



PRESS RELEASE

MRDC IMPLEMENTATION OF THE MOA FUNDS – FACTS AND PROCEDURES

There is confusion among the petroleum project area landowners and the people of this country regarding the Government's decision to transfer the functions of managing, accounting and implementation of Memorandum of Agreement (MOA) projects to Mineral Resources Development Company Limited (MRDC).

This media statement is intended to address the following issues:

- Definition Of Outstanding MOA projects
- MRDC's Role under this arrangement
- Legal Clarity
- MOA Projects Implementation Process

DEFINITION OF OUTSTANDING MOA PROJECTS

The National Government, Provincial Government (PGs) and the Local Level Government (LLGs) have agreed to build various infrastructure projects in several petroleum project areas. The names of each of these infrastructure projects are listed and annexed to each of the memoranda of agreements (MOAs) that were signed between the State, PGs, LLGs and Landowners. Most of the projects on the list have not been built, leading to the claim by the landowners that there are outstanding MOA commitments.

The petroleum projects that have existing memoranda of agreements, memoranda of understandings or development agreements with the State, PGs and LLGs are the following projects only:

- Petroleum Development License (PDL) 2 – Kutubu project;
- Petroleum Development License (PDL) 3/4 – Gobe Project;

iii. Petroleum Development License (PDL) 5 – Moran Project; and

iv. Petroleum Development License (PDL) 1 – Hides Gas to Electricity Project (not the PNG LNG Project)

The petroleum projects that are being developed as part of the PNG LNG project are covered by the Umbrella Benefit Sharing Agreement (UBSA) and the License Based Benefit Sharing Agreement (LBBSA). These agreements have an annexure that outlines different infrastructure projects that the Government will build for the affected project area landowners. All the gas development licenses (PDL 7, PDL 1 (PNG LNG Project) and PDL 8) do not have any outstanding MOA projects.

PDL 1 provides natural gas to two projects – the Hides Gas to Electricity (GTE) project and the PNG LNG Project. The GTE project is operated by Oil Search and provides electricity to Porgera Gold Mine while the PNG LNG is operated by ExxonMobil. The State has two agreements with the PDL 1 landowners for each project. The MOA covers the GTE project and the UBSA/LBBSA covers the PNG LNG project.

Outstanding MOA commitment is different from infrastructure development grants (IDG), business development grants (BDG), Ministerial Commitments, High Impact Infrastructure projects and the economic corridor concept projects.

MOA project is a commitment from the Government to build infrastructure project in the affected petroleum area. It is not a commitment by the Government to write cheques to landowner associations, companies and even individuals. Unfortunately, in the last couple of years cheques were paid to landowner associations and companies for projects that were never built. More than K600 million has been spent since 2001 and there is nothing to show for, except for a few incomplete projects.

The MOA projects have already been agreed to between the landowners, the State, PGs and LLGs for each agreement. The State is not obligated to build any project outside of what is agreed in the existing MOAs. Those project submissions outside of the agreed list might be considered for funding through the normal budget process or through other government programs such the economic corridor concept.

MRDC'S ROLE

MRDC is now tasked to make a difference and deliver infrastructure projects to the affected landowner areas. The Shareholders of MRDC has approved in a special shareholder resolution for MRDC to manage, account and implement MOA projects as per the direction of the National Executive Council.

MRDC will enter into a contractual arrangement with the State to manage and implement the outstanding MOA infrastructure projects through a project management unit (PMU). The PMU will be staffed by qualified engineers, project managers and secondees from Oil Search Limited Tax Credit Division. The arrangement will see the MOA funds being managed prudently and transparently and the funds will be translated into projects.

The MOA projects have already been agreed and listed as an annex to each of the MOA projects. The PMU will go through the annexed list and crosscheck with the government records to see which of those projects received funding from the State. If funds have been released for a project, PMU will inspect the project site to see if the project has been built. A report will be provided to the National Planning Committee, EIC and NEC.

Once that above process is complete, MRDC will scope and cost those projects in the MOA that has a wider impact on the community. These priority projects in the MOA list will be identified after

consultation and discussion with the affected landowners and their leaders. This is not a review to include new projects but to prioritise the existing project list in the MOAs with a view to built the high impact projects in the MOA first.

