



SOLOMON ISLAND OFFICE OF THE AUDITOR GENERAL

**PERFORMANCE AUDIT REPORT
ON THE
NATIONAL SHIPPING GRANT INITIATIVES**

**Auditor General
Office of the Auditor General
P.O. Box G18, Honiara**

National Parliament Paper No. 13 of 2017

**Honourable Speaker
National Parliament of Solomon Islands**

I have the pleasure Sir, in presenting this performance audit report on the National Shipping Grant Program as required by section 108 (4) of the Constitution.

The audit was conducted in the Ministry of Infrastructure Development, including the Solomon Islands Maritime Safety Administration.

Audit Results

The fieldwork for the audit was conducted in the period of February 2016 to May 2016.

The audit concluded that the management of the National Shipping Initiative Program has some serious weaknesses which is preventing the responsible ministry, the Ministry of Infrastructure Development [MID] and its cohort agency, the Solomon Islands Maritime Safety Administration [SIMSA], from ensuring that the objectives of the program are met.

Those weaknesses include the lack of reporting by grant recipients on the progress of projects funded by the shipping grants, the lack of monitoring of projects by MID staff – either through a comprehensive database supported by full documentation or by way of visits to project sites.

I have made a number of other recommendations to improve the management and procedures the Ministry has in place and to enhance its management of the shipping grant. I am pleased that the Ministry has developed and issued a *Shipping Grant Assistance Policy* which provides detailed guidance on the management of shipping grants since July 2015. I make recommendations to improve those guidelines as well.

Acknowledgement

I would like to acknowledge the Permanent Secretary of the Ministry of Infrastructure Development; Director Civil Engineering and staff; Director SIMSA and his staff, staff of the Ministry of Finance for the access to official records and the recipients of the Grant and the other auditors from the other audit team that assisted in the performance audit and the production of the report.

I would like to thank my Performance Audit Advisor, Mr. Robert Cohen and my team who participated in the audit planning, discussion during field work and for assistance in conducting of the audit work with the Ministry Officials to collect the necessary information.



Peter Lokay
Auditor General
28 April 2017

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1. EXECUTIVE SUMMARY

The auditing of the Solomon Islands National shipping grant is part of the Office of the Auditor General (OAG) of Solomon Islands Performance Audit program.

We conducted this audit pursuant to the provisions of Section 108 of the Constitution, sections 35(1) (d), 35(1) (e) and 39(3) of the Public Finance and Audit Act [Cap 120]), and in accordance with the *International Standards of Supreme Audit Institutions (ISSAIs)*.

The objective of the audit was to “assess whether the National Shipping Grant allocations disbursed during 2013 to 2015 was managed in accordance with the Ministry’s best practice and provided the best value for money/service to the target public’.

To reach this we establish two lines of enquiries and tested whether;

- The key aspects of management of the National Shipping Grants Assistance Program are properly identified and planned; and
- The funding administration arrangements of the National Shipping Grants were in place to support achievement of value for money and effective management controls for monitoring of public properties and ownership.

The Solomon Islands Ministry of Infrastructure Development (“the Ministry”) through the Solomon Islands Maritime Safety Administration (“SIMSA”) was identified as the co-ordinating department for vessel purchase and Registrar of ships and the Ministry is responsible for the implementation of the Grant assistance program.

During the audit, it was revealed that;

- There were no written policies or guidelines in place for the years 2013 and 2014 governing the expenditure of \$27.6 million on the shipping grants. A policy and guidelines were put in place to govern the expenditure of \$28.2 million on shipping grants in 2015;
- The comprehensiveness of policy and guidelines covering the information required to be submitted by grant applicants was generally appropriate in terms of type and scope for the purposes of ensuring the program would deliver appropriate quality vessels capable of delivering sustainable shipping services to identified routes;
- The policy guidelines under Clause 5.1(e) concerning ownership of vessels purchased through the shipping grants program are very broad and couched in terms of corporate vehicles which do not cover instances where ships are purchased on behalf of constituencies;
- The policy guidelines do not provide a basis for evaluating grant applications for particular proposed routes;
- All but two of the 2015 vessel purchase grants issued did not comply with the requirements of the policy guidelines;
- The failure to complete projects after receiving grant moneys appears to be the result of insufficient grant moneys to complete – either due to poor application preparation; a practice by government of providing advance part moneys; or the grant recipient being unable to undertake the project as had been planned;

- A total of \$26.3 million dollars was provided to grant recipients for which vessel is yet to purchase. This has resulted in no vessel registered and this indicates a high risk that the moneys have been obtained but was not used for its planned purpose;
- The existing shipping grant agreement between Members of Parliament and the government is silent on how vessel titles are to be registered to ensure that they remain in the hands of the constituents after the incumbent Member no longer represents the people. This makes the registration process dependent upon the integrity of the Member and silent on how to deal with changes of Member;
- The Ministry does not maintain a central database of all shipping grants issued or supporting documentation or project reports documenting the completion of each funded project. This prevents the Ministry from monitoring the status or success of its shipping program; or checking the status of applicants in terms of previous grants that may have already been provided;
- The Ministry does not receive progress reports from grant recipients even when notices were issued demanding such reports. This lack of compliance with grant conditions renders the Ministry impotent and unable to properly manage the delivery of the shipping program; and
- The Ministry does not have the capacity to undertake its own monitoring of funded projects to ensure grant recipients are producing the results promised in their applications. This also renders the Ministry impotent and unable to properly manage the delivery of the shipping program.

Based on the above audit findings, OAG have concluded that although there have been achievements, the administration and management of the National Shipping Initiative Program is limited in meeting the program's objectives notwithstanding the issue in July 2015 of the Grant assistance policy to better guide the administration of the program. Those weaknesses has also lessen the appropriateness of fully achieving the key program objectives.

Recommendations have been made within the report regarding issues that has been identified during the audit of this National grant assistance. The ministry's written responses and action plan are included in this report.

Recommendations and Agency Responses.

Recommendation 1:

An economic review of the Shipping Grants Assistance Program be undertaken to ensure that the intended results of the program are achieved without the need for an expansion in government subsidies to operators due to increased competition arising from an enlarged vessel fleet funded by public money.

Agency Response: Agree

Recommendation 2:

It is recommended that the guidelines be expanded to cover instances where MPs purchase vessels on behalf of constituencies so that there are proper governance and reporting structures in place to ensure the constituents are the owners and beneficiaries of the shipping services provided independent of the MP.

Agency Response: Agree

Recommendation 3:

It is recommended that the guidelines be expanded to provide guidance for selecting applicants in situations where they are competing for the same proposed route; as well as setting minimal requirements that must be met in order to be considered a suitable grant recipient.

Agency Response: Agree

Recommendation 4:

It is recommended that the guidelines be expanded to include reference to a mandatory audit of the Program disbursements which are spelled out in the Signed Agreement referred to in Clause 8 of the *Shipping Grant Assistance Policy*.

Agency Response: Agree

Recommendation 5:

It is recommended that the guidelines be made clear to all grant applicants and a condition be inserted whereby any failure to abide by the conditions will result in a demand for the grant amount to be returned to the government which can be enforced through the courts.

Agency Response: Agree

Recommendation 6:

It is recommended that the Ministry of Finance & Treasury and the Ministry conduct an investigation into all incomplete projects and where it is found that the recipient is unable to complete, that action be taken to recover the moneys.

Agency Response: Agree

Recommendation 7:

It is recommended that the Ministry of Finance & Treasury and the Ministry conduct an investigation into where the grant moneys; and, if fraud is found to be involved, that legal action be taken to prosecute the offender/s and recover the moneys.

Agency Response: Agree

Recommendation 8:

It is recommended that the shipping grant agreement be revised to prescribe how constituency owned ships are to be registered so that they remain in the hands of the constituency after succession of incumbent Members.

Agency Response: Agree

Recommendation 9:

It is recommended that the Ministry establish a central database with full documentation which is readily accessible by decision makers and all officers responsible for the proper and effective management of the shipping program.

Agency Response: Agree

Recommendation 10:

It is recommended that the Ministry notify all outstanding grant recipients that they provide such reports to the Ministry on pain of the Ministry taking action to recover the grant moneys. The Ministry should then commence such legal action against any recipients who fail to comply within a reasonable period.

Agency Response: Agree

Recommendation 11:

It is recommended that the Ministry establish a properly staffed unit responsible for all aspects of the shipping grant initiative including assessing grant applications, making recommendations on who should be approved for grants, monitoring the receipt of progress reports and completion reports.

