



OFFICE OF THE OMBUDSMAN

PUBLIC REPORT ON THE VANUATU COMMODITIES MARKETING BOARD'S ROLE IN THE ALLEGED MISUSE OF VT108 MILLION IN GOVERNMENT COPRA SUBSIDIES IN 2008

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REPUBLIC OF VANUATU

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SUMMARY

In 2008 the Government granted Vt108 million to support copra production in Vanuatu through the payment of price subsidies. Under the scheme, a small number of buyers were offered a subsidy for each tonne of copra purchased. The buyers were expected to add the subsidy amount to the prices they paid to producers.

The subsidy fund was administered by Vanuatu Coconut Products Limited (VCPL), a fully owned subsidiary of the Vanuatu Commodities Marketing Board (VCMB). This report details:

1. the waste and misuse of large sums from the Vt108 million copra subsidy account,
2. the failure of VCMB to exercise its regulatory functions under the Vanuatu Commodities Marketing Board Act [CAP133] to ensure that such funds were used responsibly, and
3. poor decision-making and big spending from the subsidy account on the eve of the 2008 General Election, leading to the collapse of the subsidy scheme shortly after.

In the first seven months of 2008, almost all of the Vt72 million allocated for subsidies to that point was gone, yet almost nothing had been spent on subsidies for 2008 copra purchases. Instead, large sums were diverted from the subsidy account to pay for:

- debts of Vt22.9 million to Vt25.8 million carried over from 2007
- the full cost of copra purchases that were paid from the subsidy account yet appear to have yielded little or no revenue in return
- substantial 'administrative expenses' and staff salaries, and
- other large donations and expenses that appeared to be unrelated to the subsidy scheme or copra trading generally.

This misuse of subsidy funds was compounded by the VCPL's acceptance of vaguely worded or inadequate summary documentation, the lack of receipts or invoices to support buyers' claims for subsidies and other payments, and the prevalence of mistakes and anomalies in the accounts.

By early August 2008 there was just Vt83,865 left in the copra subsidy account yet:

- much of the copra subsidy commitments from the first half of 2008 were yet to be paid
- the VCPL had repaid just Vt1 million of a Vt40 million loan used to prop up the 2007 subsidy scheme, and

- copra prices were sliding.

The subsidy scheme was on the verge of collapse when, just a few weeks before the 2008 General Election, the Interim Minister for Trade, Commerce, Industry and Tourism, the Hon. James Bule, requested that the Department of Finance immediately release all remaining subsidy funds for immediate use.

The Vt36 million subsequently paid into the subsidy account in early August enabled the subsidy scheme to stay solvent, but only for a few more weeks. Despite having insufficient funds to meet existing commitments, the fund administrators voted to accelerate spending by raising the subsidy from Vt3,000 to Vt13,000 per tonne.

This triggered a flood of payments to copra buyers on the eve of the elections. In the period 19 August to 7 September 2008, Vt36 million was paid from the subsidy account – mostly for copra subsidies, but also for big losses incurred by VCPL through its contract to supply coconut oil at a fixed price to the electricity utility, UNELCO. In effect, a third of the Vt108 million allocated for subsidies in 2008 was spent in just a few weeks. The payments only stopped when the money ran out in early September, just after the 2008 General Election.

By November when the industry was in crisis because average copra prices had sunk to just Vt14,592 per tonne (after peaking at Vt54,668 in July), there was no money left to provide subsidy support. Although the crisis was largely as a result of low world prices, the VCPL's gross mismanagement of the scheme seems to have made the crisis worse.

This report discusses the responsibility of individuals in charge of deciding how the subsidy funds were spent. It makes findings and recommends action be taken in relation to two individuals where the evidence indicates clear breaches of the law. It also recommends further investigation in relation to others who appear to be implicated in the waste and mismanagement of the 2008 copra subsidies.

This report also describes the failure of institutional arrangements that were intended to prevent these problems. The VCMB had responsibility under the VCMB Act to administer subsidies and other supports for the copra industry, yet failed to do so. Instead, the regulatory regime created by the VCMB Act was undermined and corrupted by the VCMB's subsidiary, VCPL, taking on those responsibilities, completely mismanaging the scheme and then not being held to account for its mistakes. VCPL, an incorporated company with no powers under the VCMB Act, should never have been allowed to assume these responsibilities in the first place. We recommend measures to ensure that any new institutional arrangements avoid the same mistakes in future.

Finally, included in the responses to our draft report is information provided by the Minister of Finance and Economic Management, the Hon. Sela Molisa, advising that steps have already been taken to remedy some of the issues identified in this report, and that the Government is currently conducting a thorough review of strategic supports to the copra industry to ensure the longer term viability of the coconut sector. The removal of VCPL's control over subsidy payments is an important first step. However,

further reforms are needed to prevent a repeat of the gross waste and mismanagement of public funds detailed in this report.

SUMMARY OF RECOMMENDATIONS

1. That the VCMB (as owner of VCPL) terminate the appointment of the VCPL General Manager Stanley Temakon with immediate effect, and remove him from the boards of management of the VCMB and VCPL.
2. That the Public Prosecutor consider the information presented in this report to determine whether there are sufficient grounds to prosecute Stanley Temakon for breaches under the Leadership Code Act or any other Act.
3. That the VCMB take immediate action to resolve the apparent conflict of interest between Marc Ati's private interests in VCE and his public duties as an employee of the VCMB.
4. That the Public Prosecutor consider whether Marc Ati may be liable for prosecution under the Leadership Code Act or any other Act and take appropriate action.
5. That the Department of Finance, in consultation with the Public Prosecutor and the Commissioner of Police, investigate the use of 2008 copra subsidy funds for expenses unrelated to subsidising copra in order to determine whether:
 - a. individuals involved in misusing subsidy funds or benefiting from payments made are liable for prosecution under the Leadership Code Act or any other Act, and
 - b. any action can be taken to recover copra subsidy funds that were used for purposes unrelated to copra subsidies or administering the subsidy scheme.
6. In the event that such an investigation establishes prima facie evidence of any criminal offences and/or ways to recover misdirected subsidy funds, the Department of Finance should immediately refer the matter to prosecuting authorities for appropriate action.
7. That the Prime Minister review the involvement of leaders whose actions or omissions may have contributed to the mismanagement and misuse of copra subsidy funds, and consider issuing practical guidance directing all leaders to exercise care to when accepting benefits or involving themselves in agencies' financial affairs.
8. That the Minister of Finance, in consultation with the Department of Finance and VCMB:
 - a. take immediate steps to suspend the copra subsidy scheme, and

- b. transfer responsibility for the scheme from the VCPL to a more appropriate body until a permanent decision can be made about whether, and in what form, government support for copra farmers and the copra industry should continue.
- 9. That, as part of the current strategic review of supports provided to copra producers and the coconut sector, the Council of Ministers:
 - a. consider replacing the copra subsidy scheme with more effective incentives and supports for copra production, and
 - b. ensure that any institutional arrangements used to administer public spending on incentives and supports are subject to proper scrutiny.