The properly scoped and costed projects will be funded by the State. The funds will be held by MRDC and released in instalments to a landowner construction company that has been selected through the Supplies and Tenders Board process. MRDC will supervise and certify the different stages of the construction before the next instalment of funding is released. This will continue until the project is completed and is certified by an independent certifier.

MRDC has engaged Snowy Mountains Engineering and Consultant (SMC) to develop an operational manual to guide the operations of the PMU. The operational manual is first of its kind and was developed in line with the Public Finance Management Act, Central Supplies and Tenders Board requirements, Department of Finance guidelines and the Expenditure Implementation Committee Guidelines.

Four volumes were developed after wide consultation with the State Departments and agencies, the developers and various landowner leaders.

The manuals are:

- Volume 1 – Operational Manual;
- Volume 2 – Procedures Manual;
- Volume 3 – Operational of the MOA Trust Account Guidelines; and
- Volume 4 - Procurement Operational Manual.

The PMU main operational office will be at Moro with branches in Kikori and Hides. The Port Moresby office will only be a logistics base. Real work will be done on the field.

The State is now committed to deliver the outstanding MOA projects. The commitment is shown by the fact that money has been appropriated in the 2011 National Budget towards MOA projects. The challenge is to translate the financial appropriation into tangible infrastructure project. MRDC is now challenged to take on the huge responsibility of delivering the outstanding government MOA projects. What the landowners will eventually see at the end of the day is a PROJECT and not a cheque.

MRDC is ONLY responsible for the implementation of outstanding MOA projects. MRDC is not responsible for Infrastructure Development Grants (IDG), Business Development Grants (BDGs), High Impact Projects (HIPs), Ministerial Commitments and any other commitments or Projects agreed to at UBSA or LBBSA.

LEGAL CLARITY

There is a lot of confusion on the legality of MRDC overseeing the implementation of MOA projects. In actual fact there are no legal issues. The only amendment to the Oil and Gas Act that is before Parliament is to include the Managing Director of MRDC on the Expenditure Implementation Committee. The current committee already has a quorum and will continue to hold meetings without the amendment. The Managing Director can become a committee member as and when the amendment is passed.

MRDC as a company is governed by the Company's Act. Its operation is dictated by a Board of Directors and its shareholders. The Shareholders are the Prime Minister and the Secretary for Treasury. Both the Board of MRDC and the Shareholders have agreed to expand the functions and operations of MRDC to include the implementation of MOA projects through the project management unit.

The board of MRDC is fully indemnified by the State, through a contractual arrangement.

THE MOA IMPLEMENTATION PROCESS: BELOW IS A TABLE SHOWING THE MOA IMPLEMENTATION PROCESS.

ACTIVITY	COMMENTS	TIME FRAME
Funding	All activities depend on operational funds being released to MRDC	Immediately
Prioritize	The total funding for the MOA projects is capped. The cost of building all the outstanding projects will be very high. Only priority project must be identified in the MOA and built. A team will go to the field, assess, inspect and talk to the landowners to prioritize the projects. Those projects left out will need to be picked up through the normal Government infrastructure development process	Two to three weeks
Scoping and Costing	The top priority project will be scoped and costed in each of the licenses	Four weeks/project
Approval Process	Fully scoped and costed projects will go to EIC and NPC for funding approval. It will also go to Finance for APC approval.	Two weeks
Tender Process	Depending on the total cost for the project, various Supplies and Tender Process will be complied to award the contract to a local landowner contractor or a joint venture company between landowner and other nationals	Three weeks
Construction	Contract will be awarded to a successful landowner contractor and funds will be released in instalments until project completion	Depending on the size of the project
Monitoring and Supervision	MRDC through the PMU will continue to monitor and supervise the construction of the project to make sure it is built properly, correctly and according to the original scoping and design and to certify completion.	During the construction
Sustainability	MRDC will make sure arrangements and mechanisms are in place to sustain and maintain each of the projects well into the future.	After Construction

CONCLUSION

In conclusion, there have been failure in the past in delivering outstanding MOA projects. There was a gross misuse of funds. Time has come for a change. Proper process and procedures must be followed and projects must be delivered.

I have declared that the year 2011 is the year of implementation. We will deliver the outstanding MOA projects, not in cheques but PROJECTS. MRDC has my Governments' full support. We, the landowners and the State are all on the same side; we want to see those outstanding MOA projects delivered. Let us work together to achieve that outcome.

**Authorised by: Hon. Sam Abal, MP
Acting Prime Minister**