



PNG EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE
2016 ANNUAL PROGRESS REPORT

The background of the report cover is an aerial photograph of a large-scale mining operation. The image shows extensive earthmoving, with large, terraced pits and winding roads. The foreground is dominated by these industrial structures, while the background features lush green hills and a clear blue sky with scattered white clouds. A semi-transparent white banner is overlaid across the middle of the image, containing the title text.

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1. INTRODUCTION

PNG Extractive Industries Transparency Initiative experienced overwhelming support in 2016 in implementing the EITI standard in Papua New Guinea. The PNGEITI Multi Stakeholder Group (MSG) worked in close collaboration which resulted in implementation of key milestones such as the publishing of the second EITI Report and the endorsement of the EITI Report Implementation by the PNG National Executive Council, inclusion of State Owned Entities and the establishment of a fully functional PNGEITI Office with its own funding allocation from the PNG Government..

The Key milestones in implementing the EITI in PNG to date are:

- 2013 - NEC Decision 90/2013 was made to implement the EITI Standards in PNG.
- 2014 PNG was accepted as a candidate country by EITI International Secretariat.
- 2015 PNGEITI National Secretariat was established in the Department of Treasury.
- 2016 PNG published its First EITI Report for FY2013
- 2017 PNG published its Second EITI Report for FY2014
- 2017 NEC Policy Decision 91/2017 for implementation of 2013 Report Recommendation
- 2017 Preparation for publication of FY2015 and 2016 Reports
- 2018 PNG's scheduled to be validated for compliant status

The objectives implemented annually by the MSG representatives for EITI implementation in PNG are:

- i. Increased transparency of revenue flows from the companies to government, various landowners' trust funds, associations, and the provincial governments.
- ii. Use EITI as a diagnostic tool to assess government's management of resource revenue and its policy settings with recommendations to be used as a platform for broader reforms.
- iii. Provide reliable data for citizens to stimulate debate and hold government and companies accountable.
- iv. Increase investors' confidence to invest in PNG.
- v. Provide a forum for enhancing dialogue between the government, industry, landowners and citizens.
- vi. Support and complement PNG's Sovereign Wealth Fund (SWF) and Government reforms to fight corruption such as the establishment of the Independent Commission Against Corruption (ICAC).

These objectives are intended to ensure reporting mechanisms are strengthened and information is circulated widely to increase public understanding, stimulate debate to allow reforms in the sector. This will allow all parties to be held accountable for their stake in the PNG extractive sector.

These objectives form the basis of the PNGEITI Work Plan that outlines time bound activities and targets to achieve agreed objectives.

2. GENERAL ASSESSMENT OF THE YEAR'S PERFORMANCE

PNG Multi Stakeholder Group



The PNGEITI Multi-Stakeholder Group held a total of six meetings in 2016, more than what is required under the existing PNGEITI MSG Memorandum of Understanding 2013, to guide the production of the Second PNGEITI Report. The attendance at the MSG meetings was excellent with equal representation from the Government, Industry and Civil Society Groups. The year 2016 also saw the inclusion and participation of State Owned Entities to the PNGEITI MSG. Their participation was crucial in the successful production of the 2014 PNGEITI Report and signalled a long term commitment of all stakeholders to report to the EITI implementation in the country.

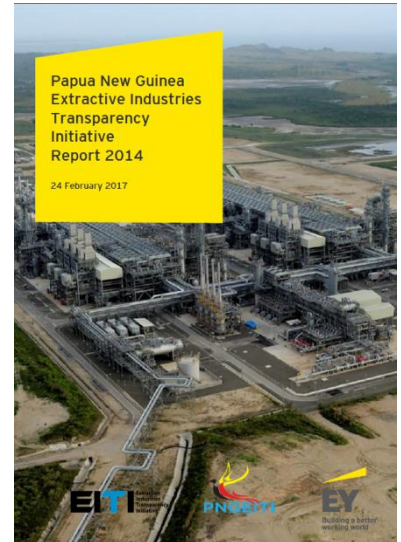
The PNGEITI MSG achieved key milestones achievements in initiating the Beneficial Ownership Roadmap, Open Data Policy and the establishment of the Legislative and Policy Committee, active communications and engagement activities and other International obligations. The MSG also secured renewed commitment from the Government through the participation of the Minister for Treasury Hon Patrick Pruaitch who chaired two MSG meetings and directed the creation of a PNGEITI Policy and Legislation as well as securing budgetary funding for the secretariat through the department of treasury.

General, engagement by MSG members improved significantly in 2016. This was largely owing to members becoming familiar with the EITI Standard's requirements, related processes and the expectation of MSG members to work hard to ensure PNG meets the requirements set by the EITI Standard. There were valuable discussions and issues addressed during these meetings. However, there is still room for further improvement through increased participation at international workshops and training opportunities to enhance the MSG member's level of understanding of the EITI Standard, and to learn from the experiences of other EITI implementing countries. This will enable the MSG members

and PNG National Secretariat staff to engage effectively during MSG meetings, and broaden stakeholders' commitment to and ownership of the PNG EITI process and take accountability for decisions they make.

Procurement of Independent Administrator for 2014 Report

The procurement of the Independent Administrator for the second report started on schedule. However, a tender process was undertaken consistent with the PNG Government procurement guidelines. Four international accounting firms were approached to participate in the bidding process and all four vendors submitted their expression of interest. The MSG appointed the same Technical Working Group (TWG) that required each MSG stakeholder group to assess the submission and make recommendation to the MSG. The submissions from these vendors detailed their respective experiences in undertaking EITI IA roles elsewhere. The TWG then made its recommendation to the MSG to select Ernst and Young (EY) as the Independent Administrator (IA) for report preparation.



The PNGEITI Report covers the calendar year from 1 January 2014 to 31 December 2014. Significant delays were experienced from both the IA and reporting entities. However the MSG has recommended for the procurement process to proceed consequently to avoid delays in the procurement process.

Communications Sub-Group

Communications activities for the year 2016 was vibrant and 2016 saw the recruitment of a full time communications officer with the PNGEITI National Secretariat. Subsequently the PNGEITI National Secretariat developed a communications strategy and policy and the initiation a Communications Sub-Group to steer its implementation. The sub-group is responsible for the promoting the report findings as well as providing recommendations to the MSG on matters pertaining to media and communication engagements. Further to this, overall sensitisation of the value of PNGEITI has increased with initiatives taken on-board by MSG members as highlighted in this report.