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ROLE IN THE ALLEGED MISUSE OF VT108 MILLION
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1. JURISDICTION

- 1.1 The Constitution and the Ombudsman Act allow the Ombudsman to look into the conduct of government, related bodies, and Leaders. This includes the Vanuatu Commodities Marketing Board (VCMB) and the Vanuatu Coconut Products Limited (VCPL), a subsidiary company of VCMB. The Ombudsman can also look into defects in laws or administrative practices, including the VCMB Act.

2. PURPOSE, SCOPE OF INVESTIGATION AND METHODS USED

- 2.1 The purpose of this report is to set out the facts for the general public to know how the copra subsidy fund of Vt108 million allocated by the government for 2008 has been used.
- 2.2 The scope of this investigation is to clarify information about the utilisation and management of the Vt108 million which was granted by the Government in 2008 to stabilise the prices paid to copra growers in Vanuatu. As most copra is exported, the prices paid to growers are largely determined by the world market for copra. The Vt108 million in subsidies were intended to provide growers with a buffer against sudden price fluctuations. This investigation also sought to determine whether the actions of the VCMB and its subsidiary the VCPL in managing the subsidy program were lawful and appropriate, and that the funds were used for the intended purpose.
- 2.3 This Office collects information and documents by informal request, summons, letters, interviews and research. In this case, we examined the way that the VCMB's subsidiary, the VCPL, administered the Vt108 million allocated by the Government for subsidising the copra trade in 2008. This included checking that individual payments to copra buyers under the subsidy scheme matched the amounts specified in payment vouchers, and were supported by other appropriate documentation. We also checked documentation relating to other payments from the account.

3. RELEVANT LAWS

- 3.1 The Vanuatu Commodities Marketing Board Act [CAP 133] sets out the VCMB's responsibilities for controlling and regulating of the marketing of prescribed commodities, including copra. The functions of the Board are set out in Section 6:

6. Functions of the Board

- (1) The functions of the Board shall be as follows –
- (a) to secure the most favourable arrangements for the purchase, sale, grading and export or import of prescribed commodities;
 - (b) to purchase prescribed commodities or products thereof and to sell, export or import the same;

- (c) to develop or to assist in the development of the various prescribed commodity industries in the Republic of Vanuatu, including the manufacture and processing of prescribed commodities and related products, for the benefit and prosperity of those industries;
 - (d) to stabilise prices paid for prescribed commodities.
 - (e) to keep and maintain a register which is to contain details of persons purchasing the prescribed commodities and the producers of the prescribed commodities and such other information as the Board considers necessary to be included in the register.
- (2) In carrying out its functions under this Act, the Board shall so conduct its affairs as to avoid the need to rely on Government grants or subsidies.

3.2 Section 7 gives the VCMB a range of extraordinary powers in order to carry out its regulatory functions under the Act:

7. Powers of the Board

In carrying out its functions under this Act, the Board shall have the following powers –

- (a) to purchase prescribed commodities produced in the Republic of Vanuatu which may be offered and delivered to the Board, after such commodities have been graded as suitable for export;
- (b) to control and fix prices from time to time payable to producers for prescribed commodities and to notify such prices;
- (c) to purchase prescribed commodities directly or through an agent and to do all things necessary for, and in connection with, the purchase of such commodities;
- (d) to sell prescribed commodities and to do all things necessary for, and in connection with their marketing, cleaning, storing for export and shipping;
- (e) to appoint agents for the purchase, storage, export and import of prescribed commodities for such periods and on such terms and conditions as the Board may require;
- (f) to grant, withhold or cancel any written authority provided for by section 2 and to impose conditions upon the grant of such authority;
- (g) to purchase, hold, manage and dispose of real or personal property;
- (h) to establish pension schemes or any other welfare schemes for the benefit of its officers and employees;
- (i) subject to the prior approval of the Minister, to borrow or lend money on such terms and conditions as the Board thinks fit;
- (j) to do all that is necessary or required to be done in respect of its functions under this Act.

3.3 The financial provisions are set out in Part 7 of the Vanuatu Commodities Marketing Board Act [CAP 133]. Under Section 13, the VCMB's funding can be derived from its trading activity, borrowings, interest or other payments from loans made by the VCMB, grants from the Government or other sources, and monies in course of discharging any other VCMB functions. There are also provisions relating to how the funds can be used (Section 14) and for the separation of accounts for each commodity (Section 15).

14. Application of funds

Subject to section 15, the Board may from time to time apply the funds at its disposal or any part thereof to –

- (a) the purchase of a prescribed commodity;
- (b) the proper and efficient discharge of its functions, responsibilities and operations under this Act;
- (c) the payment of salaries, allowances and expenses of its officers and employees and, subject to the approval of the Minister, allowances for its members;
- (d) stabilising prices paid for prescribed commodities.

15. Separation of funds and accounts of the Board into commodity divisions

- (1) Accumulated funds of each individual prescribed commodity after revenues and expenditures for that prescribed commodity have been taken into account shall be for the use of that commodity division only.
- (2) Notwithstanding subsection (1) –
 - (a) any expenses of an administrative or general nature not directly attributable to any one commodity division shall be allocated to commodity divisions in such proportion as the Board may determine;
 - (b) where funds in respect of any one commodity division are exhausted and there are surplus funds in accounts of any other commodity or commodities such portion of the surplus funds may be transferred to the exhausted account as the Board may determine.
- (3) Where any funds are transferred under subsection (2)(b), such funds shall be repaid from the funds of the exhausted commodity when it has surplus funds.

3.4 Under the Act, the VCMB can also invest any surplus funds (Section 16), must keep proper financial records, and have those records independently audited each financial year (Section 17) and report annually to the Minister (Section 18).

3.5 The Local Produce Cess Act [207] provides for Provinces to levy and collect produce cess or duties on specified local commodities (including copra), in order to provide an income for those local government councils. Section 2 states that cess of not more than 2% can be imposed:

2. Imposition of produce cess

- (1) Subject to the provisions of this Act, within any prescribed local government region, there shall be charged at a prescribed rate produce cess on every local produce which is specified in the Schedule to this Act.
- (2) Prescribed rate of the produce cess which shall be charged on any specified local produce shall be not more than 2% of the market value of that produce.
- (3) Produce cess shall be charged to and paid by the buyers of specified local produce for the local market or overseas market, at the point of entry to local market or at the point of export as the case may be.
- (4) Produce cess shall be paid to and recovered by the local government councils, in such manner as may be prescribed by the Minister.