Agency Response: Agree

Summary of Agency Response

The Ministry of Infrastructure Development (MID) considers and concurs with all the Auditor General's (AG) recommendations that have been made in the Performance Audit report. The MID through the OAG recommendations will consider improvement to the Shipping Grant Agreement and the National Shipping Grant Policy. The Ministry agrees with the recommendations and responded that all these recommendations if they are to be effective and implemented then the Ministry of Infrastructure Development must be provided with additional resources to ensure these important recommendations are effectively implemented. Additional resources forms part of the recommendations as capacity is being an issue within the Ministry, thus it has to be given serious consideration so that it could properly form part of the recommendations.

2. INTRODUCTION

A performance audit on the government's National Shipping Grant Program for financial years 2013 – 2015 was undertaken by the Solomon Islands Auditor General's Office pursuant to the provisions of section 108 of the Constitution (as read with sections 35(1) (d), 35(1) (e) and 39(3) of the Public Finance and Audit Act [Cap 120]) to undertake audits in all ministries, offices, courts, authorities and provincial governments.

This authority to audit includes examination to ensure that public monies have been used effectively to achieve purpose for which they were appropriated. Subsection 35(1) of the Public Finance and Audit Act also provides that in relation to my audits I should review whether *'all reasonable precautions have been taken to safeguard the collection and custody of revenue'* and *'expenditure has been incurred with due regard to economy and the avoidance of waste'*.

The National Shipping Grant Program (which is now known as The National Transportation Initiatives Program and extended to include grants for machinery for land locked constituencies) was selected as a topic for audit on the basis that;

- A total of \$70.3M over the three years from the tax payers' money was allocated for this program for vessel purchases, vessel maintenance and local boat building. Considering the amount of funds provided under the program it is the view of this Office that it is in the public interest to determine what was actually achieved and if the program has been worth the money;
- Regular shipping service is a path way to development of provincial centres which do not have ready access to services and markets and the program's (then) aim was to provide such services for commercially uneconomic routes. As such, the success of such a program was considered also to be in the public interest;
- The program has been the subject of Public Accounts Committee hearings which have identified the need for proper allocation and monitoring controls over disbursements under the program;
- After years of no guidelines for the proper identification, implementation or monitoring of shipping grants, the government issued a shipping grant policy and guidelines to commence in the 2015 financial year. This Office extended the years of audit to cover 2015 to assess the comprehensiveness and effectiveness of the new policy and guidelines; and
- The program has been operating long enough for this Office to make an assessment on its performance.

The Ministry of Infrastructure Development ("the Ministry") is the implementing agency responsible for the National Shipping Grant Program, now known as the "National Transportation Initiatives" Program.

3. OBJECTIVE

The audit objective of the performance audit was to assess whether the National Shipping Grant allocations disbursed during 2013 to 2015 was managed in accordance with the Ministry's best practice and provided the best value for money/service to the target public".

The audit was progressed by assessing the following two Lines of Enquiry (LOE)

1. The key aspects of management of the National Shipping Grants Assistance Program are properly identified and planned; and
2. The funding administration arrangements of the National Shipping Grants assistance were in place to support achievement of value for money and effective management controls for monitoring of public properties and ownership.

4. AUDIT SCOPE

The main scope of the audit focused on the grant implementation for the financial years 2013 to 2015. The Ministry of Infrastructure Development ("the Ministry") is the primary implementation stakeholder for this audit as this Ministry is responsible for implementing the National Shipping Grants assistance program.

5. METHODOLOGY

This performance audit was conducted in accordance with the *International standards for Supreme Audit Institutions (ISSAI 3000/3100)*. This standard requires that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on the audit objective.

During the course of the audit we obtained and reviewed relevant policy documents, agreements and payment vouchers. We also interviewed key officials from the Ministry and Solomon Islands Maritime Safety Administration ("SIMSA"); as well as obtaining responses from the recipients of the shipping grant or those who involved in the implementation of the particular grant.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

6. FINDINGS AND RECOMMENDATIONS

The findings of the audit are detailed in the following sections of this report as follows.

6.1. National Shipping Grants Program

Program funding

The Solomon Islands National Shipping Grant Program is funded through the Solomon Islands Development Budget appropriations to the Ministry of Infrastructure Development.

Budget allocations for the relevant years under review were as follows:

Table 1.1: National Shipping Grant Budgets 2013 – 2015

2013		2014		2015	
Budget	Actual	Budget	Actual	Budget	Actual
21.7 million	21.6 million	12 million	6 million	30 million	28.2 million

Program objectives

The objective of the program is to develop the shipping industry to ensure that shipping services become more regular and affordable to users such as rural producers, farmers and entrepreneurs thereby increasing national productivity.

The program is intended to assist the shipping industry by bringing in more ships, both purchased and built, to increase competition in the economical shipping routes thereby bringing down rates and encouraging ships to undertake uneconomical routes.

Appropriateness of program mechanisms to achieve objectives

Whilst this Office understands the government's motivation to improve transport infrastructure so as to encourage increased production and better access to services, it is not clear how a policy of 'forcing' operators to undertake uneconomic routes due to competition from an enlarged maritime fleet will be self-sustaining.

The very nature of an uneconomic route means that revenue raised from passenger fares and freight will not be sufficient to cover operating costs – much less provide a fair profit to the operators. And without some other 'community service obligation' type subsidies such as is currently provided under the government's Franchise Shipping Program, the end result may be a possible over supply of competing operators who are unable to make a living even in the currently profitable routes.

Such a result would either end up with a number of vessels left at anchor without proper care or maintenance until their condition becomes derelict or a requirement for the government to expand its Franchise Shipping Program to keep all the vessels operational.

Recommendation 1: An economic review of the Shipping Grants Assistance Program be undertaken to ensure that the intended results of the program are achieved without the need for an expansion in government subsidies to operators due to increased competition arising from an enlarged vessel fleet funded by public money.

Management response

[MID supports an economic review of the shipping grant assistance to operators to ensure that intended results are achieved. The government is currently subsidising uneconomical shipping routes in the country but at the same time purchasing vessels under the shipping grants for constituencies with shipping routes considered uneconomical. Those ships are not serving their constituencies but rather serving different areas where they could make business and money.]

6.2. Program Management Best Practice

Need for a framework

OAG considers that there should be an overarching framework that ensures the proper management of the National Shipping Grant Program and which provides for:

- consistency in how applications for grant funds are dealt with;
- equity between different applications for such funds so that all applicants are treated fairly;
- ensuring program delivery results in improved shipping services in accordance with the program's objectives; and
- ensuring the funds are expended economically with best value for money.

Audit approach to review program management arrangements against best practice

This Office reviewed the program arrangements along two Lines of Enquiry:

1. The key aspects of management of the National Shipping Grants Assistance Program are properly identified and planned; and
2. The funding administration arrangements of the National Shipping Grants Assistance were in place to support achievement of value for money and effective management controls for monitoring of public properties and ownership.

Results of audit

LOE 1: The key aspect of Management of the National Shipping Grants Assistance are properly identified and planned.

Under this LOE, this Office identified three criteria against which to measure the operation of the program. They comprised the following:

Criteria 1: Program policies and guidelines were put in place by the Ministry to guide the shipping grant allocations;

Criteria 2: Specific written standard documents were in place describing how grant recipients are to implement and account for their shipping grants;

Criteria 3: The grant selection criteria were used to approve grant applications.

The results of the audit for each of these criteria were as follows:

Criteria 1: Program policies and guidelines were put in place by the Ministry to guide the allocation of shipping grant disbursements.

Guidelines for the selection of suitable applicants need to enable the Ministry to determine who should receive the shipping grant funds based upon criteria that address appropriateness, value for money and sustainability of each funded project.

Existence of funding allocation guidelines

The allocation of national shipping grants to recipients is determined directly by Cabinet and up until mid-2015 there were no explicit policies or guidelines in place to control the allocation processes or provide arrangements for the proper monitoring and acquittal of such grant expenditure.

The Ministry stated that management of shipping grants had been very difficult as the decision-making directly by Cabinet and the lack of any administrative arrangements meant that the Ministry could not develop any work plans for the program given its lack of control over the grants which were only included in the Ministry's budget for allocation and reporting purposes.

In June 2015 the government issued through the Ministry a *Shipping Grant Assistance Policy* to better manage the program for all assistance payments from that date (see **Appendix 8.1**). All shipping grants provided in 2015 were issued in December 2015 and thereby covered by the Ministry's policy document.

Finding 1: There were NO written policies or guidelines in place for the years 2013 and 2014 governing the expenditure of \$27.6 million on shipping grants. A policy and guidelines were put in place to govern the expenditure of \$28.2 million on shipping grants in 2015.

