum products.

SSGs are calculated by Treasury at a rate of 0.25% of FOB value and its disbursement is administered by the Department of National Planning and Monitoring (DNPM) through a Guideline.

Infrastructural development grants appear to be funded by the national government separately from its normal annual budgetary process.

The value of Infrastructure Development Grants appears to be set based on agreement between parties to UBSA agreements.
LEGISLATIVE BASIS

SSGs/PIPs in the Mining Sector

Although there are no provisions for SSGs in the Mining Act, clause V of NEC Decision 46/95 2012 provides that SSGs are funded as PIPs. Clause W instructs the Department of Personnel Management to approve the recruitment of three engineers to the Mining and Petroleum department to assist with identifying royalty and SSG projects, and in the case of PIP submissions, preparing and letting tenders and overseeing project implementation. The Mineral Resources Authority Act 2005 also provides for the MRA, on behalf of the State, to administer and be responsible for the administration of any public investment programme relating to mining (Clause 5h).

Specific MOAs for mining projects contain arrangements for SSGs. For instance, Clause 4 of the MOA for Hidden Valley contains various provisions relating to the SSG payment for the project, including that “The State will provide to the Provincial Government a Special Support Grant or any other alternative grant equivalent to 0.50% of the value of fob revenue for the sale of mine products from the Project which will be utilised annually”.

In comparison, the Lihir MOA (1995) provides for 1% of FOB value and the Revised IBP (2007) does not appear to review this rage. The Lihir MOA also provides that “the National Government shall pay 70% to the Provincial Government and 30% directly to the Nimamar Community Government. Payments, which are to be quarterly, will only be released upon receipt by the National Government of satisfactory quarterly progress reports from the Provincial Government”.?

The PIP Guidelines apply to Special Support Grants (SSGs), which state that all SSG projects are screened against the broad PIP criteria and Expenditure Implementation Committee Guidelines under the Oil and Gas Act, and that all SSG project proposals will undergo rigorous technical appraisal in close consultation with the Department of Mining (now MRA) and Department of Petroleum and Energy. The guidelines further state that approval for all Petroleum MOA project funding will be given by the Expenditure Implementation Committee (EIC) which is the decision-making body established under the Oil and Gas Act.

Infrastructure Development Grants - O&G

Section 173 of the Oil and Gas Act 1998 contains provisions for ‘project grants’ to be paid in addition to the other benefits granted to affected provincial and local-level governments:

1. In addition to the other benefits granted to affected Local-level Governments and affected Provincial Governments under this Part, the State shall make grants to affected Local-level Governments and affected Provincial Governments of a petroleum project in accordance with this section.

2. The State shall in a development agreement and may in any other agreement agree with the affected Local-level Governments and affected Provincial Governments of a petroleum project upon the amount and nature and timing of grants to be made by the State to those affected Local-level Governments and affected Provincial Governments in relation to the petroleum project.

3. Grants made in accordance with this section may be in the form of monetary payments or in the form of provision of infrastructure or services or other benefits.

4. The provision to an affected Local-level Government or an affected Provincial Government of a benefit in the form of infrastructure (or any other benefit) which is funded by the licensee in respect of the petroleum project pursuant to Section 219C of the Income Tax Act 1959 shall be taken to be a grant made in accordance with this section.

5. The State may, in addition to grants made to affected Local-level Governments or affected Provincial Governments under this section, make grants to project area landowners or customary owners of land in a petroleum project area.

Referencing this part of the Act, Clause 6.1d of the PNG LNG UBA states that “PGK1.2 billion [will be] allocated equally over two five-year periods, commencing in 2010, for infrastructure development and maintenance in the affected project areas and provinces.”
<table>
<thead>
<tr>
<th>SSGs/PIPs in the Mining Sector</th>
<th>Infrastructure Development Grants - O&amp;G</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSGs are managed by the PIP Wing in DNPM. The wing is responsible for all development programmes and the management of the outcomes through monitoring. Its major function divisions are Economic and Infrastructure, Social and Administration, and Development Monitoring &amp; Evaluation. Part of the SSG Wing’s function is to monitor, evaluate and report on the progression of policies, plans, programmes, projects and activities on key Government initiatives against predetermined targets. Specifically the department tracks, monitors and evaluates the effectiveness and efficiency of development interventions across National Departments, Statutory Authorities, the Sub-National Governments and our development partners.</td>
<td>The PNGEITI 2014 report specifies that oversight of IDGs is provided by DNPM.</td>
</tr>
<tr>
<td>SSG’s are reported unilaterally by Treasury.</td>
<td>Infrastructure Development Grants have not been paid during PNGEITI reporting periods.</td>
</tr>
</tbody>
</table>

**PNGEITI**

No

**REPORTING AND AUDITING**

No
The payment flow for landowner and local and provincial government share of sales/equity dividends is that extractive companies make payments to MRDC, who in turn make payments to trust accounts held by the parties. The payment flow for state equity dividends is that extractive companies make payments to SOEs, who in turn make payments to the Treasury.