- (5) Each local government council shall be responsible for the collection of produce cess, on the specified local produce, produced in the local government region of that local government council.

3.6 Under Section 4 of the Local Produce Cess Act [207], the VCMB is responsible for collecting and paying any local cess imposed on any 'prescribed commodity':

4. Cess on prescribed commodities

When any specified local product falls within the meaning of "prescribed commodity", the produce cess in respect of such specified local product shall be charged to and paid by the Vanuatu Commodities Marketing Board.

Section 1 of the Local Produce Cess Act defines prescribed commodities as any 'prescribed commodity declared under section 3 of the Vanuatu Commodities Marketing Board Act [Cap. 133]'.

4. BACKGROUND TO OUR INVESTIGATION

Copra production

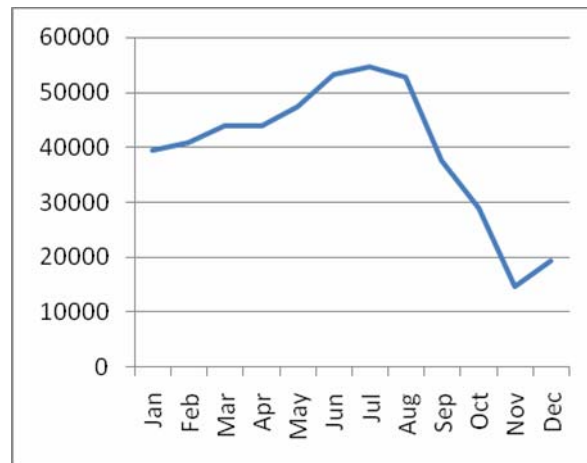
- 4.1 Copra production has long been and is still the main source of cash income for many of the 80 percent of Ni-Vanuatu who live in rural areas, especially in the northern regions of Vanuatu covering Torba, Sanma, Penama, Malampa Provinces and part of the Shefa Province. It is also a principal source of foreign exchange earnings for the Government of Vanuatu.
- 4.2 However, the price of this commodity in the world market fluctuates, thus affecting the local prices that copra buyers pay to copra farmers. Sudden falls in copra prices or sustained periods of low prices can cause widespread hardship and greatly affect the ability of many Ni-Vanuatu communities and individuals to meet their daily needs, especially in relation to their families' school fees, medical fees and purchasing other basic necessities.
- 4.3 Since 2006 the Government of Vanuatu – through the Vanuatu Commodities Marketing Board's copra trading subsidiary, VCPL – has attempted to stabilise local copra prices by paying subsidies to commercial buyers for each tonne of copra purchased. Under these arrangements, buyers were expected to factor in the subsidies when determining what price to offer local copra farmers. The aim was to ensure that producers would continue to be paid a reasonable price, even when the world price for copra is low. Subsidising copra is also seen as a way for the Government to provide assistance to Vanuatu's poorest citizens, and for that assistance to be directly related to productive activity that benefits everyone.

4.4 In 2008, Vanuatu growers produced an estimated 38,450 tonnes of copra with a total market value of Vt1,680 million. By comparison, national production for previous years was 30,816 tonnes in 2007 and 19,462 tonnes in 2006. **Figure 1** (below) shows the Vanuatu Department of Statistics' 2008 data for monthly production of copra and **Figure 2** shows the monthly average prices paid to producers in 2008.

Figure 1: Copra production (tonnes) 2008



Figure 2: Copra prices (Vt per tonne) 2008



Source: Vanuatu Department of Statistics

4.5 As the department's figures show, Vanuatu produced 2,128 tonnes of copra produced in January 2008. Production then rose, peaking at 4,588 tonnes in June and 4,165 tonnes in July. Similarly, the prices paid to producers averaged Vt39,427 per tonne in January, peaked at Vt54,668 in July and Vt52,789 in August. Thereafter, the prices quickly fell, hitting a low of Vt14,592 per tonne in November.

4.6 The 2008 data shows that when prices fell, copra production and deliveries also fell. However, it should also be noted that the total 33,470 tonnes of copra deliveries to the end of September had already exceeded total copra production for the whole of 2007.

Funding for the copra subsidy scheme

4.7 In 2008 Parliament approved an amount of Vt108 million under the Ministry of Trade, Tourism and Industry budget to be used for the stabilisation of the local copra price. This fund was later released by the Department of Finance, in instalments, on request from the Ministry of Trade, Tourism & Industry. The 2008 subsidies were initially set at Vt3,000 per tonne, but then raised to Vt13,000 per tonne for purchases on or after 19 August 2008.

- 4.8 As VCPL managed the subsidy funds on behalf of its owner, the VCMB, the Vt108 million was deposited in instalments throughout 2008 into the VCPL's operating account at ANZ Bank in Luganville. Although VCPL managed the funds, its owner the VCMB remained the government body with statutory responsibility under the VCMB Act for controlling and regulating of the marketing of copra and thus appears to be the body with ultimate responsibility for administering the subsidy scheme.
- 4.9 The 2008 subsidies began with an initial transfer of Vt18 million to the VCPL's operating account in early January, followed by regular transfers of Vt 9 million per month. However, at the start of August 2008 the balance in the VCPL account had fallen to Vt83,865, leaving the VCPL with insufficient funds to meet its subsidy commitments. The Interim Minister for Trade, Commerce, Industry and Tourism, the Hon. James Bule, requested that, in addition to the Vt9 million August payment, the Department of Finance to immediately release Vt27 million for the months of September, October and November 2008. His letter explained:
- Following an increase on copra production, the tonnage had increased from 3,000 to 5,000 per month. Therefore the Vt9,000,000 grant each month had been used to offset the outstanding for the previous months due to funds unavailable. (Letter dated 8 August 2008 – Appendix A44)
- 4.10 That is, in the period January to July 2008 buyers in Luganville had, according to the Department of Statistics data in **Figure 1**, taken delivery of an estimated total of 25,928 tonnes of copra, bringing the VCPL's 2008 subsidy commitments (@ Vt3,000/t) to a potential total of Vt77.8 million. However, by that time the Department of Finance had released just Vt72 million for the subsidy fund (including the initial Vt18 million released in January), leaving the VCPL fund administrators with a significant shortfall.
- 4.11 Had deliveries throughout 2008 remained at or below 3,000 tonnes per month and had the subsidy been kept at Vt3,000 per tonne, the Vt9 million per month paid into the VCPL operating account might have been just sufficient to cover its subsidy commitments. However, as **Figure 2** shows, January was the only month in the first half of 2008 when production was less than 3,000 tonnes. All other monthly deliveries from February until September far exceeded that weight, putting pressure on the fund to go into deficit.
- 4.12 Hence, despite the September, October and November subsidy payments being brought forward to August, the additional funds were quickly spent. As at 5 September 2008, the account balance was just 265,845. By 15 October, there was just Vt12,255 in the account. There were some receipts deposited in November and December, but by the end of December 2008, the account had a closing balance of Vt72,905.