TIPNG Annual Exhibition in Kokopo

The Papua New Guinea Extractive Industries Transparency Initiative (PNGEITI) recently successfully participated in the Transparency International Biannual Anti-Corruption Exhibition in Kokopo on the 08-09 April 2016. Over 300 people visited the booth and received vital information about the work PNGEITI in the country. The purpose of our participation in this exhibition was



to highlight the work of the PNGEITI and its partners to promote Transparency and Accountability in the Mining and Oil and Gas Sector. Further to achieving widespread recognition and awareness, the PNGEITI works in partnership with its Multi Stakeholder Group (MSG) to implement the International EITI Standard. In order to achieve positive outcomes in implementation, the PNGEITI secretariat needs to widely participate and communicate in various outreach activities by its MSG partners. The TIPNG Biannual Exhibition was a vital opportunity for the PNGEITI to promote its activities and to utilise the civil society channel to bring across messages of government support in ensuring Transparency and Accountable practices in the PNG Mining and Oil and Gas Sector.

Media and Publications

The PNG EITI has seen increased media presence through print, radio, television and online social media platforms. Public perception around the PNG EITI and the implementation of the EITI Global Standards is gaining momentum at the National and sub-national level.



In 2016, the PNGEITI MSG endorsed the creation of a Communications Sub-Group of the Multi-

stakeholder comprised of media and communication representatives to

implement its communication strategy. The ongoing successful communication of the progress of EITI implementation in PNG is due to a robust and supportive stakeholders in the Government, Industry and Civil Society to ensure that information and findings of the report are available to the public through various channels and media outlets.

Apart from mainstream media reports, the Industry and Civil Society have included numerous articles highlighting the implementation of the EITI standard in PNG through their various channels of communication.

A media sensitisation workshop is being planned for FY 2017 to build the capacity of Journalists to report on the EITI.

PNGEITI New Ireland- Simberi and Lihir Mining Site Roadshow

The Papua New Guinea Extractive Industries Transparency Initiative (PNGEITI) National Secretariat staff and representatives from the PNGEITI Multi-Stakeholder Group (MSG) conducted an awareness road show in New Ireland Province from the 14- 18 November. The roadshows is the beginning of a series of planned outreaches to be conducted in mining and petroleum host provinces. The group comprising of MSG members did awareness sessions



on Lihir Island and continued to Simberi Island, Kavieng and Namatanai District. They did presentations to the provincial and local level governments, landowner groups and associations. Company officials of Newcrest and St Barbara (Simberi) assisted with logistics support and were in attendance.



The roadshow educated mining and petroleum project stakeholders including companies, landowners, provincial and local level governments on the EITI concept and its implementation in the country. The roadshow also informed beneficial owners of the extractive companies, provincial governments, landowner groups and LLGs that they will be required to report through the PNGEITI Report by 2020. Reporting of beneficial ownership is a new requirement by EITI International. It requires EITI implementing countries to report on specific details regarding shareholding and ownership of companies involved in the extraction of resources, and benefits sharing derived from the extraction activities. These include land owner companies and companies exploring and mining in the country. It also covers landowner companies and its boards and executives who are responsible for making corporate decisions on behalf of the landowners. The expected outcome from these roadshows is to achieve widespread awareness, dialogue, and education on the Government's implementation of the EITI standard in PNG and its progress to date since 2013 as well as prepare sub-national entities for reporting and disclosure of Beneficial Owners in future PNGEITI Reports.

Overall reception of roadshows were positive and suggestions were made to have a follow-up session at similar locations in FY 2016 and 2017.

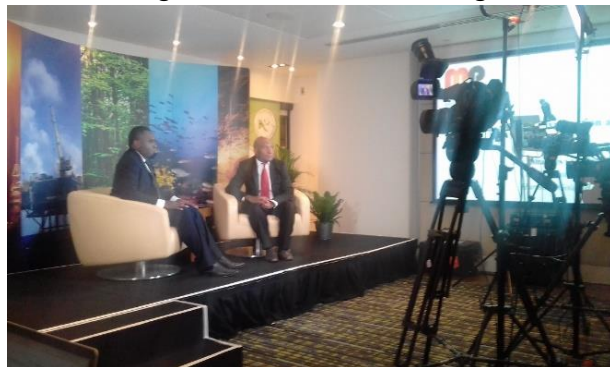
14th PNG Mining and Petroleum Exhibition and Conference 2016 Sydney, Australia

The PNGEITI National Secretariat successfully participated in the 14th PNG Mining and Petroleum Exhibition and Conference on the 05 –07 December 2016 in Sydney, Australia. This Annual Exhibition is organised by the PNG Chamber of Mines and Petroleum and brings together businesses houses from both countries to network and foster business relations in the PNG Mining and Oil and Gas sector.

The PNGEITI installed a booth and received



over 200 participants in the three days of the exhibition and conference. The majority of participants were familiar with the Initiative and queried the team on progressive updates of the PNGEITI FY2014 Report. A few guests were unfamiliar about the work of the PNGEITI in the country and were introduced with the first country report as well as its findings and recommendations. The purpose of our participation in this exhibition was to highlight the work of the PNGEITI and the findings of the PNGEITI Reports. Secondly, the PNGEITI wanted to promote investment in the PNG Mining and Petroleum Sector through information surrounding the findings and recommendations of the first report. Both



goals were achieved as the Prime Minister Hon Peter O’Neil highlighted the important work of the PNGEITI in his opening remarks.

The 14th PNG Mining and Petroleum Exhibition and Conference was a vital opportunity for the PNGEITI to promote its activities and to utilise the Industry channels to bring across messages of government support in business investment.

Pacific Governance Facility

The Pacific Governance Facility in Collaboration with the PNGEITI Multi-Stakeholder Group and the University of Queensland facilitated the PNG Extractives Workshop Report held on March 8-10, 2017.

The Workshop received over 50 delegates from government, the private sector, civil society and development partners who attended a three-day workshop on leadership, data



management and transparency in the extractives sector. The workshop is joint initiative between the PNGEITI and the Pacific Leadership and Governance Precinct built on an earlier extractive sector workshop supported by the Precinct in November 2015.

The workshop was structured around three themes:

- Technical training to enhance understanding and competencies around EITI and extractives governance;
- Multi-stakeholder improvement projects to enhance stakeholder work flows and processes for extractives data collection, management, reporting and dissemination; and
- Legislative dialogue to enhance understanding and competencies around sector legislation.