Comprehensiveness of the funding allocation guidelines

This policy document is purposely to provide guidance for disbursing the grants more efficiently and effectively and to make recipients held accountable for the grant moneys that they received.

A review of the policy document disclosed that the policy comprehensively spells out a number of principles and guidelines for the better management of the shipping grant allocations and expenditure.

The policy requires grant applicants to provide information on the following aspects of their projects:

Vessel purchases

- objectives and benefits in terms of providing shipping services;
- vessel type and size details sufficient to obtain SIMSA endorsement in terms of quality, fitness for purpose and value for money;
- landed cost estimates including the cost of qualified people to bring the vessels back to Solomon Islands;
- proposed ownership details;
- operational budget estimates to demonstrate viability of the proposed service;
- proposed registration and operating arrangements;
- proposed routes to be serviced; and
- recipient bank account details.

Boat building

- benefits or purpose of the project;
- construction plans approved by SIMSA;
- implementation plan and schedule;
- costings and expenditure schedule;
- qualifications of people to construct the vessel;
- project site and location; and
- procurement and financing arrangements including materials suppliers.

Assistance to shipping firms

- audited accounts demonstrating bona fides of applicant firms;
- project appraisal of finance requirements;
- level of assistance requested; and
- procurement and financing arrangements.

Finding 2: The comprehensiveness of policy and guidelines covering the information required to be submitted by grant applicants was generally appropriate in terms of type and scope for the purposes of ensuring the program would deliver appropriate quality vessels capable of delivering sustainable shipping services to identified routes.

Adequacies of the funding allocation guidelines

However, the guidelines are inadequate for ensuring the title over ships are held appropriately where the owners are constituents rather than commercial firms – this is of concern given that the majority of applicants are Members of Parliament [MPs] on behalf of their constituencies.

The guidelines state “There shall be an indication, as much as possible, of the ownership of the vessel such as an established Shipping Company, an established Company Management Team and their Company Directors, and an established Company Office with contacts.” [Clause 5.1(e) of *Shipping Grant Assistance Policy*].

Such a description is too general for protecting the interests of constituents as it provides for MPs to establish a corporate structure where the MP or associates have the opportunity to obtain ownership and benefit of the ship’s commercial operations; or to disrupt the arrangements should the MP fail to be re-elected at a general election.

Finding 3: The policy guidelines under Clause 5.1(e) concerning ownership of vessels purchased through the shipping grants program are very broad and couched in terms of corporate vessels which do not cover instances where ships are purchased on behalf of constituencies.

Recommendation 2: It is recommended that the guidelines be expanded to cover instances where MPs purchase vessels on behalf of constituencies so that there are proper governance and reporting structures in place to ensure the constituents are the owners and beneficiaries of the shipping services provided independent of the MP.

Management response

[Any ship purchase by MP’s on behalf of their constituencies must be wholly owned by the constituents. The vessels must be operate on a commercial basis and at the same time provide services to their constituencies. Guidelines must be expanded to accommodate procedures for registering a vessel under the constituencies. Most vessels purchases under the shipping grant were registered under individual names or private firms which takes away the ownership of the vessels from constituents. Sometimes when the vessel was registered under the name of the MP and loses his parliamentary seat he still retains the ownership of the vessel. In some cases where the MP dies his family claim the ownership over the vessel.]

Also, there are no guidelines for evaluating applications to decide which applicants were best positioned to make optimal use of such assistance – whether that be on the basis of ‘first come first served’ for each particular route where the applicant ‘ticks all the boxes’; or some means of scoring applications for a particular route to select the best qualified applicant to receive the grant.

Finding 4: The policy guidelines do not provide a basis for evaluating grant applications for particular proposed routes.

Recommendation 3: It is recommended that the guidelines be expanded to provide guidance for selecting applicants in situations where they are competing for the same proposed route; as well as setting minimal requirements that must be met in order to be considered a suitable grant recipient.

Management response

[Current shipping grants implementation policy is not cover the ownership of vessels purchase under shipping grant for constituencies. A comprehensive review of the policy on shipping grant implementation is required so that applicants are given the information on what other requirements are there for them to satisfy before they could apply for the shipping grant. Ships obtain under the grant must be registered under the constituency name and should remain the property of the constituency despite of the change of their Member of Parliament. Sometimes there are several application received not for the same route but from the same area or province. It would be fair if applications are also considered on Provincial allocation.]

Criteria 2: Specific written standard documents were in place describing how grant recipients are to implement and account for their shipping grants.

Once the grant moneys have been provided to a successful applicant, the guidelines need to spell out the arrangements the Ministry should have in place to ensure the moneys have been used in accordance with the application plans, budgets and time frames.

Existence of project monitoring and accountability arrangements

A review of the guidelines disclosed that the policy document did provide guidelines for monitoring the implementation of the funded projects which entailed the requirement of three stages of reporting – progress reports prepared by recipients, monitoring and evaluation reports prepared by the Ministry including assurances from SIMSA, and completion reports.

In addition, the Ministry is required to maintain a register of all grant recipients which captures some basic information about them.

Comprehensiveness of the project monitoring and accountability arrangements

The reporting by grant recipients and the Ministry in association with SIMSA comprise the following reports:

Progress Reports

- vessel purchases reports to provide status of purchase covering three stages of initial purchase comprising
 - financial transactions involved in the purchase; physical inspection of the vessel; any alterations made to the vessel; and safety requirements;
 - homebound voyage covering manning; deregistration of previous owner; temporary registration of new owner; and arrival; and
 - arrival; registration with SIMSA; establishment of an operations office; and arrangements for a first scheduled voyage;
- boat building grant reports to describe progress in the areas financed including disbursements and procurements; and
- financial assistance to shipping companies grants reports to document the improvements made in accordance with the application.

Monitoring and Evaluation Reports

- vessel purchases reports will be independently checked by the Ministry; and SIMSA will conduct separate inspections associated with ship registration and certification;
- boat building projects will be inspected by the Ministry at the project sites to ensure implementation is on track and as planned – as well as comply with safety requirements which SIMSA needs to confirm and accept; and
- financial assistance to shipping companies projects to be checked by the Ministry to confirm that the planned benefits are obtained.

Completion Reports

- vessel purchases final reports are to be issued to the Ministry upon receipt of SIMSA registration. The reports are to include details of ship registration; company registration; established office; and certification allowing the vessel to operate;
- boat building grant final reports are to include details on employment opportunities created as well as skills transfer to younger persons involved; and provide relevant information useful for improving the effectiveness of future assistance; and
- financial assistance to shipping companies projects final reports to state whether objectives were achieved and describe any shortfalls or difficulties.

The guidelines also require that the list of recommended grant recipients are endorsed by the Ministry of Development Planning and Aid Coordination [MDPAC] and submitted to the Central Tender Board [CTB] for final approval.

An agreement that has been designed by the Ministry of Finance & Treasury [MOFT] (**Appendix 8.2**) is also required to be signed by the recipient, MP and the Ministry and endorsed by the Accountant General before the moneys are to be disbursed [Clause 8 of the *Shipping Grant Assistance Policy*].

Adequacies of the project monitoring and accountability arrangements

The audit disclosed that the monitoring and accountability guidelines were generally comprehensive in terms of the micro management of the individual projects funded by the shipping grants.

However, there are no provisions for the independent audit of the grant disbursements in the guidelines – they are only captured in the MOFT Signed Agreement under Article IV whereby the OAG is required to perform an independent audit of the Program disbursements [Section 4.01] and MOFT may elect to conduct its own audit if deemed necessary [Section 4.02].

Finding 5: The monitoring and accountability guidelines do not provide for the mandatory independent audit of Program disbursements by OAG but rely on a subsidiary MOFT agreement signed by all parties.

Recommendation 4: It is recommended that the guidelines be expanded to include reference to a mandatory audit of the Program disbursements which are spelled out in the Signed Agreement referred to in Clause 8 of the *Shipping Grant Assistance Policy*.

Management response

[MID fully supports expanding guidelines to mandatory auditing of the program disbursement as outlined in the signed agreement. These are public moneys that need to be properly accounted for and therefore relevant actions must be taken to ensure the funds are expended on intended purpose.]

Criteria 3: The grant selection criteria were used to approve the grant application

The audit of documents relating to shipping grants made following the issue of the *Shipping Grant Assistance Policy*, all of which were made in December 2015 following the closure of standard public accounts ledger for the year, found that:

- both two boat building transactions totalling \$5.2 million complied with the policy requirements;
- all the three maintenance and repairs transactions totalling \$5.7 million complied with the policy requirements; but
- only two of the eight ship purchasing transactions totalling \$17.8 million complied with the guidelines.