Copra buyers

- 4.13 In 2008 there were at least four companies or copra buyers in Luganville that were claiming subsidies for their purchases from copra farmers. Each established their own prices to buy copra. These companies were:
- Vanuatu Coconut Products Ltd (**VCPL**), a wholly owned subsidiary of the VCMB
 - Vanuatu Copra & Cocoa Export (**VCCE**)
 - Agripac, and
 - Vanuatu Copra Export (**VCE**).

VCPL

- 4.14 Vanuatu Coconut Products Limited (VCPL) began as a private company, incorporated under the Companies Act [CAP 191] on 8 March 1993. The subscribers to the 400,000 listed Vt100 shares in the company at that time were Philippe Cathonnet (with a shareholding of 190,000 shares, 47.5% of the total), the Vanuatu Commodities Marketing Board (VCMB) (190,000 shares, 47.5%) and Dale Hampshire (20,000 shares, 5%), a foreign volunteer working at the Cooperatives Department. Under its Memorandum of Association the objects of the company are unrestricted. The former General Manager of VCMB, Mr Willie Reuben Abel, representing VCMB was one of the first directors of the company. **(Appendix A)**.
- 4.15 On 21 January 1995, Dale Hampshire, who was one of the original Directors of VCPL, resigned his directorship because his appointment with the Cooperatives Department, where he worked as a foreign volunteer, came to an end and he had to leave Vanuatu. A few months later (11 April 1995) he transferred ownership of his 20,000 VCPL shares – half (10,000 shares) to Philippe Cathonnet and the remaining 10,000 shares to VCMB.
- 4.16 By 2001, Philippe Cathonnet's total shareholding in VCPL consisted of 520,000 ordinary shares, and VCMB held 519,999 shares in the company. We understand that in 2001 Mr Cathonnet sold all of his shares to VCMB, enabling the Board to assume full ownership and control of the VCPL. Having sold his shares, Mr Cathonnet stepped down as a director.

VCCE

- 4.17 On 7 March 1996, Vanuatu Copra & Cocoa Export Limited (VCCE) was incorporated as a private local company under the Companies Act [CAP 191]. **(Appendix B)**. We understand that the subscribers to the company were Holland Commodities International Pty Ltd (48 shares), and Totara Ltd (1 share). Under its Articles of Association the business of the company was unrestricted. The first director was Sethy Luwi William.

Agripac

- 4.18 On 20 June 2006, a business under the name Agripac was registered under the Business Names Act [CAP 201]. The business was established a few days earlier (16 June 2006). The person registered to use the Agripac name was Stanley Temakon (**Appendix C**). At that time, Mr Temakon was also the General Manager of VCPL. Also, on 24 May – just a few weeks before registering the Agripac name – Mr Temakon was appointed by the VCPL Board as a member of the VCPL Board. The activity of the Agripac business was described as trading in copra, kava and cocoa.

VCE

- 4.19 On 27 September 2007, a business under the name Vanuatu Copra Export (VCE) was registered under the Business Names Act [CAP 201]. The business of the company was described as copra buying. It was established on 26 September 2007. The person registered to use the VCE name was Marc Ati (**Appendix D**). At that time, Mr Ati was the accountant employed by the VCMB.

Procedure for subsidising copra farmers

- 4.20 The VCPL administers the subsidy scheme on behalf of the VCMB, which is the regulatory body with statutory responsibility for securing *‘the most favourable arrangements’* for copra trading and other prescribed commodities (s.6(1)(a), VCMB Act). As the subsidy fund administrator, the VCPL sets the subsidy amount and pays subsidies to buyers (including VCPL’s own trading arm) for every tonne of copra purchased. Buyers are expected to factor the subsidy into the amount offered to farmers.
- 4.21 Each buyer sets its own price when deciding how much to offer growers for their copra. Although the VCMB has powers under the Act:

S.7(b) to control and fix prices from time to time payable to producers for prescribed commodities and to notify such prices (VCMB Act)

under current arrangements, the VCMB allows buyers, including its own subsidiary VCPL, to set their own prices. The prices set by buyers are largely determined by the Luganville export price – that is, the price they can obtain on the world market. As noted above, buyers are also expected to factor in the Government copra subsidy in when determining what price to offer producers. Competitive pressures from other buyers are also expected to play a part in setting the purchase price.

- 4.22 At its first meeting for 2008, the VCPL Board determined that the subsidy should be set at Vt3,000 per metric tonne. The subsidy remained at Vt3,000 per tonne

until 19 August when, following a decision made at a VCPL board meeting a few days earlier, the subsidy was increased to Vt13,000 per tonne.

- 4.23 In practice, this means that if a copra buyer sets its own copra buying rate at, for example, Vt42,000 per tonne, the addition of the Vt3,000/tonne subsidy should raise the price paid to farmers to Vt45,000/tonne (Vt42,000 + Vt3,000). After buying the copra, the buyer submits its invoices to VCPL claiming the Vt3,000 for each tonne purchased from farmers in the preceding week or month. Similarly, after the VCPL raised the subsidy to Vt13,000 per tonne on 19 August, a rate of Vt42,000 per tonne set by the buyer should result in Vt55,000 being paid to the producer (Vt42,000 + Vt13,000). The scheme assumes that buyers will set a competitive rate, and pass on the full amount of the subsidy to the producer.
- 4.24 After checking the accuracy of the invoices provided by buyers, the VCPL then reimburses the copra buyers from the subsidy fund, at the subsidy rate applicable at the time, for the number of tonnes purchased.

Links between the VCPL's copra subsidy fund and the CDF fund

- 4.25 The Cooperatives Development Fund (CDF) is a scheme established to finance and help develop small-scale commercial initiatives proposed by cooperatives throughout Vanuatu. Usually only cooperatives are eligible to apply for loans and other such assistance from the CDF.
- 4.26 On 8 February 2007, the Minister of Trade, Commerce and Industry, the Hon. James Bule, wrote to the Chairman of CDF's Management Committee requesting that CDF provide a grant of Vt20 million from the CDF fund to the VCPL *'as part of efforts to strengthen VCPL ... to increase the capacity of the company to increase the supply of copra for the production of [bio-fuel] oil'*. In his letter to the CDF, Mr Bule said the Government had requested Vt50 million in funding from the Peoples Republic of China to increase the supply of copra and oil production. He said his Ministry would ensure that any funds provided by the CDF would be reimbursed when the Government received the financial assistance requested from China. **(Appendix E)**
- 4.27 On 12 February 2007, the CDF Management Committee met and agreed that the Chairman of the CDF Committee, Mr George Borugu, who was also a member of the VCPL Board, should process an initial Vt10 million transfer from CDF account to VCPL. This was confirmed in a letter from the CDF committee on 26 February 2007, in which the committee authorised the National Bank of Vanuatu (NBV) to transfer Vt10 million to the VCPL operating account at ANZ Bank in Luganville – the same account used to administer the copra subsidy scheme in 2008. **(Appendix F)**.
- 4.28 The initial Vt10 million transfer of CDF funds to VCPL was soon followed by two others. On 6 March 2007, the then Prime Minister, the Hon. Vanuaroroa Ham Lini, wrote to the Minister of Trade the Hon. James Bule, requesting him to

instruct the CDF Committee to release an additional Vt25 million to VCPL to help subsidise the price of copra until the end of April 2007. His letter states:

This is because the 10 million vatu which has been released by [the] CDF board has already been used up.