Reflecting on the technical training, presentations, panel sessions and discussions in the workshop, participants resolved to acknowledge:

- The joint support from the Pacific Leadership and Governance Precinct and the PNGEITI Multi-Stakeholder Group (MSG) and Secretariat in organising the workshop.
- The significant contribution of the extractive industry to PNGs economy, which now accounts for approximately 85% of PNG’s exports and significant fiscal revenue.
- The broader opportunity for PNGEITI to help translate PNG’s minerals, oil and gas wealth into broad-based, sustainable and inclusive outcomes for Papua New Guinea.
- The strong political will and positive progress to bring PNG to the status of EITI candidacy level, including the formation of a vibrant EITI Multi-Stakeholder Group (MSG); the work on producing the 2013 and 2014 PNG EITI reports; and the technical inputs undertaken to date, notably the recent work on the draft beneficial ownership road map and the formation of a technical team to examine options for PNGEITI specific legislation.
- The need to collaborate to solve a range of simple and complex challenges facing PNGEITI including stakeholder coordination; enhancing awareness to communities; extending transparency to address sub-national and contractual payments; strengthening monitoring and evaluation of EITI including addressing non-compliance; and linking EITI to other important governance initiatives. On day three of the workshop participants developed the following priority projects for consideration through the PNGEITI 2017 and 2018 Work Plan:
 1. Legislative adjustments or introduction of stand-alone legislations.
 2. The inclusion of sub-national payments in EITI reporting.
 3. Curriculum development for transparency and extractive sector governance.
 4. Improvement of inter-agency and industry-government work flows and processes for extractives data collection, management, reporting and dissemination; and
 5. Community empowerment through improved community awareness for EITI and extractives governance.



All workshop participants expressed a strong commitment to supporting the EITI MSG and Secretariat in developing and delivering its work plan. Proposed priority project plans are presented in the workshop report together with participant feedback on ongoing capacity development and support requirements. Follow-up workshops will be conducted in 2018.

PNGEITI and JICA Assistance

The Japan International Cooperation Agency (JICA) has come on board as the first development partner to work with the Papua New Guinea Extractive Industries Transparency Initiative (PNG EITI) Secretariat to enhance its capacity.



The meeting minutes was signed in Q2 2017 by respective officials from JICA, the PNG EITI, and the national government- represented by the Department of National Planning and Monitoring and the Department of Petroleum and Energy for JICA at identifying the scope for this technical cooperation. A technical team from the JICA were in the country on April 18, 2017 and met with key stakeholders for a detailed planning design survey aimed a demarcating the scope of this technical cooperation. PNG EITI National Secretariat Head Lucas Alkan commended JICA for coming on board to give its support to the PNG EITI in its endeavours to promote transparency and accountability on revenue streams from the extractive industry.

Walk Against Corruption- Oil Search

Oil Search Limited represented the PNGEITI in the 11th Transparency International PNG Sir Anthony Siaguru Walk Against Corruption in Port Moresby themed; “Walk for clean business. Make it your business”.



Organisations and individuals who took part in the walk were encouraged to be honest, accountable and transparent in their everyday dealings. As part of their public statement, OSL Oil Search “understands that the payments it makes in royalties, taxes, levies and other fees and charges to government and other stakeholders make up a large proportion of the country’s total private sector income and is one of its most significant socio-economic contributions. Therefore, Oil Search, as an Extractive Industries Transparency Initiative (EITI) Supporting Company, supports and advocates for improved transparency on payments received and spent”

Oil Search's Executive General Manager for Stakeholder Engagement Mr Gereia Aopi said "We have actively encouraged revenue transparency and are long-time supporters of PNG's journey towards EITI compliance,"



"Oil Search operates in a socially responsible manner, with strong values and high standards guiding its way of working. The Company has a genuine commitment to making a meaningful contribution to the lives of Papua New Guineans, addressing important social issues and aspiring to set the standard for private sector contribution to sustainable development."

PNGEITI on Radio Talk Back

The Papua New Guinea Extractive Industries Transparency Initiative is gaining momentum in terms of the support it is getting from the wider community since its establishment.

As part of its awareness rollout, the MSG conducted a series of Radio Shows that was broadcasted nationwide.

An MSG contingent comprised of the Head of National Secretariat Mr Lucas Alkan, Newcrest PNG Country Manager Mr Peter Aitsi, and Executive Director of the Institute of National Affairs, Paul Barker at the FM 100 studio to discuss PNGEITI's progress.



The speakers discussed who EITI influence on government policy since its establishment in 2013. The panel also discussed the need to broaden the PNG economic base to focus sustainable resourcing. Public reception suggested a need for more radio forums to inform and educate target audiences.

PNGEITI Participation in CIMC Regional Forums

The PNGEITI participated in the 2016 and 2017 CIMC National Development Forum. The purpose of the National Secretariats participation was to lobby for regional support towards having a PNGEITI Policy and Legislation Framework recommendation to the new government. The CIMC regional Forums were conducted in Jiwaka in the Highlands Region, Kimbe, West New Britain in the New Guinea Islands, Wewak in East Sepik Province for Momase Region and Alotau in Milne Bay Province for Southern Region.



The final EITI presentation in the CIMC Development forum was held in Port Moresby at the Crown Plaza in June of 2017. The recommendation for a separate legislation was very receptive as it stimulated discussions on an Extractive Industries Transparency Legislation to provide that overview to the revenue flow in the sectors.

The Chair of the session, Mr Bart Philemon commended the presentation and the progress of the EITI Reporting in the country and reiterated on the importance of distributing wealth from natural resources for the benefit of all Papua New Guineans. Various suggestions were received from other sectors in Forestry, fisheries and agriculture on similar model to be created for them. This followed a PNGEITI MSG resolve to have a policy frame work and legislative Technical Working Group established in late 2016. In early 2017 a policy development team and legislative drafting committee was established to initiate the legislative process.

The PNGEITI Recommendation has been nominated and included in the final summary of recommendations to be presented to the new Minister for Planning and Monitoring for submission to the National Executive Council for endorsement.

PNG Resource Governance Coalition

The PNG Resource Governance Coalition was established in 2013 and continues to advocate for greater transparency in the resource sector. The national government has supported efforts to improve transparency and good governance in Papua New Guinea through the PNGEITI. The Department of Treasury allocated funds to assist civil society disseminate information on the EITI through the EITI National Secretariat in 2015 and furthermore in 2016 activities were aimed at adding value to the National EITI Secretariat's work plan and ensuring that PNG meets its EITI requirements.