Dividends paid to subnational stakeholders in the mining sector are paid by mining companies to trust accounts managed by MRDC on behalf of the trustees. Dividends from equity shares are paid by OTML and Barrick (Niugini) Ltd for the Ok Tedi and Porgera projects respectively.

**Recipients for OTML dividends are:**
- PNG Government (national)
- Fly River Provincial Government (subnational)
- Mineral Resources Start Mountains (subnational)
- Western Province CMCA Western Province non-CMCA (subnational)

MRL Capital holds the equity that resulted from the withdrawal of Lihirian-held equity in the Lihir Gold Mine that was previously managed by MRDC. MRL pays dividends from its portfolio of investments from time-to-time.

**Share of sales/dividend payments are made in accordance with the terms specified in MOAs and Trust Deeds.**

The payment flow for landowner and local and provincial government share of sales/equity dividends is that extractive companies make payments to MRDC, who in turn make payments to trust accounts held by the parties. The payment flow for state equity dividends is that extractive companies make payments to SOEs, who in turn make payments to the Treasury.

Share of Sales/Dividends are paid to subnational stakeholders in the oil and gas sector are paid by oil and gas companies to trust accounts managed by MRDC on behalf of the trustees. The PNGEITI 2016 report states that share of sales are the sales proceeds received by state partners in the project; and derived from the joint marketing of LNG by venture partners in the PNG LNG project, noting that there was overlap with figures provided for share of sales and equity distributions.

However, share of sales are also listed for the following subnational entities in the PNGEITI 2016 report:
- Mineral Resources Enga (MRE), which is owned by the Enga Provincial Government, the Papua New Guinea National Government and the Porgera Landowners Association
- Petroleum Resources Kutubu Ltd (PRK) - Southern Highlands Provincial Government
- Petroleum Resources Gobe Ltd (PRG) - Gulf and Southern Highlands
- Petroleum Resources Moran Ltd (PRM) - Southern Highlands

**Share of sales/dividend payments are made in accordance with the terms specified in MOAs, UBSAs and Trust Deeds.**
**LEGISLATIVE BASIS**

