

## REQUIREMENT 5 – REVENUE ALLOCATIONS

### 5.2 SUBNATIONAL TRANSFERS

A. Revenue transfers between national and subnational government entities generated from 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.

B. The multi-stakeholder group is encouraged to ensure that any material discretionary or ad-hoc transfers are also disclosed, and agree a procedure to address data quality and assurance of information on such transfers, in accordance with Requirement 4.9 (Data Quality and Assurance).

C. The multi-stakeholder group may further wish to report on how extractive revenues earmarked for specific programs or investments at the subnational level are managed, and actual disbursements.

### REVENUE STREAMS IN SUBNATIONAL PAYMENTS AND TRANSFERS

1. Royalties
2. Special Support Grants (SSG) / Public Investment Program (PIP)
  - ◆ No provisions for SSGs in the Mining Act (1992) but clause V of NEC Decision 46/95 2012 provides that SSGs be funded as PIP under Department for National Planning.
  - ◆ Section 173 of the Oil and Gas Act 1998 provides for Infrastructure development grants.
3. Mandatory Social Payments (compensation, infrastructure, services like health/education).
  - ◆ Tied into agreements/contracts between the government and developer.
4. Discretionary Social Payments (sponsorships, contributions to health/education)
  - ◆ Voluntary contributions by the developer as part of their Corporate Social Responsibility.
5. Infrastructure Tax Credit Scheme (ITCS)
6. Equity distribution/dividends
7. Share of sales

To show that significant progress has been made against this requirement of the EITI standard, a validation of subnational payments should be undertaken and reported in 2018 Report, prior to PNG undergoing second validation against the EITI standard.

We understand that the scope of PNG's subnational revenue payments are complex and subject to volatile. The process will be complex but ultimately very valuable exercise to improve trust and transparency for this element of the extractive industry.

We believe that, as this process is rolled out, there will also be an opportunity to incorporate the most material social payments (currently only unilaterally reported by companies) into this reconciliation process.

**Recommendation:** We recommend that the first coordinated subnational reconciliation process be initiated early 2019, within the same timeframe as the national level reconciliation for 2018 data. This will be required to show meaningful progress prior to the second validation assessment against the EITI Standard.

As the subnational reconciliation process will be very complex, we recommend that a risk-based approach be implemented. This will allow efforts to be focused on the subnational areas and projects where the most benefit can be gained through the reconciliation process.

### GLOBAL EXPERIENCE (SUBNATIONAL PAYMENTS)

The Subnational Scoping Study report shared key learning experiences from other countries implementing the EITI subnational reporting:

- ◆ 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 EITI implementing countries have gone beyond payments to include reporting on expenditure and social and environmental impacts.

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Promoting Transparency and Accountability of  
Revenue from the PNG Mining and Petroleum  
Value Chain

## SUBNATIONAL PAYMENTS & TRANSFERS



The EITI Value Chain ranging from Agreements &  
Contracts, Production Data, Revenue Collection, Revenue  
Allocation and Social and Community Benefits



PNGEITI 2017 REPORT - by the INDEPENDENT ADMINISTRATOR

**RECOMMENDATION 4:** Coordinated reconciliation of subnational payments and transfers

**Observation:** Significant progress has been made engaging with subnational government and landholder groups through the development of the subnational scoping study.

## REQUIREMENT 4—REVENUE COLLECTION 4.6 SUBNATIONAL PAYMENTS

The EITI Standard requires that implementing countries report material subnational payments and transfers. This refers to reporting of material payments from extractive companies to subnational government entities. As well as reporting of revenue transfers between the national and subnational levels of government.

### DEFINING MATERIALITY

The EITI Rules **define materiality** as follows: “A revenue stream is material if its omission or misstatement could affect the comprehensiveness of final EITI report”.