PNGRGC also recognizes that natural resources wealth can be translated into sustainable human development through the promotion and implementation of the government's National Strategy for

Sustainable Development. PNG's civil society organization have made significant contributions towards EITI implementation.

MENDI – HIGHLANDS REGIONAL ROADSHOW

PNGRGC Hosted the Highlands EITI regional roadshow in Mendi from the 9 to 11 of March 2016.

Participants from all across the highlands region attended the EITI workshop including representatives from Exxon Mobil. Local academic institutions such as Mendi Secondary School and Mendi School of Nursing were visited. The team also conducted a



one hour EITI awareness broadcast on radio Southern Highlands. The team also visited the local market and conducted EITI awareness.

General outcomes of the roadshow included;

- Interest from Southern Highlands Provincial Government in sharing EITI Messages on their website. EITI material provided.
- Formation of highlands regional EITI Cluster group
- Further participation by Radio Southern Highlands manager in subsequent EITI Civil Society workshop due to his continued interest

KEREMA – SOUTHERN REGIONAL ROADSHOW

PNGRGC Hosted the Southern EITI regional roadshow in Kerema from the 11 to 13th of May 2016.

The team visited Kerema Secondary School on the first day. The next two days comprised of workshop presentations. Due to the logistical and communications challenges in the region, regional participants felt that provincial EITI contact points were more viable than a regional coalition



General outcomes of the roadshow included;

- Continued engagement with the Gulf Provincial Administration through Deputy Administrator Mr. Ahovo Laepa.
- Formation of a Gulf EITI Pressure Group and continued feedback with PNGRGC on development of constitution of group. IPA registration is pending.
- Continued communications with Star Mountains (Ok Tedi) local representative.

MEDIA ENGAGEMENTS

PNGRGC recognizes the media as an important enabler of information dissemination to the masses. However communication information about the EITI can be too technical and difficult if journalists are not equipped with the knowledge about PNG's resource sector. PNGRGC conducted trainings for Journalists based in Madang and Kokopo and will continue to do so in the years to come. PNGRGC also recognizes that the PNG Chamber of Mines and Petroleum provides similar training for Port Moresby based journalists. PNGRGC is therefore more focused



on sub national engagement with journalists. However during the Southern regional roadshow held in Kerema, PNGRGC facilitated the attendance of Port Moresby based journalists from the Post Courier and EMTV.

PUBLIC ENGAGEMENTS

PNGRGC had display booths in Kokopo and Madang in 2016.

In Kokopo, PNGRGC had sponsored a booth during Transparency International's regional open day. In Madang, PNGRGC had a display booth at during the Divine Word University Open Day. Engagements with broader civil society are key not just in terms of spreading the message about the EITI but also in terms of engaging the academia in shaping the implementation of the EITI. PNGRGC is also PNG's sole civil society representative on at the newly formed Pacific



Centre for Social Responsibility and Natural Resources.

PUBLISH WHAT YOU PAY CAPACITY BUILDING

Publish What You Pay UK has been PNGRGC's key strategy partner, providing capacity building support for civil society. PNGRGC and its coalition partners' links with PYWP ensures that PNG's CSOs are part of a global network of civil society organizations involved in the EITI process. In late 2015, the Philippines EITI Coalition hosted PNGRGC Coalition members. PNGRGC Coalition members also attended the 2016 EITI Conference in Lima, Peru. The Philippines study tour has enabled PNGRGC to improve its capacity to build a coalitions at the sub-national level.

Participation of CSO coalition members at the EITI Global conference in Lima provided insights into international best practices as well as an opportunity for CSO coalition members to participate during panel discussions. Publish What You Pay also assisted PNGRGC in defining PNG's civil society goals in EITI implementation during a workshop hosted at Lamana in May 2016.



6. Assessment of performance against targets and activities set out in the work plan

Objective	Progress 2016
<p>Increased transparency of revenue flows from the companies to government, various landowners' trust funds, associations, and the provincial governments.</p>	<p>In fulfilling this objective the MSG:</p> <ul style="list-style-type: none"> • Agreed and endorsed additional revenue streams in the 2014 report. These were Share of Sales, Voluntary Social Expenditure and Foreign Company Withholding Tax • The MSG resolved to include all revenue streams that contributed 2% or more of total knowing revenue from the extractive sector for the 2014 Report. The 2% has been selected as the materiality threshold for reporting and is broadly consistent with materiality thresholds by other EITI implementing countries. • Agreed to pursue the subsequent use of the Tax Waiver letter to seek consent from IRC and companies to address PNG legislation's tax confidentiality clause. Such waivers will continue following a full scoping report for sub-national payments in future.
<p>Use EITI as a diagnostic tool to assess government's management of resource revenue and its policy settings with recommendations to be used as a platform for broader reforms.</p>	<p>In fulfilling this objective the MSG:</p> <ul style="list-style-type: none"> • MSG agreed for engagement of a consultant to prepare EITI Policy Discussion Paper. The purpose of the engagement will be to identify policy and legislative issues, constraints, possibilities and to provide recommendations to the MSG on how the implementation of the EITI Standard in PNG can be legislated. • The PNGEITI Chairman further directed the National Head of Secretariat to finalise the draft NEC policy Submission for endorsement and submission through the policy consultation process • The National Secretariat was directed to facilitate the NEC Policy Submission to implement the report recommendations. • The Result was a the National Executive Council Decision 91/2017 directing Reporting Entities to implement recommendations from the PNGEITI Report. • The National Secretariat was further directed to establish a Technical Working Group on PNGEITI Policy and Legislative Development. The TWG membership consisted of Legal Officers from the MSG. Estimated scope of completion for the PNGEITI policy and legislative process is set at 2018 Q3