<table>
<thead>
<tr>
<th>Share of Sales/Equity Dividends -</th>
<th>Share of Sales/Equity Dividends - O&amp;G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clause 16A of the Mining Ac 1992 states that &quot;The State, MRDC and the Company shall each have the right to acquire and, as appropriate, transfer a Participating Interest in the Mining Project in accordance with the option Agreement&quot;. Clause 16A (2) states that &quot;The State shall, subject to and in accordance with the option Agreement, nominate MRDC or the Company to acquire its Participating Interest referred to in subsection.&quot;</td>
<td>The Oil and Gas Act gives the State &quot;the right (but not the obligation) to acquire, directly or through a nominee, all or any part of a participating interest not exceeding 22.5% in each petroleum project&quot;. Out of the State equity entitlement, the State is able to grant to the project area landowners and the affected local-level governments an equity benefit to be shared between the parties in proportions agreed by them in a development agreement, but in default of such agreement in the proportions determined by the Minister, by instrument. Moreover, the Act has provisions for affected provincial and local-level governments and project area landowners of a petroleum project to negotiate an interest in a petroleum project in addition to the participating interest in that project granted under Section 167.</td>
</tr>
<tr>
<td>NEC Decision 46/95 2012 provides that, “out of the state’s equity in future projects (after Lihir, which is normally 30%), developed on Special Mining Leases, 5% be allocated free to landowners by the consortium of developers, and for projects developed on petroleum development licenses, 2% be given free to landowners also by the consortium”. A number of other provisions regarding equity in mining and petroleum projects are also referenced in NEC Decision 46/95 2012, including requirements that there be no state equity in small or medium-scale mining projects; that the current [at that time] equity in Bougainville Copper Limited, 0TML, Misima Mines and the Kutubu JV be retained; and that MRDC be the only vehicle for holding future state equity involvement in projects.</td>
<td>Provisions for subnational government entities and landowners to acquire equity in an extractive project are also found in UBSAs. For example, the PNG LNG Project’s UBSA provides project area landowners (upstream, pipeline and plant), and affected provincial and local-level governments a 7% equity participating interest in the LNG Project consisting of:</td>
</tr>
<tr>
<td>Provisions for subnational government entities and landowners to acquire equity in an extractive project are also found in MOAs.</td>
<td>a. an estimated 2.78% interest arising from entitlements by virtue of participating interests in the existing PDLs and by virtue of the 2% interest accruing to Project Area Landowners from the State’s 22.5% participating interest, provided for in Section 167 of the Act and relevant provisions LNG Gas Agreement in the new PDLs with respect to the PRLs included in the LNG Project (CDOA Equity); and</td>
</tr>
<tr>
<td>For example, provisions for equity are found in MOAs for mining projects and, in the case of Ok Tedi, an NEC decision to increase the Fly River Provincial Government’s and specific purpose community entities equity holdings to 33% and reduce the State of PNG’s holding to 67%.</td>
<td>b. an estimated 4.22% interest by virtue of a commercial option (“Equity Option 11) for an undivided and fixed 25.75% shareholding in Kroton granted by the State (“Kroton Equity”).</td>
</tr>
</tbody>
</table>
MRDC was incorporated in 1975 to manage mining and petroleum resource equity interests on behalf of the State and landowners. With state equity in extractive projects now managed through Kumul Petroleum Holdings Ltd and Kumul Mineral Holdings Ltd under Kumul Consolidated Holdings Ltd, MRDC’s role is to manage landowner and subnational government equity interests in both mining and petroleum projects.

Estimates of mining dividends paid to the provinces are recorded in the 2019 PNG Budget by the NEFC based on actuals from 2017. Dividends paid to provincial governments are also contained in NEFC’s Annual Report.

Information on share of sales/dividends can also be found in the annual reports of mining companies.

MRDC was incorporated in 1975 to manage mining and petroleum resource equity interests on behalf of the State and landowners. With state equity in extractive projects now managed through Kumul Petroleum Holdings Ltd and Kumul Mineral Holdings Ltd under Kumul Consolidated Holdings Ltd, MRDC’s role is to manage landowner and subnational government equity interests in both mining and petroleum projects. Equity payments made by MRDC in 2017 are listed in Table 6.7.

Estimates of oil and gas dividends paid to the provinces are recorded in the 2019 PNG Budget by the NEFC based on actuals from 2017. Dividends paid to provincial governments are also contained in NEFC’s Annual Report.

Estimates of oil and gas dividends paid to the provinces are recorded in the 2019 PNG Budget by the NEFC based on actuals from 2017. Dividends paid to provincial governments are also contained in NEFC’s Annual Report.

Information on share of sales/dividends can also be found in the annual reports of oil and gas companies.
**PNGEITI Subnational Payments**

**Share of Sales/Equity Dividends -**

<table>
<thead>
<tr>
<th>PNGEITI</th>
<th>Share of Sales/Equity Dividends -</th>
<th>Share of Sales/Equity Dividends - O&amp;G</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not reconciled - paid to state owned enterprises and trustees?</td>
<td>Not reconciled - paid to state owned enterprises and trustees?</td>
<td>Dividends refer to payments from SOEs to the State</td>
</tr>
<tr>
<td>Dividends reported as reconciled in 2017 - received by State - unclear of reconciliation process at subnational levels</td>
<td>Share of sales reported as unilateral (State partners in PNG LNG)</td>
<td>Share of sales are unilaterally declared by State partners in PNG LNG Project. Share of sales are unilaterally declared by State partners in the PNG LNG Project. The PNGEITI 2016 report states that share of sales are the sales proceeds</td>
</tr>
<tr>
<td>Yes - company annual reports.</td>
<td>Yes - company annual reports.</td>
<td></td>
</tr>
</tbody>
</table>