Finding 6: All but two of the 2015 vessel purchase grants issued did not comply with the requirements of the policy guidelines.

Recommendation 5: It is recommended that the guidelines be made clear to all grant applicants and a condition be inserted whereby any failure to abide by the conditions will result in a demand for the grant amount to be returned to the government which can be enforced through the courts.

Management response

[It is important for guidelines to be made clear to all grant applicants. Conditions must also be made clear so that any failure to abide by the conditions the government can demand the grant amount to be returned which can be enforced through the courts which MID has fully agreed. Effective implementation of the recommendation would require additional capacity which MID does not have at the moment. Request additional resources and capacity should form part of the recommendation]

LOE 2: The funding administration arrangements are in place to support achievement of value for money and effective management controls for monitoring of public properties and ownership.

Under this LOE, this Office identified five criteria against which to measure the operation of the program. They comprised the following:

Criteria 1: The recipients used the funds as per the purposes intended in the funding agreement;

Criteria 2: There are appropriate steps to ensure titles of Constituency owned ships are held in public hands;

Criteria 3: There is a central database in place with full supporting documentation to ensure the Ministry properly and efficiently monitors the shipping program.

Criteria 4: The recipients have provided progress reports in accordance with funding policy/ ministry's best practices.

Criteria 5: The Ministry monitors the implementation of the approved funding assistance and reports on the implementation progress.

The results of the audit for each of these criteria were as follows:

Criteria 1: The recipients used the funds as per the purposes intended in the funding agreement.

OAG collected a total of 24 transactions from the government general ledger account for all shipping grants made during the period 2013 to 2015 and conducted a review of all supporting documentation for each of the transactions. 17 of the 24 transactions were for Vessel Purchases.

The results were as follows:

Table 1.2. Vessel Purchase Status.

#	APPLICANT	Constituencies/Company Name	Year	Applicant specific Focus	Amount	Company Name	DOR/Registration NO	Vessel Arrived & Registered (SIMSA)	Responded to Audit
1	MP	South Vella La Vella	2013	Vessel Purchase	\$3M	South Vella La Vella Constituency	No company haus Registration	Vessel registered	Response from SIMSA
2	MP	Savo Russel	2013	Vessel Purchase	\$3M	Savo/Russel Shipping	No company Haus Registration	No vessel registered	Not Responded
3	MP	East Makira	2013	Vessel Purchase	\$3M	East Makira Constituency	No company Haus Registration	Vessel purchased/Reg	Response from SIMSA
4	MP	North Malaita	2013	Vessel Purchase	\$3M	North Malaita Constituency	6/1/2016 (201616975) VL is not any of the Directors, however it was JL	No vessel registered	No Responded to Audit Enquiry
5	MP	Malaita Outer Islands	2013	Vessel Purchase	\$3M	Luapesi Shipping Company Limited	30/05/2014 (201414769)	No vessel registered	Payment Made, as per written response document received
6	MP	Rennel & Bellona	2013	Vessel Purchase	\$2.6M	Rennel & Bellona Shipping Limited	2/05/2016 (201617281)	No vessel registered	Waiting for additional funding request from MID
7	MP	Small Malaita	2013	Vessel Purchase	\$3M	Small Malaita Shipping Company Limited	13/10/2015 (20117125)	Vessel Purchased/Reg	Telephone Response/SIMSA
8	MP	South Choiseul	2014	Vessel Purchase	\$3M	South Choiseul Constituency	No Registration with Company Haus	No vessel registered	Not Responded
9	MP	NorthWest Choiseul	2014	Vessel Purchase	\$3M	VATATE Investment and Development Company Ltd	(/17/9/2014) 201415138	Vessel purchased/Reg	Responded/Report
10	MP	VATUD Contituency	2015	Vessel Purchase	\$5M	VATUD Shipping Company Limited	21/03/2016 (201617144)	Vessel purchased/Reg	Response from SIMSA
11	Managing Director	One (1) Ocean Shipping LTD	2015	Vessel Purchase	\$1M	One Ocean Limited	(30/12/2014) 201415627	No vessel purchased/ Reg	Responded/Still raising fund for addition Funds for the appropriate vessel.
12	Managing Director	Island Link Shipping	2015	Vessel Purchase	\$1.1M	ISLAND LINK Shipping Services	BN 171 OF 2013- Received 11/02/2013	Vessel Purchased/Reg	Responded/ Email/SIMSA
13	MP	Ulawa/Ugi Constituency	2015	Vessel Purchase	\$5M	Ulawa/Ugi Constituency	No Company haus Registration	Pending/Decision on Ship Broker	Responded/ Email
14	Didao Development Cooperation		2015	Missing Document	\$1M	Missing Document	Missing Document	Missing Document	Missing Document
15	MP	North Malaita Constituency	2015	Vessel Purchase	\$1M	Lion Heart Company Limited	(1/03/2013) 201312494	Vessel Registered - as Solomon VIMO	Respond From SIMSA
16	MP	Malaita Outer Islands	2015	Vessel Purchase	\$1.2M	Luapesi Shipping Company Limited	30/05/2014 (201414769)	No vessel registered Yet	Payment Made, as per written response document received
17	Managing Director	HP Shipping Services Ltd	2015	Vessel Purchase	\$3.5M	HP Shipping Service Ltd	(21/01/2013) 201312169 (Over due to file annual return)	No vessel registered Yet.	SIMSA confirmed there is no registration from HP SS.

2013-2015 Vessel purchased and registered : \$19.1M

2013-2015 Vessel not purchased, registered and missing documentation: \$26.3M

OAG then conducted interviews with the Ministry, recipient's response and SIMSA officers and evidence was collected through their written responses. OAG noted the following in relation to each of the transactions as follows:

Table 1.3. Vessel Purchase Details of Findings.

Transaction	Audit Finding
1	Transfer of ownership of the vessel already done and is on the Solomon Islands register and is registered as MV 'Jerigih'. The vessel needed extensive repairs. It is now undergoing extensive repairs.
2	The SIMSA written response confirmed that there was no communication and approach to SIMSA. No vessel was purchased or registered with SIMSA. The recipient requested extension of time on the 18 April 2016 to allow them to get documents from their shipping agent. Since then no further information was received from them.
3	The recipient approached SIMSA prior to the purchasing of the Vessel. SIMSA approved vessel inspector was sent to survey the vessel in Fiji. The vessel was

	brought to Solomon Islands but failed to register until early 2016. The vessel is now registered as MV 'Takana'.
4	No communication and no approach made to SIMSA. No vessel was purchased or registered and missing document.
5	No communication and no approach made to SIMSA. No vessel registered yet but Payments was made as per the written response document received
6	Recipient is still waiting for additional funding requested from MID.
7	Liaison between SIMSA and the Hon. Small Malaita prior to purchase. Ship Surveyor was sent to assess the vessel for Solomon Islands Trade. Vessel purchased and registered as the M.V 'Mala Mwei Mwei'
8	No communication; no approach to SIMSA; no vessel purchased or registered.
9	Close liaison maintained between SIMSA and the team involved in procuring a vessel. The funds were kept in Trust and used in 2016 to purchase the MV 'Vatate'.
10	Vessel purchased and registered as MV 'Vatud'.
11	No vessel purchase and registered yet, and in the recipient's response OAG was advised that the recipient is still raising funds to comfortably purchase and have the appropriate vessel.
12	Vessel Purchased and Registered as Island Link 11.
13	The recipient advice that the progress of procuring a ship for the constituency is still pending due to the new process of identifying overseas ship broker thus awaiting for advice and by someone that currently undergo that process and for a marine surveyor's availability to accompany the team to carry out the vessel inspection.
14	Missing documentation.
15	Vessel Purchased and registered as Solomon VIMO, response from SIMSA
16	No vessel Registered yet, however document received, indicates payment was made.
17	SIMSA confirmed, No vessel purchased and registered yet.

Table 1.4: Seven Transactions, for Maintenance & Repair and Boat Building.