<p>Provide reliable data for citizens to stimulate awareness and debate and hold government and companies accountable.</p>	<p>In fulfilling this objective the MSG:</p> <ul style="list-style-type: none"> • The National Secretariat prepared a SOE engagement to the MSG and adjusted the PNGEITI MSG Memorandum of Understanding which resulted in the inclusion of SOE's as active participants in the MSG meetings. • The MSG resolved that the Chief Financial Officers from each reporting entity to sign off on the financial reports based on the recommendations by their respective financial auditors and to review and redraft the Data Validation Statement in the reporting template.
<p>Increase investors' confidence to invest in PNG.</p>	<p>In fulfilling this objective the MSG:</p> <ul style="list-style-type: none"> • Participated in the 2016 14th Annual Mining and Petroleum Conference in Sydney and various other conferences and exhibitions to highlight the findings and recommendations of the PNGEITI Report to support good governance reforms. • Provided accessibility to PNGEITI documents to hardcopy and online copies from the PNGEITI Web portal.
<p>Provide a forum for enhancing dialogue between the government, industry, landowners and other citizens.</p>	<p>In fulfilling this objective the MSG:</p> <ul style="list-style-type: none"> • Met 6 times in 2016 • Agreed and identified the revenue streams that were to be reconciled in the PNGEITI 2014 Report. • Addressed, recommended and encouraged elements of the EITI standard required. • Outlined the timeline for the production of the second report. • Conducted and participated in numerous informational exhibitions, media outreaches, workshops and roadshows regarding the findings of the PNGEITI report to regional centres throughout the country.
<p>Support and complement PNG's Sovereign Wealth Fund (SWF) and Government reforms to fight corruption such as the establishment of the Independent Commission Against Corruption (ICAC).</p>	<p>In fulfilling this objective the MSG:</p> <ul style="list-style-type: none"> • The PNGEITI National Secretariat has worked closely with the Department of Prime Minister and NEC, Department of Justice and Attorney General, State Solicitors and all PNGEITI Reporting entities for the for the formulation, design and consultation of the PNGEITI Policy Framework as well as the PNGEITI Legislative Framework. Both SWF and ICAC are covered under the draft PNGEITI Policy Framework.

Establishment of the National Secretariat Office and Recruitment of Staff Staffing and Recruitment

The PNGEITI National Secretariat office has a total staff of five which includes Head of National Secretariat, Procurement Officer, Communications Officer, Accounts Officer and Administration Officer. Recruitment is ongoing for a Technical Officer replacing former seconded Treasury Officer Mr Ismael Sunga. Other recruitment exercises were done for a Short Term Media Content Producer to assist in the increased scope of activities.

The National Secretariat office is still located in the PNG Treasury Building. The PNGEITI National Secretariat website is in operation with the PNGEITI Report uploaded and accessed by the public.

The PNGEITI National Secretariat will be joining the Transparency Initiative PNG and the PNG Chamber of Mines and Petroleum as full time members at the time of completing this report.

EITI Report

MSG selected and engaged Ernest and Young (consultant) as the Independent Administrator (IA) for the Second PNGEITI 2014 Report. The Second PNGEITI Final Report 2014 was produced and published in December 2016 and officially launched in May 2017 by press release due to changes in political leadership. The IA (Ernst and Young) was engaged in July 2016 to produce PNG's second EITI Report. Communications and awareness activities have escalated in 2016

7. Assessment of performance against EITI requirements

REQUIREMENTS	PROGRESS
EITI requires effective oversight by the multi-stakeholder group	<p>The PNGEITI MSG held six meetings in the year 2016 and made important decisions relating to the operations of the National Secretariat</p> <p>The Key Decisions made by the MSG in 2016 include:</p> <p><u>Friday 08 July 2016</u></p> <ul style="list-style-type: none"> • MSG endorsed for the National Secretariat to open the PNGEITI Operational Account in one of the commercial banks. They also noted that opening a new account will be one way of preventing the fraudulent activities that is going on. • MSG Agreed and directed the National Secretariat to ensure future annual reports capture records of participation by the TWG and non-members as it will be required during validation. • MSG Endorsed the 2016 revised work plan with the actions for priority recommendations attached as appendix.

	<ul style="list-style-type: none"> • MSG approved the fact finding mission from JICA • National Secretariat to draft letter to treasurer/Chairman, seeking his availability for a special MSG meeting in August <p><u>Wednesday 21 October 2016</u></p> <ul style="list-style-type: none"> • It was agreed that the chairman, assisted by the Head of national Secretariat will raise EITI budget allocation matter with the Department of treasury to ensure that PNGEITI has a separate budget line item in the 2017 Budget allocation; and The National Secretariat should follow-up with the Department of Treasury for release of the remaining funds for 2016. It was agreed that the National Secretariat establishes an EITI operational account and the signatories should also include the Head of Secretariat. • The MSG noted and endorsed Secretariats submission to apply the outstanding annual salary increments for its staff. It was resolved by the MSG that the national secretariat will pay travel allowances for CSO representatives travelling out (both domestic and international) for EITI meetings based on the current rates applied to public servants and that the National Secretariat plans and organises for 2 (of the 4 meetings required in the MSG MoU) MSG meetings outside of Port Moresby. <p><u>Friday 16 December, 2016</u></p> <ul style="list-style-type: none"> • It was resolved that the Head of National Secretariat brings the issue of Pay grade and operational account matter to the attention of the MSG at the next meeting 01/2017.
<p>EITI requires timely publication of EITI Report</p>	<p>PNGEITI published its second EITI Report in December 2016 covering the FY2014.</p> <p>The Key Decisions made by the MSG in 2016 include:</p> <p><u>Friday 08 July 2016</u></p> <ul style="list-style-type: none"> • MSG confirmed the selection and engagement of Ernst and Young as the Independent Administrator for FY2014 Report (second report).