As you have been aware ... the Government decided to maintain the price of copra at 31,000 vatu per tonne because 80% of the rural population of the country depends largely on copra to earn some money to [pay] their children's school fees.

The then Prime Minister concluded by noting that the Chinese government was yet to officially respond to Vanuatu's request for Vt50 million in assistance, but that the Government was looking forward to a 'positive reply' **(Appendix G)**.

- 4.29 Subsequently, on 6 March 2007, the Trade Minister wrote to George Borugu in his capacity as chairman of the CDF Management Committee, asking that he 'urgently convene a committee meeting to process' the Prime Minister's request to transfer Vt25 million to the VCPL subsidy fund 'as soon as possible' **(Appendix H)**. The CDF Committee responded quickly, authorising the transfer of Vt25 million to the VCPL's operating account on 9 March 2007 **(Appendix I)**.
- 4.30 On 30 April 2007, the CDF committee authorised an additional Vt5 million transfer to the VCPL account, bringing the total amount of CDF funds transferred to the VCPL in early 2007 to Vt40 million. **(Appendix J)**.
- 4.31 In written evidence to this inquiry on 7 July 2009, Mr Borugu advised us that the CDF provided funding to the VCPL on behalf of the government because at that time the government had only contributed Vt28 million to subsidise 2007 copra purchases and the VCPL had insufficient funds to meet its commitments. He said the CDF provided the funds to the VCPL on the condition that the Government of Vanuatu would reimburse the CDF from the copra subsidy fund:

The date of the loan was in February 2007 and the amount is Vt40 million not Vt20 million ... The amount was provided to VCPL in two or three instalments. The letter from the Minister of Trade committed [the] government to reimburse the funds, however to date only Vt1 million has been paid to CDF.

He added that the Ministry's rationale for borrowing CDF funds to support copra subsidies was that the subsidies would be used to support copra purchases from cooperatives. **(Appendix K)**

5. THE 2008 COPRA SUBSIDY PROGRAM

- 5.1 As noted in the introduction at Section 2, the scope of this investigation is to clarify information about decisions made in relation to the use and management of the Vt108 million granted by the Government in 2008 to stabilise the prices paid to copra growers in Vanuatu.

VCPL Board meeting in January 2008

- 5.2 At the VCPL's board meeting at the VCMB office in Santo on 4 January 2008, the VCPL Board noted receipt of the initial Vt18 million for the copra subsidy program, and set the 2008 subsidy at Vt3,000 per tonne. The VCPL General Manager, Stanley Temakon, informed the board that the copra price in Luganville was Vt31,000 per tonne and that the international coconut oil price was likely to increase in the future. The minutes note that:

Considering that the copra price is relatively adequate, the Board resolved that the subsidy will be set at only Vt3,000/mt until further notice. (VCPL Board meeting minutes, 4 January 2008)

The subsidy remained at Vt3,000 per tonne until it was increased to Vt13,000 per tonne in August.

- 5.3 The January minutes also show that the VCPL board decided that as there was no budget provided for the costs of administering the subsidy scheme, it should set aside 5% (the equivalent of Vt5.4 million of the Vt108 million in total subsidies) to 'cover administrative costs such as Board meetings, travel and copra weight reconciliations'. It then instructed the General Manager to establish a weight reconciliation system at minimal cost.
- 5.4 Other significant expenditure approved by the January board meeting were:
- Vt6,456,987 to be paid to Wong Zse Sing for unpaid copra purchased in 2007 under the 2007 subsidy program, and
 - Vt8,136,678 due to Agripac 'for funds advanced to the 2007 subsidy program'.

The money owed to Wong Zse Sing was to be paid as a lump sum, but the money to be paid to Agripac was to be paid in instalments.

- 5.6 The VCPL Board also resolved at its January meeting that, if requested, a financial contribution to Lini Day celebrations would be provided from subsidy funds, and that VCPL would then reimburse the subsidy fund for the amount donated. In fact, Vt150,000 was provided to VCPL on 23 January 2008 for a payment described on the payment voucher as 'Lini Day Contribution'.

Inspection of the VCPL operating account for the subsidy fund indicates that there was no reimbursement.

- 5.7 In summary, in January the VCPL board received Vt18 million of the Vt108 million allocated for subsidies in 2008. Yet even before the first subsidy payment for 2008 was made, the board approved expenditure totalling Vt20,143,665 – made up of Vt14.6 million for debts owed from 2007, a ‘refundable donation’ of Vt150,000 to Lini Day celebrations, and Vt5.4 million to cover the costs of administering the 2008 subsidy program.

VCPL Board meeting in August 2008

- 5.8 Details of how the 2008 subsidy funds were disbursed from the VCPL operating account will be considered later in this report. However, it is important to note the decision made at the VCPL Board’s meeting on 14 August 2008 to raise the subsidy paid to copra buyers from Vt3,000 per tonne to Vt13,000. The markedly higher payments took effect on 19 August, just two weeks before the national General Election scheduled for 2 September 2008.
- 5.9 According to the minutes, the primary reason for increasing the subsidy in August was to restore confidence in copra prices, which were experiencing sharp falls:

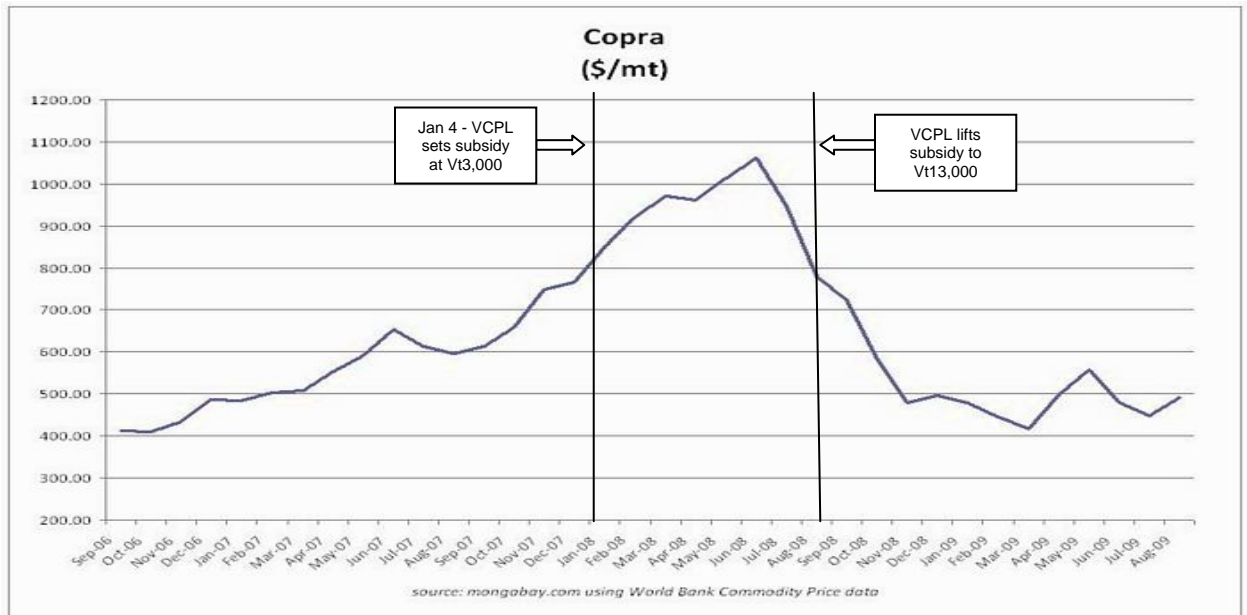
The Board considered the drastic drop in the copra price from a high of Vt59,000/mt to Vt40,000/mt in Santo. To put confidence in the copra industry, the subsidy rate may need to be increased considerably to try and maintain the copra price but also noting that the (remaining) subsidy funds stand at Vt36,000,000 for the year 2008. The Board noted that in addition, some invoices at the current rate of Vt3,000/mt remain unpaid.

The Board resolve[d] that the subsidy rate will increase from Vt3,000/mt to Vt13,000/mt effective from the date the subsidy funds are cleared and that the copra price in Santo will be maintained at Vt53,000/mt until the subsidy funds run out.

(VCPL Board meeting minutes, 14 August 2008)

- 5.10 The VCPL’s decision to increase the subsidy from Vt3,000/tonne to Vt13,000/tonne in August was an attempt to counter falling world prices for copra and maintain prices at historically high levels. **Figure 3** (below) shows World Bank estimates of the world price for copra for the past three years (September 2006 to August 2009).

Figure 3: World copra prices US dollars per tonne, September 2006 to August 2009



Source: Mongobay.com using World Bank commodity price data

- 5.11 Figure 3 shows that, compared with previous years, world prices for copra were relatively high when the VCPL set the copra subsidy at Vt3,000/tonne. The Vt3,000 continued to apply as world (and domestic) prices peaked in mid-2008, and was increased to Vt13,000 as those historically high prices began to fall.
- 5.12 As a consequence of the Board’s decision to raise the subsidy to Vt13,000 per tonne in August, its subsidy obligations soared. For the month of July the 4,165 tonnes of copra produced would have attracted total subsidies amounting to Vt12.5 million (@Vt3,000/t). In September, the first full month of the higher rate (@Vt13,000/t), the 3,638 tonnes of copra produced would have attracted total subsidies amounting to Vt47.3 million – much more than the VCPL could afford to pay from its subsidy fund.
- 5.13 In summary, although the VCPL Board knew that the subsidy account was rapidly running out of money and that there were significant outstanding debts still to be drawn from the account, the Board approved a significant increase in the subsidy (from Vt3,000/tonne to Vt13,000/tonne) on the eve of the General Election, apparently in the hope that its intervention would restore confidence in the copra market and herald a return to the peak prices experienced in mid 2008.
- 5.14 As the Department of Statistics data presented earlier in **Figure 2** shows, the Board’s attempts to stave off the sudden slide in copra prices was partly successful, but only for a brief period. The average price paid to producers in August was Vt52,789 per tonne, close to the peak prices paid in June and July. However, the prices to producers fell to Vt37,488 per tonne in September, Vt28,942 in October and Vt14,592 in November. By the end of 2008, the VCPL

subsidy commitments from the 38,450 tonnes of copra delivered potentially exceeded Vt200 million, almost double the Vt108 million originally allocated.

- 5.15 The other main decision taken at the August meeting was to approve Vt6 million to be paid to Agripac for copra that Agripac supplied to VCPL as part of its 'costly coconut oil supply contract with UNELCO'. Under this arrangement, UNELCO paid VCPL a set price for copra to be converted to oil for electricity generation. Agripac purchased copra on behalf of VCPL at market prices, which continued to escalate in 2008. In effect, VCPL (through Agripac) paid full market price for copra (including the Vt3,000/tonne subsidy), which it then sold to UNELCO for a lower (fixed) price.
- 5.16 As the world prices and the prices paid to producers soared, VCPL incurred increasingly heavy losses. An earlier VCPL board meeting (26 June) endorsed a decision to terminate the VCPL contract with UNELCO after the VCPL General Manager reported losses estimated at Vt2 million per shipment.

Dispensation of the 2008 copra subsidy funds

- 5.17 Our review of relevant records, including bank statements, VCPL payment vouchers and cheques drawn from the VCPL operating account, noted the following transactions relating to the 2008 copra subsidy scheme:

Table 1: Summary of key transactions relating to the VCPL operating account used to manage copra subsidy payments

DATE	Vt DEPOSIT/ WITHDRAWAL	DESCRIPTION OF TRANSACTION IN SUPPORTING DOCUMENTS	2008 SUBSIDY EXP Y/N?
JANUARY			
3	- Vt29,150	Paid to Air Vanuatu (cheque no 5317 dated 20.12.2007). Return airfare for Mr Clifford Bice. (Appendix L)	No (2007 debt)
4	+ Vt18 million	1 st instalment of subsidy fund paid into account on the authority of Clifford Bice, acting in his capacity as the First Political Advisor in the Ministry of Trade, Tourism, Commerce and Industry (MTTCI). Mr Bice, who is also Chairman of VCPL, advises that the Ministerial Budget Committee (MBC) had approved Vt108 million for subsidies in 2008. (Appendix M) and (Appendix N)	N/A
4		VCPL Board sets the subsidy at Vt3,000 per tonne 'until further notice', and approves initial expenditure totalling more than Vt20 million for administration costs, payment of debts carried over from 2007, and for a refundable contribution to Lini Day celebrations. (Appendix O)	
4	-Vt29,150	Paid to Air Vanuatu (cheque no 5358) for return airfare for Mr George Borugu Vila/Santo/Vila. (Appendix P)	Yes (admin)
15	-Vt1 million	Paid to Agripac (cheque no 5319). No invoice. Payment appears to relate to debts incurred in 2007.	No (2007 debt)
16	-Vt1,075,838	Paid to Northern Island Stevedoring Company (Niscol) (cheque no 5321) for two invoices. No further details avail. (Appendix Q)	Unclear