There are two options for EITI reporting:

1. Aggregated (same materiality thresholds set for all payment types) and
  2. Disaggregated (different materiality thresholds set for different payment types)
- ◆ It is required that EITI data is disaggregated by each individual project, company, government entity and revenue stream.
  - ◆ PNG Multi-stakeholder Group has taken a dual approach of qualitative and quantitative definitions of materiality.
  - ◆ The quantitative material threshold is the revenue stream that contribute 2% or more of total revenue received by the government from mining, oil and gas sectors.
  - ◆ The qualitative materiality threshold used by PNGEITI is those revenue/payment streams that are considered important or potentially important to 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.

### SUBNATIONAL PAYMENTS AND TRANSFERS IN PNG CONTEXT

- ◆ Revenues from the mineral, oil and gas paid directly to the subnational level (provincial government, local level government, landowners, impacted communities, etc.)
- ◆ It can also be a “Transfer Payment” from the national level to sub national level from revenue derived from mineral, oil and gas sectors.
- ◆ According to the legislation, regulations or agreements dictate such payment or transfers.

## PNGEITI SUBNATIONAL REPORTING

EITI Validation country report (2018) found PNG to have made ‘Meaningful Progress’ but the assessment on the direct subnational payments and subnational transfers were inadequate.

- ◆ As noted in the 2017 PNGEITI report, payment data at the subnational level is either non-existent, missing key stakeholder entities, too aggregated to be meaningful, or inconsistent across projects.
- ◆ Landowners, affected communities and subnational government entities receive a broad range of payments and transfers and is difficult most times to clearly record these data.
- ◆ For local governance and development outcomes to be achieved, it is important that all recipients of subnational payments maintain a level of transparency and accountability.

### SCOPING STUDY ON SUBNATIONAL PAYMENTS

A scoping study was commissioned by PNGEITI in October 2017 in partnership with Pacific Leadership and Governance Precinct (PLGP) with support from Newcrest Mining Limited.

A REPORT on Subnational Payments in Papua New Guinea’s Extractive Sector was published in May 2019.

The purpose of the study was to:

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

The scoping study report revealed there are concerns regarding the governance and distribution of subnational revenue streams in PNG’s extractive sector.

In addition to this, is the enthusiasm this report observed from many stakeholders who indicated that subnational governance needed to be improved, and the view that PNGEITI subnational reporting can play a key role.

The report further states that 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 interview, case studies, and the analysis of subnational payment data, series of key questions have been considered in the development of the proposed PNGEITI subnational reporting framework.

## DEVELOPING THE PNGEITI SUBNATIONAL FRAMEWORK—KEY QUESTIONS RAISED

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?

### Recommendations made in relation to the questions above:

- 1.1. Develop resource and implement a plan for PNGEITI subnational reporting in extractive provinces;
- 2.1 Establish PNGEITI subnational MSGs with links to the PNGEITI MSG and Secretariat;
- 3.1 Both subnational government entities and non-government entities, including L/O businesses and associations;
- 4.1 Set quantitative and qualitative materiality thresholds;
- 5.1 Adopt standardised payment categories for social payments, allow for reporting of expenditure and MoA commitments;
- 6.1 Don’t boil the ocean: Pilot subnational reporting for adaptive rollout in three provinces.

### Improving reporting in the subnational levels in the provinces that have mining, oil and gas projects can;

- ◆ Provide local stakeholders access to relevant and timely information on extractive revenue flows that affect them;
- ◆ Promote transparency at the subnational level, reducing corruption and improving development planning and outcomes;
- ◆ Improve the social license to operate for extractive companies when locals accept or approve of extractive projects; and
- ◆ Contribute to PNG’s broader decentralization of service delivery.

*The PNG Extractive Industries Transparency Initiative (PNGEITI) is an independent body established by the PNG Government to promote transparency and accountability of revenue it receives from the mining, oil & gas sectors and how it spends these funds. PNGEITI is part of a global best practice standard known as the Extractive Industries Transparency Initiative (EITI) that promotes good governance in the extractive sector. In EITI implementing countries, companies involved in the extractive natural wealth (oil, gas and minerals) industries are required to report on what they pay to the governments and governments are required to publish what they receive from these companies in a given financial year. These financial data are then reconciled by an independent administrator and are published in the annual EITI Reports for public information.*