	<ul style="list-style-type: none"> • MSG agreed to confirm and initiate a multi-year contract agreement with advice from the international Secretariat. MSG directed the National Secretariat to contact EITI International and plan on the process of producing a vendors list. • It was resolved that the National Secretariat will assist the IA by facilitating data collection with reporting entities and also support the IA where required in the data collection process to ensure the report is released on time as required <p><u>Wednesday 28 September 2016</u></p> <ul style="list-style-type: none"> • On the second EITI Report preparation, it was agreed that the National Secretariat will incorporate feedback and comments by MSG and to submit these to the IA to finalise the inception Report. • The MSG agreed for the National Secretariat to pursue a multi-year contract arrangement with the current IA. <p><u>Wednesday 21 October 2016</u></p> <ul style="list-style-type: none"> • On the outstanding data, MSG directed the national Secretariat to assist the IA to follow through with the outstanding tax waiver letters from reporting entities. <p><u>Friday 16 December, 2016</u></p> <ul style="list-style-type: none"> • On the IA’s revised timeline to complete the report, MSG noted that submitting the next draft report on the 27th of January was too late into the month. It was resolved that the 27th January 2017 was the date the MSG would publish the final report. MSG agreed to the following dates for deliverables: <ul style="list-style-type: none"> ○ 16-21 December – MSG to submit comments/feedback to the IA; ○ 22-30 December – IA to incorporate comments and any additional data received; ○ 31 December – Secretariat releases an incomplete report to EITI International Secretariat and publishes same on the website; ○ 20-23 January 2017 – IA to follow up and obtain outstanding data and information; ○ 27 January – IA submits final report to MSG; and ○ 30 January – Secretariat conducts an email circular for MSG’s approval and report published.
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	<ul style="list-style-type: none"> • The MSG agreed that to meet EITI International reporting requirement, an incomplete report would be released by 31 December. This action was consistent with the advice from EITI International Secretariat.
<p>The EITI requires EITI Reports that include contextual information about extractive industries</p>	<p>The key decisions made by the MSG in 2016 include:</p> <p><u>Friday 08th August 2016</u></p> <ul style="list-style-type: none"> • The MSG agreed that sub-national transfers and payments will not be included in the data for reconciliation in the 2014 Report, however this will be covered in the contextual part of the report as was done for the first Report. <p>It was resolved that the National Secretariat will assist with the collecting of additional contextual information for the 2014 EITI Report and the following actions were proposed:</p> <ul style="list-style-type: none"> ○ Physically meet with reporting entities ○ Incorporation of Additional contextual information ○ Increased guidance notes on response to questions and the nature of information required. <ul style="list-style-type: none"> • MSG noted the outcomes of the BO workshop and approved for a scoping study be undertaken <p><u>Wednesday 28 September 2016</u></p> <ul style="list-style-type: none"> • MSG directed the National Secretariat to finalise and sign the consultancy service contract with KPMG for the project to commence as soon as possible. <p><u>Wednesday 21 October 2016</u></p> <ul style="list-style-type: none"> • The National Secretariat was directed to finalise a BO contract to execute the project as soon as possible to ensure a Roadmap is in place by 1st January 2017 as required by EITI International.
<p>The EITI requires the production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues</p>	<p>The key decisions made by the MSG in 2016 include:</p> <p><u>Friday 08 July 2016</u></p>

<p>and disclosure of all material payments to government by oil, gas and mining companies.</p>	<ul style="list-style-type: none"> • MSG noted the need to conduct a scoping study for sub national payments and endorsed for the study to be carried out. • MSG also advised the secretariat to consult World Bank on the Studies that they are undertaking on sub-national payments and transers. <p><u>Friday 08th August 2016</u></p> <ul style="list-style-type: none"> • Consistent with the 2013 Report, the MSG resolved to include all revenue streams that contributed 2% or more of total knowing revenue from the extractive sector for the 2014 Report. The 2 % has been selected as the materiality threshold for reporting and is broadly consistent with materiality thresholds by other EITI implementing countries. • It was resolved that the National Secretariat will liaise with the IRC to facilitate the signing of the Tax Waiver Letter by reporting entities to enable the IRC to disclose tax revenue data. • It was resolved that the National Secretariat will prepare a SOE engagement options paper and provide a recommendation to the MSG for consideration. <p><u>Wednesday 21 October 2016</u></p> <ul style="list-style-type: none"> • On the definition of ‘mandatory’ and ‘voluntary’ social expenditures, the MSG agreed that the IA should stick to EITI Internal Secretariats definition and not deviate from it. • MSG noted PNG’s unique situation relating to ITC expenditures and agreed that an expenditure only becomes ‘mandatory’ when the government approves and enters into a project agreement through the ITC application and approval process.
<p>The EITI requires a credible assurance process applying international standards.</p>	<p>The Key Decisions made by the MSG in 2016 include:</p> <p><u>Friday 08th August 2016</u></p> <ul style="list-style-type: none"> • The MSG resolved that the Chief Financial Officers sign off on the financial reports based on the recommendations by their respective financial auditors and to review and redraft the data Validation Statement in the template.
<p>The EITI requires Reports that are comprehensible, actively</p>	<p>The Key Decisions made by the MSG in 2016 include:</p> <p><u>Friday 08 July 2016</u></p>

<p>promoted, publicly accessible, and contribute to public debate.</p>	<ul style="list-style-type: none"> • MSG endorsed the PNGEITI Communications Strategy and the Communications Sub Group <p><u>Wednesday 21 October 2016</u></p> <ul style="list-style-type: none"> • The National Secretariat was directed to conduct roadshows on EITI awareness and informing the public on EITI report recommendations. After the pilot roadshows in New Ireland, similar roadshows should be held in ether resource impact provinces. Invitations should be extended (apart from landowner groups and associations) to representatives from the provincial and sub district levels of government to participate in the PNGEITI activities.
<p>The EITI requires the multi-stakeholder group to take steps to act on the lessons learnt and to review the outcomes and impact of EITI implementation.</p>	<p>The Key Decisions made by the MSG in 2016 include:</p> <p><u>Friday 08 July 2016</u></p> <ul style="list-style-type: none"> • MSG agreed for engagement of a consultant to prepare EITI Policy Discussion Paper. The purpose of the engagement will be to identify policy and legislative issues, constraints, possibilities and to provide recommendations to the MSG on how the implementation of the EITI Standard in PNG can be legislated. • MSG noted and welcomed the expression of interest by JICA to support capacity building at the National Secretariat and MSG level and in addressing some of the recommendations from the first report. • It was resolved that the IA will work closely with the National Secretariat to support the PNGEITI 2017 Work Plan objectives. <p><u>Wednesday 28 September 2016</u></p> <ul style="list-style-type: none"> • Proposed NEC Policy Submission, the Chairman directed the National Head of Secretariat to finalise the draft NEC policy Submission for endorsement and submission through the policy consultation process • MSG members noted the initiative taken by the National Secretariat in seeking for external assistance through JICA to implement some areas of report recommendations and agreed for the Secretariat to also seek additional assistance under the World Bank Multi-Donor Trust Fund. <p><u>Wednesday 21 October 2016</u></p> <ul style="list-style-type: none"> • The National Secretariat was directed to facilitate the NEC Policy Submission to implement the report recommendations.