16	-Vt6,578,765	Paid to Wong Sze Sing (cheque no 5322) for 182.02 tons of copra sold to VCPL in 2007 (including zone allowances and VAT) as per Board's decision on 4 January to pay this amount from the 2008 subsidy fund. (Appendix R)	No (2007 debt)
18	-Vt500,000	Paid to Agripac (cheque no 5323). No invoice. Payment appears to relate to debts incurred in 2007.	No (2007 debt)
21	-Vt1.5 million	Paid to Agripac (cheque no 5324). No invoice. Payment appears to relate to debts incurred in 2007.	No (2007 debt)
21	-Vt1.5 million	Payment voucher authorising Vt1 million payment to Agripac. Cheque (No 5324) for the amount Vt1.5 million made out to 'cash'. There is no explanation of the different amounts in the payment documentation. (Appendix S)	No (2007 debt)
22	-Vt611,207	Paid to Sanma Province (cheque no 5327) for March & April 2007 outstanding Produce Cess. (Appendix T)	No (2007 cess)
23	-Vt2 million	Paid to Agripac (cheque no 5331). No invoice. Payment appears to relate to debts incurred in 2007.	No (2007 debt)
23	-Vt1,500,346	Paid to Agripac (cheque no 5346). No invoice. Payment appears to relate to debts incurred in 2007.	No (2007 debt)
23	-Vt64,700	Paid to Hotel Santo (cheque no 5329) for accommodation and meals for C. Bice and G. Borugu (30/11-1/12/07) (Appendix U)	No (2007 debt)
23	- Vt557,060	VCPL authorises Vt297,060 payment to VCPL for costs of VCPL Board meeting, restaurant charges and travel expenses. (Appendix V) The amount is revised and a further payment voucher is issued, authorising payment of Vt557,060 (cheque no. 5330) for costs of the board meeting. Revised costs include Vt180,000 sitting allowances & Vt80,000 'bonus' payments. (Appendix W)	Yes (admin)
23	- Vt1,500,346	Payment voucher authorises Agripac be paid Vt1,300,346. A 2 nd payment voucher issued on the same date authorises Vt1,500,346 payment to Agripac. The cheque (No.5326) is made out to 'cash' as payee. Supporting documentation indicates Vt100,000 of the Vt1,500,346 was to be paid to Mr Clifford Bice, and the balance to Agripac (Appendix X) .	No (2007 debt)
23	- Vt150,000	Vt150,000 payment to VCPL (cheque no.5328) for "Lini Day Contribution". (Appendix Y)	No
30	- Vt97,721	Payment (cheque no.5334) to Hotel Santo for accommodation and meals for Hon. Minister Bule (5 & 6/1/2008), and for C Bice and G Borugu (6/1/2008). (Appendix Z)	Yes (admin)
31	-Vt1 million	Paid to Agripac (cheque no 5335). No invoice. Payment appears to relate to debts incurred in 2007.	No (2007 debt)
FEBRUARY			
14	-Vt500,000	Paid to Agripac (cheque no 5336). No invoice. Payment appears to relate to debts incurred in 2007.	No (2007 debt)
18	+Vt9 million	February subsidy deposit to VCPL account (Appendix A1)	N/A
28	- Vt768,349	Paid to Sanma Province (cheque no 5343) for May 2007 outstanding Province Produce Cess. (Appendix A2)	No
MARCH			
4	-Vt1.3 million	Paid to the Vanuatu Government (cheque no 5345) for cost of the Chinese Vice Premier's visit to Vanuatu in 2007. (Appendix A3)	No
7	+Vt9 million	March subsidy deposit to VCPL account (Appendix A4)	N/A
10	-Vt6,220	Paid to Air Vanuatu (cheque no 5348) for Minister James Bule's airfare Longana/Santo (Appendix A5)	Yes (admin)

11	-Vt17,910	Paid to Cellovila Ltd (cheque no 5349) for 5,000 plastic bags including the cost of freight to Santo. (Appendix A6)	No
12	-Vt1,060,000	Paid to 'cash' (cheque no 5350). Payment voucher authorises Vt1 million to be paid to 'Agripac/VCPL' for 'Achat [purchase] copra Malekula' No invoice. Payment appears to relate to debts incurred in 2007. (Appendix A7)	No (2007 debt)
13	-Vt364,560	Paid to 'cash' (cheque no 5351). Payment voucher authorises payment to Ron Wilson 'for copra adjustment payment on copra from 2007' (weight 12 tonnes @ Vt31,000/t less 2% for Produce Cess). (Appendix A8)	No (2007 debt)
18	-Vt120,000	Payment for 'sitting allowances' of the four VCPL board members (cheque no 5354). (Appendix A10.)	Yes (admin)
26	-Vt2 million	Paid to 'cash' (cheque no 5357). Supported by payment voucher dated 18 March authorising Vt837,493 to be paid to Agripac for 'refund 2007 advance C/subsidy'. Revised payment voucher issued on 26 March authorising Vt2 million payment to Agripac for 'refund hot air copra sundried'. (Appendix A9) . It is not clear why two payment vouchers were issued.	No (2007 debt)
26	-Vt29,150	Paid to Air Vanuatu. Return airfare for Stanley Temakon Santo/Vila/Santo. (Appendix A11)	Yes (admin)
26	-Vt2 million	Paid to Agripac (cheque no 5357). No invoice. Payment appears to relate to debts incurred in 2007.	No (2007 debt)
27	-Vt195,000	Paid to VCPL Board (cheque no 5359) for 'sitting allowance (sitting in Port Vila)'. (Appendix A12)	Yes (admin)
27	VCPL board notes that Government-borrowed funds from the Cooperatives Development Fund (CDF) to support the copra subsidy program need to be refunded. Board authorises monthly payments of Vt500,000 to be paid to CDF. (Appendix A14)		
28	-Vt533,095	Paid to Sanma Province (cheque no 5360) for June 2007 outstanding Produce Cess. (Appendix A13)	No (2007 cess)
APRIL			
1	-Vt114,760	Paid to 'cash' (cheque no 5362). Supporting payment voucher authorises payment to the VCMB General Manager and the VCPL General Manager for airfares, subsistence, transport and accommodation for a visit to Pentecost in April 2008. The purpose of the trip is not stated. (Appendix A15)	Yes (admin)
7	- Vt24,000	Paid to VCPL for purchase of 200 litres of bio-fuel from the Cooperatives Department. (Appendix A16)	Unclear
9	-Vt726,720	Paid to 'cash' (cheque no 5365). Supporting invoice notes payment is for 15.14 tonnes of copra sold by Agripac (Stanley Temakon) to VCPL (delivered 31.3 and 1.4.2009) at Vt48,000 per tonne. (Appendix A17)	Yes (full cost of purchase)
10	-Vt204,014	Paid to Hotel Santo (cheque no 5366). Payment voucher notes payment is 'for Minister James Bule and Clifford Bice (tourism issues)'. (Appendix A18)	Yes (admin)
16	+Vt9 million	April subsidy deposit to VCPL account (Appendix A19)	N/A
18	-Vt120,000	Paid to 'cash' (cheque no 5367) for 'VCPL Board allowance' (Appendix A21)	Yes (admin)
21	-Vt27,600	Paid to John Lum & Associates (cheque no 5368) for two tyres for Minister James Bule's visit. (Appendix A20)	Unclear
28	-Vt149,023	Paid to SANMA Province (cheque no 5373). Payment voucher dated 28.4.2008 authorises the payment 'for Province Cess for Sanma Province July 2008'. (Appendix A22)	Yes (2008 cess)