#	APPLICANT	Constituencies/Company Name	Year	Applicant specific Focus	Amount
18.	Late MP	East Central Guadalcanal	2013	Maintenance & Repair	\$700,000
19.	MP	East Guadalcanal	2013	Maintenance & Repair	\$300,000
20.	John Wesley Shipping Company	John Wesley Company	2015	Maintenance/Repair	\$1,000,000
21.	Managing Director.	Blue Ocean Shipping Company	2015	Maintenance & Repair	\$1,500,000
22.	Managing Director.	Soloso Shipping	2015	Maintenance & Repair	\$3,200,000
23.	Managing Director	Kin Shipping Services	2015	Boat Building	\$2,200,000
24.	Managing Direct	ST Shipping Company	2015	Boat Building	\$3,000,000

Table 1.5: The findings for the seven transactions for Maintenance & Repair and Boat Building:

Applicant	Audit Findings
18	OAG noted from the documentation review that, the funds approved was for the Maintenance and Repair for MV Kangava at that time (2013).
19	Documentation collected and reviewed that the funds was for Maintenance and repair of MV Solomone at that time. However no response to the audit enquiry as well during the time of the audit.
20, 21, 22	The three 2015 recipient of the Shipping funding under the Maintenance and repair from the Private Sectors in which all have submitted their applications with all the required documents of the 2015 National Shipping Grant policy.
23	A private shipping Services, who have met all the requirement of the grant under the Boat Building. However OAG noted during the audit that the identified builder was sick at the start of the project and could not do anything- the project is still pending for any available builder to continue with the boat building. Thus the planned project is not completed during the time of the audit.
24	A private shipping company also receiving the funding under Boat building; however, there is no response to the audit enquiry regarding the status of the boat building. OAG was not able to verify its completion and the work done status.

On the other hand the 17 grants issued during the three year period between 2013 to 2015, seven vessels only were purchased and finally registered, the other 10 recipients were yet to purchase their constituency vessels because of the following reasons;

- waiting for additional funds from the Ministry before purchase can be made;
- waiting to get documents from the shipping agent; or
- recipient failed to provide requested information (lack of information received and missing document).

OAG questions the appropriateness of providing grants to recipients which are insufficient to enable the completion of each project. The applicants are required to disclose the full cost of each project including on costs; and all successful applications should receive the full amount of funds required to complete each project.

Given the amount of public funds involved, the number of recipients who have yet to accomplish their purpose of receiving the money is higher than expected; and, in addition to causing the shipping grant program to achieve less than was planned, those instances pose the risk of money diverting to other use/purpose and not according to their agreement.

Finding 7: The failure to complete projects after receiving grant moneys appears to be the result of insufficient grant moneys to complete – either due to poor application preparation; a practice by government of providing advance part moneys; or the grant recipient being unable to undertake the project as had been planned.

Recommendation 6: It is recommended that the Ministry of Finance & Treasury and the Ministry conduct an investigation into all incomplete projects and where it is found that the recipient is unable to complete, that action be taken to recover the moneys.

Management response

[Lack of proper project appraisal contributes significantly to incomplete projects. Sometimes project are approved on political affiliation and support. MID supports would be an investigation into all incomplete projects and where recipients failed to complete project relevant action must be taken to recover the moneys.]

Finding 8: A total of \$26.3 million dollars was provided to grant recipients for which vessel is yet to purchase. This has resulted in no vessel registered and this indicates a high risk that the moneys have been obtained but was not used for its planned purpose.

Recommendation 7: It is recommended that the Ministry of Finance & Treasury and the Ministry conduct an investigation into where the grant moneys; and, if fraud is found to be involved, that legal action be taken to prosecute the offender/s and recover the moneys.

Management response

[MID supports full investigation into where the grant money are spend and if there is evidence of fraud the recipients concerned should be punished and monies fully recovered. Again if this is to be effective MID must be provided with additional resources to ensure the recommendation is effectively implemented.]

Criteria 2: There are appropriate steps to ensure titles of Constituency owned ships are held in public hands.

As described above, a shipping grant agreement was developed by the Ministry of Finance and Treasury. The Shipping Grant Agreement is to be signed by Ministry of Infrastructure Development (SIG funding Agency) and Hon. Member of Parliament (Executing Party and Shipping Company (Recipient/implementing Party) to introduce a grant agreement in which all the approved recipients of the grant have to sign prior to grant disbursement.

The purpose of this agreement is to bide the recipient of the grants and get them to agree on the terms of obligation of the Recipients and the Implementation Party and make them to perform their respective obligation.

However, it is noted that the Agreement is silent on how purchased vessels bought on behalf of constituencies by their Members of Parliament are to be registered in the name of the constituency given that constituencies are not legal entities which can legally hold title over property. The current arrangements leave such matters to the discretion of the Member.

Such arrangements leave the constituencies disempowered in terms of ensuring purchased ships remain in their hands whenever the incumbent Member changes due to personal circumstances or the result of an election. It also relies heavily on the integrity of each responsible Member to ensure the vessels are operated for the benefit of all.

Possible mechanisms could include corporate entities with appropriate constituency and local government leaders taking up positions on the board with the Member as an ex officio Chairman of the board.

Finding 9: The existing shipping grant agreement between Members of Parliament and the government is silent on how vessel titles are to be registered to ensure that they remain in the hands of the constituents after the incumbent Member no longer represents the people. This makes the registration process dependent upon the integrity of the Member and silent on how to deal with changes of Members.

Recommendation 8: It is recommended that the shipping grant agreement be revised to prescribe how constituency owned ships are to be registered so that they remain in the hands of the constituency after succession of incumbent Members.

Management response

[Most of the vessels purchased for constituencies under the shipping grant were registered under company names of individuals. It is therefore important that shipping grant agreement is revised to prescribe that ships purchased for constituencies under the shipping grant must always remain in the hand of the constituency despite of the change in their member of parliament.]

Criteria 3: There is a central database in place with full supporting documentation to ensure the Ministry properly and efficiently monitors the shipping program.

Shipping grant assistance policy and a best Ministry practice, requires the Ministry to organise and schedule visits to recipients of the grant for purposes of monitoring of the grant progress as well as to evaluate the implementation and completion.

However in order for the Ministry to carry out a smooth organised monitoring, important data must be readily available and maintained each year. A central data base for the grant recipient information - the data including number of individuals/company approved for the grant, for vessels being purchased, boat building assistance and assistance to shipping companies and their implementation status.

Even though, there are other multiple ministry/departments involved within the process, the central data base of the grant recipient and their implementation status should be updated and kept within the Ministry. Section 7 of the National Shipping Grant Policy requires the Ministry (MID) to maintain an update record of all recipients of the grant with information of the grant - from pools of applications to its final status completion.

During the Audit OAG found that there are no such data readily available within the Ministry to keep track of the implementation of the approved grant; and, as noted above, some of the grants disbursed did not have supporting documentation.

Not having the data readily available within the ministry can result in a loss of control over the shipping program and impede continuity in management and decision making which could result in ad hoc decisions which unfairly disburse grants to those already receiving grants and deny grants to other applicants with equal merit.

Finding 10: The Ministry does not maintain a central database of all shipping grants issued or supporting documentation or project reports documenting the completion of each funded project. This prevents the Ministry from monitoring the status or success of its shipping program; or checking the status of applicants in terms of previous grants that may have already been provided.

Recommendation 9: It is recommended that the Ministry establish a central database with full documentation which is readily accessible by decision makers and all officers responsible for the proper and effective management of the shipping program.

Management response

[It is important for government that MID established a central database that would be readily available and accessible by decision makers and responsible officers for effective management of the program. Again MID is currently overstretched with its limited resources to be able to effectively implement the recommendation and would suggest that request for additional resources forms part of the recommendation.]

Criteria 4: The recipients have provided progress reports in accordance with funding policy/ ministry's best practices.

The National Shipping Grant Policy Section 6.1 requires each individual grant recipient to submit progress reports to the government through the Ministry of Infrastructure Development.

During the audit it was found that out of a total of 12 recipients of the shipping grant after the issue of the policy guidelines in 2015, only two of the recipients under the vessel purchase category submitted a final report back to the Ministry - one recipient was a Member of Parliament and the other was from the private sector.

During the discussions with the Ministry, OAG noted that there was lack of internal communication updates between the Ministry and the implementing parties. The Ministry advised that it was not receiving progress update reports which grant recipients were required to prepare for the Ministry even though notices were mailed to those recipients. Therefore the Ministry is unaware as to the progress/implementation status of the individual approved projects and awarded funds might not be properly used.

Finding 11: The Ministry does not receive progress reports from grant recipients even when notices were issued demanding such reports. This lack of compliance with grant conditions renders the Ministry impotent and unable to properly manage the delivery of the shipping program.

Recommendation 10: It is recommended that the Ministry notify all outstanding grant recipients that they provide such reports to the Ministry on pain of the Ministry taking action to recover the grant moneys. The Ministry should then commence such legal action against any recipients who fail to comply within a reasonable period.

Management response

[It is important the project progress reports are submitted to MID within the required time frame and regular inspections must also be carried out to ensure that projects are implemented in line with the approved project implementation schedules. By doing that the government would be able to know which projects are failing and which projects are being implemented so that actions could be taken to assist recipients implement the projects. If the project cannot be implemented because of reasons beyond government control the recipient must be asked to return the moneys to the government. Failure to comply within a reasonable given time would mean legal proceeding will be instituted again the recipient to recover the moneys. Again this will require additional resources to effectively implement the recommendation.]