**ONLINE**
## Annex C: Royalties and Development Levies


<table>
<thead>
<tr>
<th>Receiving entity</th>
<th>Amount reported paid 2017 (PGK)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SIMBERI</strong></td>
<td></td>
</tr>
<tr>
<td>Simberi Land Owners</td>
<td>9,280,255</td>
</tr>
<tr>
<td>Total</td>
<td>9,280,255</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receiving entity</th>
<th>Amount reported paid 2017 (PGK)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>HIDDEN VALLEY</strong></td>
<td></td>
</tr>
<tr>
<td>Affected River Communities</td>
<td>1,199,336</td>
</tr>
<tr>
<td>Buang LLG</td>
<td>74,870</td>
</tr>
<tr>
<td>Bulolo District Treasury</td>
<td>1,347,668</td>
</tr>
<tr>
<td>Kwembu</td>
<td>626,023</td>
</tr>
<tr>
<td>Morobe Provincial Government</td>
<td>1,347,668</td>
</tr>
<tr>
<td>Mumeng LLG</td>
<td>224,611</td>
</tr>
<tr>
<td>Nakuwi Future Generations</td>
<td>142,921</td>
</tr>
<tr>
<td>Nakuwi Landowner Association</td>
<td>142,921</td>
</tr>
<tr>
<td>Nauti</td>
<td>1,330,564</td>
</tr>
<tr>
<td>Settler Community Trust</td>
<td>142,921</td>
</tr>
<tr>
<td>Subsidiary Communities</td>
<td>107,183</td>
</tr>
<tr>
<td>Wafi Landowner Association</td>
<td>35,725</td>
</tr>
<tr>
<td>Wania LLG</td>
<td>149,741</td>
</tr>
<tr>
<td>Watut LLG</td>
<td>374,352</td>
</tr>
<tr>
<td>Wau/Bulolo Urban LLG</td>
<td>299,482</td>
</tr>
<tr>
<td>Wau/Rural LLG</td>
<td>374,352</td>
</tr>
<tr>
<td>Winima</td>
<td>625,216</td>
</tr>
<tr>
<td>Total</td>
<td>8,545,553</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receiving entity</th>
<th>Amount reported paid 2017 (PGK)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>LIHIR</strong></td>
<td></td>
</tr>
<tr>
<td>Block Owners</td>
<td>15,013,015</td>
</tr>
<tr>
<td>New Ireland Province (NIPG)</td>
<td>37,532,538</td>
</tr>
<tr>
<td>NRLLLG</td>
<td>22,519,523</td>
</tr>
<tr>
<td>Total</td>
<td>75,065,076</td>
</tr>
</tbody>
</table>
## PNGEITI Subnational Payments

<table>
<thead>
<tr>
<th>Receiving entity</th>
<th>Amount reported paid 2017 (PGK)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PORGERA</strong></td>
<td></td>
</tr>
<tr>
<td>Enga Provincial Government</td>
<td>20,216,568</td>
</tr>
<tr>
<td>Porgera Development Authority</td>
<td>2,021,657</td>
</tr>
<tr>
<td>SML Landowners</td>
<td>6,064,971</td>
</tr>
<tr>
<td>SML Children’s Trust</td>
<td>4,043,314</td>
</tr>
<tr>
<td>Porgera Landowners Association</td>
<td>4,851,977</td>
</tr>
<tr>
<td>Porgera Young Adults</td>
<td>3,234,651</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40,433,138</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Receiving entity</th>
<th>Amount reported paid 2017 (PGK)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OK TEDI</strong></td>
<td></td>
</tr>
<tr>
<td>Atemkit Landowners</td>
<td>3,495,733</td>
</tr>
<tr>
<td>Bultem Landowners</td>
<td>3,495,733</td>
</tr>
<tr>
<td>Finalbin Landowners</td>
<td>3,495,733</td>
</tr>
<tr>
<td>Fly River Provincial Government</td>
<td>21,265,859</td>
</tr>
<tr>
<td>Kavorabip Landowners</td>
<td>3,495,733</td>
</tr>
<tr>
<td>Migalsibip Landowners</td>
<td>1,398,293</td>
</tr>
<tr>
<td>LLG - Ok Tedi Landowners (MOA) Admin Fund</td>
<td>279,659</td>
</tr>
<tr>
<td>LLG - Ok Tedi Landowners Royalty Trust Fund</td>
<td>10,906,686</td>
</tr>
<tr>
<td>Wangbin Landowners</td>
<td>127,008</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>47,960,434</td>
</tr>
</tbody>
</table>

Reconciliation of oil and gas royalty payments. Source: PNGEITI 2017 Report.