	<ul style="list-style-type: none"> • The National Secretariat was directed to establish a TWG on PNGEITI Policy and Legislative Development. It was agreed that the TWG members will consist of Legal Officers from the MSG to work through this and prepare drafting instructions for MSG consideration by Q1 of 2017. • It was agreed that if there are any further comments, the 2017 draft Work plan should be submitted to the National Secretariat to finalise for MSG's consideration and endorsement. <p><u>Wednesday 28 September 2016</u></p> <ul style="list-style-type: none"> • The National Secretariat was directed to finalise and present the Draft 2017 Work plan to MSG before December 2016. The National Secretariat was directed to finalise the Revised MoU as Soon as Possible
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8. Overview of the Multi-stakeholder groups responses to the recommendation from the reconciliation and validation

The PNGEITI MSG has undertaken (through a Report Analysis Workshop in April 2016) to prioritise the recommendations from the first report and address them in the second report as well as through the PNGEITI National Secretariat 2017 Work Plan.

9. Specific strengths or weaknesses identified in the EITI process

The following recommendations were highlighted in the second PNGEITI Report 2014. The recommendations have been made by the Independent Administrator Ernst and Young (consultant).

Recommendation in 2013 Report by IA	Status/progress in 2014 by IA and MSG
<p>The official register of oil and gas licenses is maintained by the DPE in handwritten ledgers entered in date order. Further, the current storage facilities represent a fire hazard and a risk of loss of data within the register.</p> <p><u>Recommendation:</u></p> <p>DPE must urgently implement a reliable electronic registry system, to supersede the current paper ledger system. The register should be designed to enable tracking of payments made by license holders and their JV partners. The register should be available to the public online.</p>	<p>At the time of writing this report The Japan International Cooperation Agency (JICA) has come on board as the first development partner to work with the Papua New Guinea Extractive Industries Transparency Initiative (PNG EITI) Secretariat to build the capacity of DPE.</p> <p>The meeting minutes was signed in Q2 2017 by respective officials from JICA, the PNG EITI, and the national government- represented by the Department of National Planning and Monitoring and the Department of Petroleum and Energy for JICA at identifying the scope for this technical cooperation.</p>

<p>DPE should establish a website and make public the process for allocating and transferring licences, and:</p> <ul style="list-style-type: none"> • Formalise the technical and financial criteria used for assessing licence applications (if not already formalised), and communicates these to the Independent Administrator for future reporting periods. • Provide information to the Independent Administrator on non-trivial deviations from the regulatory regime applied in awarding licences 	<p>A technical team from the JICA were in the country on April 18, 2017 and met with key stakeholders for a detailed planning design survey aimed a demarcating the scope of this technical cooperation.</p>
<p>We had difficulty obtaining current and complete material on some entities. Information on the SOEs’ websites was often incomplete or out of date, particularly for the IPBC, or non-existent in the case of the MRDC.</p> <p><u>Recommendation:</u></p> <p>The IA recommend that measures are undertaken to engage SOEs in the EITI reporting process. This could include, for example, inviting representatives of the SOEs to participate in the MSG.</p> <p>Further, we recommend that the MSG conducts EITI training for the SOEs.</p>	<p>We noted an improved level of engagement by SOEs during the period, particularly with regard to the MRDC who were able to provide some revenue data for the 2014 report.</p> <p>We believe that this is due to an increased level of involvement by these SOEs in the MSG.</p> <p>MSG meeting on 28 September, 2016 indicated that all SOEs were invited by the Chairman to be part of the MSG and that all relevant SOEs are now included on the MSG. The MoU is now being reviewed by the National Secretariat to reflect this.</p> <p>Minutes of MSG meeting #3 approved the membership of SOEs on the MSG, together with voting rights in the meetings. This has been reflected in the 2017 MoU.</p>
<p>The production data provided for the reporting period was both incomplete and inconsistent. Materially different data sets were provided by the MRA at different times, and both sets showed information gaps.</p> <p><u>Recommendation:</u></p> <p>We recommend that the MRA:</p> <ul style="list-style-type: none"> • Adopts standard units of measurement for reporting of each mineral commodity • Requires mining companies to provide data to them in consistent units of 	<p>We note that since July 2014, data has been captured in MRA’s mining cadastre portal and the MRA considers this data to be reliable. Earlier data, including that of the first half of the 2014 reporting period, had been captured in a manual system which was then added to the cadastre portal.</p> <p>Although there were still some gaps present in the data, overall, we noted improvement in the quality of the production data provided by MRA for the 2014 reporting period.</p> <p>Production data is now being captured directly into the MRA’s digital cadastre however, we note that this is not publically available through the PNG</p>

<p>measurement, to mitigate any need for conversions to be applied</p> <ul style="list-style-type: none"> • Conducts a detailed review of data within the digital cadastre prior to the next EITI reporting process to identify and address risk areas. • Considers implementing regular independent audits of production data and related payments, to ensure that regulatory compliance is being maintained. 	<p>Mining Cadastre Portal. The EITI standard (2.3 - Register of licenses) requires that the commodity being produced be included in this publically available register.</p> <p>The MRA has yet to disclose production data in the PNG mining cadastre portal website.</p>
<p>Over the past year, the DPE has been conducting a compliance review. Early findings from this review revealed a 50% rate of failure to comply with requirements including:</p> <ul style="list-style-type: none"> • Adherence to reporting requirements • Validity of work programs being implemented • Payment of licence fees. <p>At the time of writing, it is unclear whether the compliance review has been finalised, and whether the DPE is in the process of implementing the recommendations provided.</p> <p><u>Recommendation:</u></p> <p>We strongly recommend that the DPE finalises its compliance review, and commences implementing the recommendations as soon as possible, as the findings relate to key elements of a compliant EITI report.</p>	<p>The 2014 report was the first to record payments and receipts of revenue related to the PNG LNG project, operated by ExxonMobil.</p> <p>We observed a difference in the ability of representatives of DPE to provide data related to the PNG LNG project when compared with data from the projects operated by Oil Search. The Oil Search data had been provided by DPE previously for the 2013 report.</p> <p>While DPE were able to provide us with revenue payments and production figures relating to Oil Search operated projects, we were advised in some cases that it would be best to source information relating to the PNG LNG project from the operator, thus making reconciliation of the data problematic.</p> <p>We recommend that a more consistent approach be implemented in adherence to reporting requirements and managing information for all of the projects that DPE is responsible for.</p> <p>MSG is aware of capacity issue within DPE and strongly believes that through a Cabinet decision from the policy submission, this will set the motion (give the necessary weight) to address DPE’s issues in a significant way. MSG also believes that, if the government’s proposal to transform DPE into an authority, this will greatly address all the capacity issues and performance and productivity of the Department.</p>