Criteria 5: The Ministry monitors the implementation of the approved funding assistance and reports on the implementation progress.

Monitoring allows the Ministry to determine what is and what is not working well, that adjustments can be made along the way and it will also assess what is actually happening versus what the grant was supposed to be spent on as planned and approved.

Under the National Shipping Grant Assistance Policy- Section 6.2 Monitor and Evaluation Reports- the Ministry of Infrastructure Development (MID) shall be required to organise and schedule visits to recipients of the grant for purposes of monitoring of the progress as well as to evaluate the implementation and completion.

During the audit interview with Ministry staff, OAG found that there has never been any monitoring of the grant implementation even after the shipping grant policy was issued in 2015.

The Ministry advised that it did not have the necessary staff to carry out project assessments. As a result, the Ministry is unable to assess program effectiveness or undertake remedial measures to get the program back on track nor provide reports back to government on the success or otherwise of the shipping program.

Finding 12: The Ministry does not have the capacity to undertake its own monitoring of funded projects to ensure grant recipients are producing the results promised in their applications. This also renders the Ministry impotent and unable to properly manage the delivery of the shipping program.

Recommendation 11: It is recommended that the Ministry establish a properly staffed unit responsible for all aspects of the shipping grant initiative including assessing grant applications, making recommendations on who should be approved for grants, monitoring the receipt of progress reports and completion reports.

Management response

[MID is aware most of the grant recipients have not submitted report as expected but could not do much because of its present capacity. Establishing a properly staffed unit responsible for the proper management of the grant is a good approach to ensuring public funds are proper manage and accounted for. Capacity again is an issue that must be given serious consideration so that it could form part of the recommendation. Several years MID has been bidding to increase its capacity with very little success.]

7. CONCLUSION

Based on the findings, we have concluded that the National Shipping Grant which is now known as the National Transportation Initiatives has assisted both the Constituency Members of Parliament and the private sector in purchasing vessels, subsidized vessel maintenance and repair, and supported local boat building to boost economic developments around our economic and non-economic routes; in order to enhance effective service delivery for Solomon Islands.

Although there have been achievements, the administration and management of the National Shipping Initiative Program is not fully capable of meeting the program's objectives notwithstanding the issue in July 2015 of the *National Shipping Grant Assistance Policy* to better guide the administration of the program.

Those weaknesses include the lack of reporting by grant recipients on the progress of projects funded by the shipping grants, the lack of monitoring of projects by MID staff – either through a comprehensive database supported by full documentation or by way of visits to project sites.

The audit also disclosed a very slow rate of completion of projects which grant recipients blame on the need to find additional finance. This Office questions the appropriateness of providing grants to recipients which are insufficient to enable the completion of each project. The applications are required to disclose the full cost of each project including on costs; and all successful applications should receive the full amount of funds required to complete each project – or be rejected if the full cost of the project cannot be justified as value for money from public funds.

8. APPENDICES

Appendix 8.1: The Shipping Grant Assistance Policy



SOLOMON ISLANDS GOVERNMENT

**MINISTRY OF
INFRASTRUCTURE
DEVELOPMENT**

SHIPPING GRANT ASSISTANCE POLICY

JUNE 2015.

SHIPPING GRANT ASSISTANCE POLICY – DISCUSSION PAPER

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SHIPPING GRANT ASSISTANCE POLICY – DISCUSSION PAPER

1. Introduction

Solomon Islands is an island nation and shipping has and will continue to contribute immensely in the development as well as the delivery of services in the country. As developments and population will continue to increase so is the need for increased service delivery. This may demand an efficient and well managed shipping service and one that is developed and strengthened to meet the growing needs in the country. As the country determines to further develop rural areas and communities such would depend very much the support of the shipping service.

Shipping or maritime services has been the major partner in most developments in Solomon Islands including all other transport mode such roads and bridges or airfields as well as all other facilities in the social services sectors. Clinics, schools, Provincial townships and other rural developments were made possible with the support of the maritime or shipping. The task of providing shipping services was given to the private sector around 1994 when the Government Shipping Fleet was privatised.

All shipping services in Solomon Islands are now being provided by private shipping companies whom for their survival are expected to operate commercially. In their struggle to remain afloat, these shipping companies tend to operate mostly along economical shipping routes. The shipping routes considered uneconomical, which are mostly to the more remote communities, are left out thus the usual regular shipping services provided by Government was drastically reduced to almost nil in some areas. Government is obliged to making improvements in the shipping service to enable service delivery to every community in Solomon Islands.

Solomon Islands Government recognise that there are certain shipping routes that are uneconomically viable hence the establishment of the Franchise Shipping Program which subsidises these shipping routes for provision of regular shipping services. It is anticipated that regular shipping will promote increased rural productivity so that there is increased volume for back-loading and the possibility for the shipping route becoming viable, economical and attractive to shipping providers/operators. This objective can be achieved if the communities along these uneconomical shipping routes are encouraged to participate positively by increasing their productivity.

The Shipping Industry has to be developed with the aim of providing a safe, efficient and effective shipping service in Solomon Islands. It is crucially important to have the right type and right size of vessels to providing these services is equally. At the same time and equally important is better management of these shipping operations. Government recognised the need to develop the industry and therefore established a Shipping Grant to assist with the development. At the same time, effective management of the Grant is crucially important to ensure that objectives are achieved. The Shipping Grant Assistance Policy therefore is purposely to outline disbursement of the Grant as well as the requirements in the process.

2. Current Selection Criteria

The Shipping Grant Assistance is purposely to provide guide for Ministry of Infrastructure Development (MID) in disbursing the Grant more efficiently and effectively hence reduce delays that has been experienced in the past. While it is anticipated that so many applications will be received, it must also be noted that there are applications already with MID which needs to be updated and revised in terms of the costs.

The crowding of vessels because of inadequacy of facilities at the Point Cruz jetties indicates that most vessels in Solomon Islands operate out from Honiara. That is understandable because most services, including export and import, are available in Honiara and so imported items are transported out to the Provinces while goods or products for export are brought into Honiara. Most vessels also get their fuel from Honiara.

3. Shipping Grant Assistance Policy

Financial Assistance from the National Government was initially for Provinces until there was a change in early 2000 when it was scaled down to constituencies. As such, the majority of financing from the Grant since its establish has been towards constituencies hence the involvement of Members of Parliament for their constituencies.

The Shipping Grant aims to assist in the development of the Shipping Industry in Solomon Islands so that shipping services become more regular and affordable. The subsidised shipping services to areas considered to be uneconomical is one of the strategies used to encourage rural producers, farmers or entrepreneurs that shipping service is available. The objective of the Subsidised Shipping Program is to provide regular shipping services that will enhance increased productivity so that back-loading reaches economical levels thus attractive scheduled shipping services. The Grant Assistance is another strategy focusing on shipping service providers.

The Grant shall be purposely focusing on three (3) specific areas and allocations:

- 1) Vessel Purchases, 70% of the Annual Grant;
- 2) Boat Building (wooden hull boats), 20% of the Annual Grant;
- 3) Financial assistance to established shipping companies or Provinces, 10% of Annual Grant.

4. Policy Rationale

There are interests out there from Solomon Islanders who wish to participate meaningfully in the shipping industry and they do have good reasons to believe that they can do so given some assistance. The criteria for selection provides for an assessment of the interest. But on the ground with the shipping industry there are shipping routes that are considered uneconomical and are not attracting normal scheduled shipping services from shipping companies. The Assistance is focussing on bringing into the industry more vessels, both purchased and built, to allow some competition in the economical shipping routes which hopefully would bring down

rates but at the same time the services would spill over to the uneconomical shipping routes to providing schedule services.

In the case of Boat Building, the focus is on sustaining boat building expertise as well as providing employment. There are older people who are experience boat builders and such knowledge need to be effectively transferred to the younger generation through “hands-on” activities such as these. Also, new ideas and techniques especially on safety features are important for the industry. The completed boat or vessel can be sold to neighbouring countries or operated within the country.

Assistance to already established and operating shipping companies could be in the form of safety equipments, Bank Loan, or major expensive components for the vessel. It is also important that these are assisted on better managing of their shipping companies.