<table>
<thead>
<tr>
<th>Project</th>
<th>Company/Operator</th>
<th>Amount reported paid (PGK)</th>
<th>Amount reported received (PGK)</th>
<th>Variance (PGK)</th>
<th>Variance (%)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG LNG</td>
<td>ExxonMobil PNG Ltd</td>
<td>50,958,010</td>
<td>-</td>
<td>50,958,010</td>
<td>n/a</td>
<td>A</td>
</tr>
<tr>
<td>Oil projects (and Hides GTE)</td>
<td>Oil Search Ltd</td>
<td>26,652,515</td>
<td>26,687,665</td>
<td>-35,150</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>77,610,525</td>
<td>91,091,830</td>
<td>-24,433,154</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Remarks**

A Royalty and development levies are paid directly to a BPNG Trust Account by Exxon Mobil and an acknowledgment letter form is provided to DPE. The IA obtained Transmittal forms which include a cover letter and the reporting entity’s total PNG LNG Royalty calculation of USD15,984,319.23 (PGK50,958,010). The letters have been stamped as received by the office of the secretary. Refer to details Appendix E.
### Reconciliation of mining royalty payments paid to landholders (as reported by the MRA), Source: PNGEITI 2017 Report.

<table>
<thead>
<tr>
<th>Project</th>
<th>Company/Operator</th>
<th>Amount reported paid (PGK)</th>
<th>Amount reported received (PGK)</th>
<th>Variance (PGK)</th>
<th>Variance (%)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lihir</td>
<td>Lihir Gold Ltd</td>
<td>15,013,015</td>
<td>36,781,887</td>
<td>-21,768,872</td>
<td>-59</td>
<td>A</td>
</tr>
<tr>
<td>Ok Tedi</td>
<td>Ok Tedi Mining Ltd</td>
<td>26,694,575</td>
<td>26,998,239</td>
<td>-303,663</td>
<td>-1</td>
<td></td>
</tr>
<tr>
<td>Porgera</td>
<td>Barrick (Niugini) Ltd</td>
<td>20,216,570</td>
<td>21,184,548</td>
<td>-967,978</td>
<td>-5</td>
<td></td>
</tr>
<tr>
<td>Ramu Nickel</td>
<td>MCC Ramu NiCo Ltd</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Hidden Valley</td>
<td>Morobe Consolidated Goldfields Ltd</td>
<td>4,352,810</td>
<td>6,056,974</td>
<td>-1,704,165</td>
<td>-28</td>
<td></td>
</tr>
<tr>
<td>Kainantu</td>
<td>K92 Mining Ltd</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Simberi</td>
<td>Simberi Gold Co. Ltd</td>
<td>9,280,255</td>
<td>996,526</td>
<td>311,524</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Mt Crater</td>
<td>Anomaly Ltd</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Edie Creek</td>
<td>Niuminco Edie Creek Ltd</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>75,557,225</strong></td>
<td><strong>91,091,830</strong></td>
<td><strong>-24,433,154</strong></td>
<td><strong>-90</strong></td>
<td></td>
</tr>
</tbody>
</table>

### Reconciliation of development levy, Source: PNGEITI 2017 Report.

<table>
<thead>
<tr>
<th>Project</th>
<th>Company/Operator</th>
<th>Amount reported paid (PGK)</th>
<th>Amount reported received (PGK)</th>
<th>Variance (PGK)</th>
<th>Variance (%)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>PNG LNG</td>
<td>ExxonMobil PNG Ltd</td>
<td>7,746,881</td>
<td>-</td>
<td>7,746,881</td>
<td>n/a</td>
<td>A</td>
</tr>
<tr>
<td>Oil projects (and Hides GTE)</td>
<td>Oil Search Ltd</td>
<td>7,846,092</td>
<td>7,334,173</td>
<td>511,919</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>15,592,973</strong></td>
<td><strong>7,334,173</strong></td>
<td><strong>8,258,800</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Remarks**

A Royalty and development levies are paid directly to a BPNG Trust Account by Exxon Mobil and an acknowledgment letter form is provided to DPE. The IA obtained Transmittal form number 2017/04, which includes a cover letter and the reporting entity’s Annual PNG LNG Development Report of USD2,430,012.86 (PGK7,746,881). The letter has been stamped as received by the office of the secretary 18 January 2017. Exxon stated that the development levy paid in 2017 was for the 2016 reporting period. Lower commodity prices in early 2016 significantly impacted the 2016 Development Levy payment. Prices improved in 2017, resulting in payment of USD20 million (PGK64 million) in January 2018.