<p>Some agencies had few or absent controls over receipts from the extractive industries. We observed that payments were still often made via cash or cheque, with manual processes for issuing receipts. The absence of a robust system for managing payments leaves the system vulnerable to fraud, corruption, and human error.</p> <p><u>Recommendation:</u></p> <p>We recommend that government entities engage in a project to modernize payment systems globally. This should include, for example:</p> <ul style="list-style-type: none"> • Payments being made by EFTPOS for all transactions • Implementing segregation of duties, and management oversight of cash processes • Implementing a rigorous audit program to regularly assess fraud risks. 	<p>In fulfilling this recommendation:</p> <ul style="list-style-type: none"> • MSG agreed for engagement of a consultant to prepare EITI Policy Discussion Paper. The purpose of the engagement will be to identify policy and legislative issues, constraints, possibilities and to provide recommendations to the MSG on how the implementation of the EITI Standard in PNG can be legislated. • The PNGEITI Chairman further directed the National Head of Secretariat to finalise the draft NEC policy Submission for endorsement and submission through the policy consultation process • The National Secretariat was directed to facilitate the NEC Policy Submission to implement the report recommendations. • The Result was a the National Executive Council Decision 91/2017 directing Reporting Entities to implement recommendations from the PNGEITI Report. <p>The National Secretariat was further directed to establish a Technical Working Group on PNGEITI Policy and Legislative Development. The TWG membership consisted of Legal Officers from the MSG. Estimated scope of completion for the PNGEITI policy and legislative process is set at 2018 Q3</p>
<p>Reliable reporting on EITI requirements depends in turn on robust systems for collecting and sharing data; for example production data and export data as well as revenue streams. Data reported to us from different agencies – or in some cases even from the same agency at different times – did not match, which obscures whether correct payments have been made.</p> <p><u>Recommendation:</u></p> <p>Systems should be established to enable productive sharing of information between government agencies. This should include establishing common units for measure, conversion factors and foreign exchange rates.</p>	<p>The PNGEITI MSG achieved the National Executive Council Decision 91/2017 directing Reporting Entities to implement recommendations from the PNGEITI Report.</p>

<p>Information relating to sub-national transfers and payments was difficult to obtain. Some benefits to regions impacted by extractives are set out in law via royalties, equity stakes, dividends and compensation arrangements. Others are included in memoranda of understanding on a case-by-case basis. However, these agreements are in most cases not public, and accountability mechanisms vary significantly.</p> <p><u>Recommendation:</u></p> <p>We recommend that the MSG engages the Department of Finance in a detailed review of subnational payments and transfers prior to the next EITI reporting process. The review should specifically identify all recipients of payments, account details, nature of payments or transfers being received and itemised payments during the period. Importantly, details of the payer (whether national government or extractive industry company) should be noted.</p> <p>Further, we recommend that the NEFC considers amending future Budget and Fiscal Reports to collect information on subnational payments and transfers in line with the EITI requirements.</p>	<p>The project to undertake a scoping study to investigate the possibility of implementing the EITI Standard to sub-national governments (provincial and local level governments) and landowner associations was not implemented during 2016. We have been informed by the National Secretariat that this project has been included again in the PNG EITI 2017 Work Plan and is expected to begin in the second quarter of 2017. A more detailed understanding of how these payments are made and what impacts they have on the local communities will add great value to PNG’s EITI reporting.</p> <p>MSG has approved/direct Secretariat to engage a consultant to do scoping on the sub-national governments and land owner association payments and this will be procured by May this year depending on funding availability.</p>
<p>Due to limited time available for preparing this first report, the MSG and the Independent Administrator agreed that reporting entities would need to have submissions signed by an authorized company representative. This is a very low level of quality assurance, as no audit or review of the reported amounts was requested or obtained.</p> <p><u>Recommendation:</u></p> <p>We would strongly encourage the MSG to implement the recommendations provided in this report. In order to do this, we suggest that the MSG integrates key actions into the PNG</p>	<p>For the second EITI report covering the 2014 reporting period, the MSG agreed that the data templates provided by reporting entities should be signed by an authorised company representative, confirming that reported amounts are materially consistent with the audited financial statements, in case of companies, and ‘a true and accurate record’ in the case of government departments and SOEs whose statements were not yet audited.</p> <p>This has been accomplished whereby data templates have been signed off by authorized company representatives as the case in the 2014 Report</p>

EITI work plan, allocates persons responsible, and tracks progress against these.	
<p>Members of the MSG are very keen to understand the issues identified through our research, and our recommendations and next steps.</p> <p><u>Recommendation:</u></p> <p>We would strongly encourage the MSG to implement the recommendations provided in this report. In order to do this, we suggest that the MSG integrates key actions into the PNG EITI work plan, allocates persons responsible, and tracks progress against these.</p>	<p>The PNGEITI MSG achieved the National Executive Council Decision 91/2017 directing Reporting Entities to implement recommendations from the PNGEITI Report.</p>

10. Total cost of EITI implementation in 2016

In June 2016, the PNGEITI was included in the PNG Government Budget and through the Department of Treasury allocated a total of PNGK1.7 million.

Indicated in table 1 below is a summary of expenses incurred in 2016 (June to December) after PNGEITI National Secretariat was allocated a budget funding of K1.7 million for EITI implementation activities.

Table 1.

Particulars	Amount in thousand PNG Kina
Administration	146,022.94
Travels	280,448.34
Wages/Salaries for employees	215,756.91
ICT Expenses	17,090.00
Consultancies	1,042,816.93
Conferences/meetings	49,670.00
Employee superannuation contributions	19,938.22
Employee salary/wages taxes	85,352.09
Total Expenses	1,857,095.43

11. Additional Comments

The level of commitment and expanded funding underscores the increased embedding of PNG EITI in key Government agencies and its profile in the broader good governance dialogue within PNG. The National Secretariat has approached external assistance in the subsequent reporting periods to support targeted outreach and awareness campaigns, capacity building for MSG members and the

National Secretariat office, and most importantly to implement a number of priority recommendations from the first report.

12. Discussed beyond the MSG

This report was circulated among the MSG members and the members had shared and discussed the report with their constituents before it was finalized. The report will be posted on the PNGEITI website. It is also intended that the progress report will be released in the local newspapers by the Chairman of the PNGEITI MSG (Minister for Treasury).

13. Details of membership of the MSG during the period (including details of the number of meetings held and attendance record)

There were six meetings of the MSG in 2015. For details of the minutes and attendance please see: <http://www.pngeiti.org.pg/msg-meetings/2016-msg-meeting-minutes/>