5. Grant Selection Criteria

5.1. Vessels Purchases

This option is purposely to address applicants who may wish to purchase vessels from overseas suppliers. It is important that applicant for the fund have done their homework in preparing themselves to operate a vessel in Solomon Islands and that such an undertaking will enhance rural participation in economic activities so as to raise their livelihood and living standards. It is also important that the Supplier as well as the Vessel to be purchased is now identified and that all requirements specified hereunder have been achieved. The Project Appraisal shall be required to address these specified requirements:

a) Objectives and Benefits

Public funds are purposely to enhance the benefits of the public, in this case the provision of shipping services, and therefore it is important that there is an indication of such services.

b) Vessel Type and Size

There must be an indication or adequate details of the vessel to be purchased so that there is quality purchase and minimum wastage. Such information shall be useful in attaining SIMSA endorsement of the planned purchase.

c) SIMSA Approval

Solomon Islands Maritime Safety Administration (SIMSA) or their appointed persons shall provide the endorsement on the proposed vessel for purchase. This is to ensure that the purchased vessel is of an acceptable quality, age and has the facilities to suit passenger and/or cargo carriage. Other safety features are equally important.

d) Landed Cost Estimates

There shall be an indication of the Landed Cost. This is the Total Cost of landing the vessel in Honiara and may comprise of the Price of the Vessel,

the cost of bringing the vessel into Solomon Islands from the country of purchase, cost of sending qualified persons to bring the vessel into Solomon Islands, and other administrative costs.

e) Ownership Entity and Management

There shall be an indication, as much as possible, of the ownership of the vessel such as an established Shipping Company, an established Company Management Team and their Company Directors, and an established Company Office with contacts.

f) Operational Budget Estimates and Costs

This is important because the Grant aims to support the shipping industry to providing shipping services to the rural populace and the company must be able to operate the vessel profitably in order to sustain the service.

g) Proposed Persons to man the Vessel on operation

These are legal requirements and an assurance that the purchased vessel shall be in operation as soon as it is registered. This information is vital for SIMSA to check on and for rechecking on registration and operation.

h) Shipping Operation coverage/Routes

An indication of the routes to be covered during operation is essential so as to avoid crowding in one shipping route.

i) Procurement and Financing

Payment shall be made to the bank account of the established shipping company therefore details of the Company's Bank Account shall be provided in the proposal.

5.2. Boat Building Assistance

a) Purpose, Objective and Benefits

It is important that the Project is appraised to outline the objectives, benefits or purpose of the Boat Building Project.

b) Approved Ship Structure Plan;

Any ship building program need to present the plan of the ship to be built because based on this plan will be the costing. SIMSA shall check on the Plan.

c) Implementation Plan/Schedule;

The implementation Plan is essential because the Grant may only be able to finance components of the project in one financial year.

d) Expenditure Estimates and Expending Plan/Schedule

This is essential in that such a project will take more than a year and that assistance could be in phases or a selection of components

e) Manpower Capacity, Knowledge and Experience.

This is an assurance that the project is being implemented or in the process of being implemented and that manpower capacity, experience and relevant knowledge is available.

f) Project Site and Location.

Project site and location is important information for Grant distribution purposes as well as monitoring and inspection purposes.

g) Procurement & Financing

Payments may be made direct to suppliers for materials and/or tools on provision of Pro-forma invoice depending on the required services. Other cost shall be paid into the project account. All payments shall be in compliance with Government procurement procedures and processes. Details of Bank Accounts must be provided with the submission.

5.3. Financial Assistance to Shipping Co./Provinces

This is an assistance that can be made available to already established shipping companies or Provincial Governments operating vessels under their respective business arms.

a) Audited Report on Vessel's or Shipping Co. Operations

There are already established Shipping Companies or Provincial vessels that may require some financial assistance because of certain obvious reasons. All Shipping Companies including Provinces are obliged to maintaining their financial shipping operations records hence an Audited Report may provide prove of the need.

b) Specified Area of Assistance

The Audit Report with additional presentations may indicate justifications for financial assistance however an appraisal would clearly specify the needed support.

c) Level of Assistance

The level of Financial Assistance shall be determined by MID management based on assessments as well as the funds available each Financial Year.

d) Procurement and Financing

All release of funds shall be in compliance with the existing Procurement Procedures and Processes of Government. Operational Bank Account is to be provided in the appraisal.

6. Implementation Obligations

6.1. Progress Reports

Each recipient shall be required to submit Progress Reports to the Government through the Ministry of Infrastructure Development. There shall be three (3) Reports required.

a) Vessels Purchases

A Report outlining the progress of the Vessel Purchase must be presented to MID on various occasions and after release of funds, namely: 1st Report – Transactions made in respect of the purchase; Physical inspections carried out; alterations (if any) to the vessel; and safety requirements. 2nd Report – “Homebound” voyage including vessel manning, deregistration, tempo registration and arrival. 3rd and Final Report – Arrival, Registration with SIMSA, established Operation office, and the possibility for a first scheduled voyage.

b) Boat Building (Wooden hull)

A Report covering the progress in the areas specified for funding shall be prepared and submitted to MID. Depending on the areas of financing, a Report or reports shall be required from the recipients. The disbursements or procurements shall be clearly specified in the Report.

c) Financial Assistance to Shipping Co./Provinces

The financial support if and when provided may be for specific items in the shipping operation presented and as selected for support. The Report therefore is expected to present the achievements or improvements as may be anticipated. A Report is therefore required of the recipient and is presented to Ministry of Infrastructure Development.

6.2. Monitor and Evaluation Reports

Ministry of Infrastructure Development (MID) shall be required to organise and schedule visits to recipients of the Grant for purposes of monitoring of the progress as well as to evaluate the implementation and completion.

a) Vessel Purchases

Ministry of Infrastructure Development shall make follow up checks in respect of the progress based on Progress Reports provided or as and when deemed necessary. This is to monitor the actual progress as well as to evaluate the Project. A separate inspection shall be done by SIMSA for purposes of ship registration and certification.

b) Boat Building

Ministry of Infrastructure Development shall be required to visit Project sites occasionally to ensure that implementation is on track and as planned. The boat is being built to safety requirements and that MID/SIMSA accepts the progress.

c) Assistance to Shipping Co/Provinces

Ministry of Infrastructure Development shall make follow up checks with the recipient shipping company to obtain progress as well as positive impacts realised from the assistance.

6.3. Completion Reports

Completion Report is the final task of the recipients after concluding their financed activities and tasks. It is in this report that recipients may wish to outline their achievements and difficulties of failures. A schedule of procurements or spending shall form part of the report.

a) Vessels Purchases

A Final Report on the financed project shall be delivered to Ministry of Infrastructure Development after Registration with SIMSA. The Report shall include details of Ship Registration, Company registration, established Office, and certification allowing the vessel to operate. The Final Report is import because it will carry most relevant information on all activities undertaken in the project. It is an opportunity to highlight achievements, difficulties, or failures.

b) Boat Building

The assistance provided by Government must be recorded in a Report outlining the progress achieved through the financial assistance and indicating employment opportunities created as well as the transferred boat building knowledge to the younger persons involved. Such report may provide relevant information that may be useful in making improvements for future assistance.

c) Assistance to Shipping Co./Provinces

It is an important document to be delivered to MID on completion of the specified assistance. It is an opportunity to present the achieved objectives as well as shortfalls or difficulties. The recipient is obligated to submitting the Report for Ministry of Infrastructure Development.

7. Record of Grant Recipients

Ministry of Infrastructure Development shall maintain an updated record of all recipients of the Grant with information such as Recipient Name; Date; Amount; Type of Assistance; Bank Account Details (used for funds transfer); and other relevant information.

8. Final Grant Recipients and Amounts Approval.

The list of recommended recipients as prepared by Ministry of Infrastructure Development and endorsed by Ministry of Development Planning and Aid Coordination shall be presented to the Central Tender Board (CTB) for final approval. The Signed Agreement shall be signed made between the Recipient and Ministry of Infrastructure Development. The Agreement shall be signed as endorsement by the Accountant General.

Appendix 8.2: Shipping Grant Agreement



SOLOMON ISLANDS GOVERNMENT

SHIPPING INITIATIVES GRANT

GRANT AGREEMENT

BY

**MINISTRY OF INFRASTRUCTURE DEVELOPMENT
[SIG FUNDING AGENCY]**

AND

**[Name], MEMBER OF PARLIAMENT
[EXECUTING PARTY]**

AND

**[Name of shipping company]
[RECIPIENT/IMPLEMENTING PARTY]**

DECEMBER 2015

GRANT AGREEMENT

This **Grant Agreement** (hereinafter referred to as “**Agreement**”) is entered into this _ day of December 2015, at Honiara, Guadalcanal, by and among:

MINISTRY OF INFRASTRUCTURE DEVELOPMENT, with headquarter address located at Kukum Highway, Honiara, Solomon Islands, as represented by its Permanent Secretary, Henry Murray (hereinafter called “**MID/SIG FUNDING AGENCY**”);

- and -

HONORABLE [Name of MP], with office address located at The Parliament, Honiara, Solomon Islands, (hereinafter called the “**MP/EXECUTING PARTY**”);

-and-

[Name of shipping company], with office address located at xxxx, Honiara, Solomon Islands, as represented by its Owner, xxxxx (hereinafter called the “**RECIPIENT/IMPLEMENTING PARTY**”);

WITNESSETH:

WHEREAS, the Government recognizes the economic and social impact of the poor condition of the shipping industry in the day-to-day life of the People of Solomon Islands;

WHEREAS, the Government has embarked on a Shipping Initiative Grants Program (hereinafter called “**SIGP**”) to provide financial support to improve the conditions of the shipping industry;

WHEREAS, the three priority purposes of SIGP are: (a) purchase of vessels, (b) boat building, and (c) financial assistance to established shipping companies to improve their operations and quality of services; and

WHEREAS, the Recipient/Implementing Party has applied for and obtained a Grant to finance a project under SIGP (hereinafter referred to as the “**Project**”) (see approved project proposal attached herewith as **Annex A**);

NOW THEREFORE, above premises considered, the Parties hereby commit themselves to perform their respective obligations under this Agreement:

Article I

Obligations of Recipient/Implementing Party

Section 1.01. **Amount of the Grant.** Xxx

Section 1.02. **Purpose and Use of Proceeds of the Grant.** xxx

Section 1.03. **Expected Results or Outcome**

Section 1.04. **Project Timetable.** xxx

Section 1.05. **Reporting Obligations.** The **Recipient/Implementing Party** shall submit to the MP/Executing Party, with copy to MID/SIG Funding Agency, the following status reports:

- (a) **Physical Accomplishments.** A monthly report, due within 5 working days immediately following the preceding month, of Project's *actual* physical accomplishment compared against the Project's implementing plan, complete with explanations for not being able to meet any agreed specific output, results or outcome as at a given point in time. The report shall include issues, problems, and concerns being encountered in the course of implementing the Project and the actions taken to resolve those issues and concerns; and
- (b) **Statement of Receipt and Use of Grant Funds.** This Statement is due within 5 working days immediately following the preceding month. In connection with this, the **Recipient/Implementing Party** shall maintain for the Project (a) a separate bank account to which the proceeds shall be deposited, disbursed, and accounted for; and (b) a set of books of accounts separate from its core businesses' books of accounts.

Section 1.06. **Independent Audit.** The **Recipient/Implementing Party** hereby agrees that, at any time, on notice of the Office of the Auditor-General (hereinafter referred to as "**OAG**"), and/or Ministry of Finance and Treasury (hereinafter referred to as "**MOFT**"), it shall make available for inspection and audit its Project's financial statements; Project's books of accounts including but not limited to general ledgers, journals, and subsidiary ledgers; hard or electronic copies of record of transactions, instruments, invoices, and bank statements; inventories; and other related documents in connection with the accounting for and use of the proceeds of the Grant. At the same time, it shall allow OAG and/or MOFT auditors full access to facilities and operations, on-going boat building works, or on-going procurement of or delivered vessel, as the case maybe.

Article II

Obligations of MP/Executing Party

- Section 2.01. **Accountability for Results.** The **MP/Executing Party** is primarily responsible to the Prime Minister, the Cabinet, and the People of Solomon Islands for the proper and prudent use of the proceeds of the Grant. He/she shall ensure that the Grant proceeds are used only for the intended purpose or purposes for which it was granted. And most importantly, he/she shall ensure that the Project is completed successfully and is producing the results it promises to deliver.
- Section 2.02. **Monitoring Responsibility.** The **MP/Executing Party** shall have direct operational monitoring responsibility over the Recipient/Implementing Party in implementing the Project. He/she shall ensure that the Project is implemented in accordance with sound project implementation and financial management principles and practices in accordance with the Project's timetable.
- Section 2.03. **Reporting Obligations.** The **MP/Executing Party** shall report regularly to the Prime Minister and the Cabinet the progress of execution and completion of his/her sponsored Project from time to time.

Article III

Obligations of MID/SIG Funding Agency

- Section 3.01. **Confirmation.** **MID/SIG Funding Agency** hereby confirms to MOFT and to all concerned that the Recipient/Implementing Party (a) has passed all its prescribed eligibility screening, selection and award processes; and (b) is a verified duly registered shipping company operating under the laws of the Solomon Islands.
- Section 3.02. **Oversight Responsibility.** **MID/SIG Funding Agency** shall have oversight responsibility over the implementation of all projects funded under SIGP. It shall ensure that the Grant proceeds are used only for the intended purpose or purposes for which it was granted.
- Section 3.03. **Reporting Obligations.** Within 5 working days after the end of each quarter, **MID/SIG Funding Agency** shall submit to MOFT a consolidated report of progress of implementation of all projects. The quarterly report shall contain the following information: (i) a brief description of the project; (ii) amount of the Grant; (iii) physical accomplishments to date compared against the project's approved Implementing Plan; (iv) use of the proceeds of the Grant to date (financial report); (v) implementation issues and concerns; and (iv) Project's initial results or impact.
- Section 3.04. **Project Evaluation.** For each of the projects completed under SIGP, **MID/SIG Funding Agency** shall perform post evaluation for the

purpose of determining (a) whether or not the completed project has been implemented in pursuance to the objectives and priorities of SIGP; (b) whether or not the Grant proceeds were used for its intended purpose or purposes; and (c) whether or not the expected Project outputs or outcomes were realized. The evaluation shall also document and report all lessons learned, good or bad, including good practices gained from the Project undertaking.

Article IV

Independent Audit

Section 4.01. **By the Office of the Auditor-General.** The OAG shall perform an independent audit of SIGP, in general, and the use of the proceeds of the Grant of completed projects, in particular, in order to render an *independent opinion* on the overall effectiveness of the program and whether or not the proceeds of each of the Grants were used for its intended purpose or purposes only. This audit shall be conducted at the end of *each* project implementation year, or at completion of the project, whichever comes first.

Section 4.02. **By MOFT.** At any time as it deems necessary, MOFT shall perform an independent audit of the accounting for and use of proceeds of the Grant of any on-going or completed project or projects under SIGP. This shall be performed either by MOFT itself, or through a qualified audit firm engaged by MOFT for the purpose.

Section 4.03. **MOFT's Fiduciary Duty.** By virtue of its fiduciary duty and responsibility under the ***Public Financial Management Act of 2013***, MOFT reserves the right to cause, and the Parties hereby unconditionally agree to, the suspension or cancellation of use of proceeds of a Grant if it deemed urgently necessary based on *adverse* findings of audit, or on a reported or verified fraud or misuse of the proceeds of the Grant.

Article V

Modifications; Disputes

Section 5.01. **Modification.** The Parties may modify any part of this Agreement, in writing, by mutual agreement provided that any modification is strictly within or consistent with its *original scope, intents and purposes*. To be effective, binding, and enforceable, such agreed modification or modifications shall be subject to approval by MOFT.

Section 5.02. **Disputes.** Disputes between the Parties, if any, shall be discussed and resolved amicably and expediently between and among themselves. Any and all parties shall exhaust all administrative remedies to resolve the dispute.

Article VI

Termination; Sanctions and Penalties

Section 6.01. **Termination.** Misuse or commission of fraud in any part or whole of the proceeds of the Grant, intentionally or unintentionally, by reason of negligence, or by breach of Agreement, on the part of the **Recipient/ Implementing Party**, acting alone or in collusion with other Party or Parties, shall render this Agreement deemed terminated. All unspent or unused balances of the proceeds of the Grant shall be automatically due and refundable. MID/SIG Funding Agency and/or MOFT shall immediately arrange the reversion of any unspent balances to the government's treasury.

Section 6.02. **Sanctions and Penalties.** After due process, the Recipient/Implementing Party, and other Party or Parties involved, found guilty of breach of this Agreement or commission of fraud, shall be declared perpetually ineligible to receive any future Grants under SIGP. This is without prejudice to the filing of appropriate administrative and criminal charges with the appropriate court against the Party or Parties involved.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be signed in their names on the day and place above written.

MID/SIG FUNDING AGENCY

Henry Murray
Permanent Secretary, MID

MP/EXECUTING PARTY

[Name]
Member of Parliament

RECIPIENT/IMPLEMENTING PARTY

[Name]
[Position]
[Name of Shipping Company]

Annex A

Project Proposal