MAY			
6	-Vt132,660	Paid to Hotel Santo (cheque no 5374) for accommodation for Hon. Minister James Bule, Clifford Bice and George Borugu. (Appendix A23)	Yes (admin)
15	+Vt9 million	May subsidy deposit to VCPL account (Appendix A24)	N/A
15	-Vt200,000	Paid to 'cash' (cheque no 5375). Payment voucher notes payee is Clifford Bice and the payment is for 'advance towards Ban Ban CMC Church'. (Appendix A26)	No
16	-Vt655,161	Paid to 'cash' (cheque no 5376) for VCPL 'staff salary' (Appendix A25)	No
20	-Vt77,897	Paid to Hotel Santo (cheque no 5380) for accommodation for the Hon. James Bule and Clifford Bice (Appendix A27)	Yes (admin)
28	-Vt20,000	Paid to 'cash' (cheque no 5382). Payment voucher authorises payment to David Karl to reimburse an advance paid by Mark Ati. (Appendix A29)	Unclear
JUNE			
2	-Vt7,150	Paid to VCPL (cheque no 5383) 55 litres of bio fuel for the Minister's visit to Santo. (Appendix A31)	No
5	-Vt531,060	Paid to Vanuatu Copra Export (VCE) (cheque no 5387) for deliveries (12-23 May) of 177.020 tonnes of copra at Vt3,000 per tonne. (Appendix A33)	YES
9	+Vt9 million	June subsidy deposit to VCPL account (Appendix A32)	N/A
18	-Vt531,060	Paid to Vanuatu Copra Export (VCE) (cheque no 5392) for deliveries (12-23 May) of 177.020 tonnes of copra at Vt3,000 per tonne. (Appendix A34)	No (duplicate payment)
26		VCPL General Manager advises board meeting of likely revenue shortfall. The minutes note: ' <i>...the GM of VCPL mentioned maintaining existing staff will be difficult especially when there is a shortfall in revenue. GM further mentioned that it will be difficult to terminate any staff at the moment when we are approaching General Elections. As short term remedy of the situation, he suggested that funds of the copra should be allocated monthly to relief VCPL especially for staff salary. The Board resolved that GM of VCPL manages with the situation until a decision is made on the Agri-Com proposal which would definitely assist VCPL in terms of additional revenue.</i> ' The minutes for this meeting and previous meetings in 2008 make no other mention of 'the Agri-Com proposal'. (Appendix A35)	
27	-Vt553,191	Paid to 'cash' (cheque no 5393) for VCPL 'staff salary'. (Appendix A36)	No
JULY			
1	-Vt433,300	Paid to 'cash' (cheque no 5398). Payment voucher dated 1.6.2008 authorises payment to VCPL Board members for 'refund board meeting' on 24 and 26.6.2008. Cost made up of airfares for VCPL General Manager Stanley Temakon and VCMB General Manager Gabriel Bani, per diem for both managers for three days, miscellaneous costs for both managers for three days, board allowances for four board members and accommodation for Stanley Temakon. (Appendix A30)	Yes (admin)
2	-Vt808,220	Paid to Punjas (Vanuatu) Ltd (cheque no 5397) for balance of Vt1,212,330 owed for 10,542 empty cartons. The initial Vt404,110 was paid from another VCPL account. (Appendix A37)	No
9	+Vt9 million	July subsidy deposit to VCPL account (Appendix A38)	N/A
11	-Vt500,000	Paid to Cooperatives Development Fund (cheque no 5381). Payment voucher dated 22.5.2008 notes payment is to 'refund fund' for 2007 loan. (Appendix A28)	No
17	- Vt1,005,874	Paid to 'cash' (cheque no 5403). Supporting documents note the Vt1,005,874 was payable to Agripac and included: - Vt208,000 in wages for weight reconciliators (26 weeks	Unclear

		<p>@Vt8,000/week)</p> <ul style="list-style-type: none"> - Vt90,000 for VCPL board sitting allowance (July meeting) - Vt200,000 to Agripac for 'allowance paid to Ministry of Trade for Ministerial visit to Brussels in June, 2008'. - Vt59,800 for expenses related to Gabriel Bani and Stanley Temakon's attendance at an 'Integrated Framework meeting' at Ambae (13-16 July 2008) <p>There appears to be no supporting documents relating to the remaining Vt388,274 (Appendix A40)</p>	
21	-Vt500,000	Paid to Cooperatives Development Fund (cheque no 5401) as a reimbursement for funds borrowed in 2007. (Appendix A39)	No
22	- Vt594,528	Paid to 'cash' (cheque no 5406) as reimbursement to VCPL for salary expenses paid by Stanley Temakon on 13.6.2008. (Appendix A41)	Unclear
AUGUST			
8	- Vt200,000	Paid to 'cash' (cheque no 5409) to reimburse VCPL for 'staff salary' expenses (Appendix A42)	Unclear
8	+Vt9 million	Department of Finance releases Vt9 million August subsidy (Appendix A43)	N/A
12	+Vt27 million	Department of Finance releases Vt27 million September, October, November subsidy payments (Appendix A45) following request by the Interim Minister for Trade, Commerce, Industry and Tourism, the Hon. James Bule, to help VCPL cope with subsidies for increased copra production (Appendix A44)	N/A
Date unclear	The Acting Director of Finance, Mrs Betty Zinner Toa, writes to the MTTCl stating that the full amount for the copra subsidy has been released and there remains only Vt851,384.		
14	VCPL board approves subsidy increase from Vt3,000/tonne to Vt13,000 to 'put confidence in the copra industry' following a sharp drop in prices. The VCPL General Manager advises the board that 'due to the costly coconut oil supply with UNELCO, Agripac supplied copra to VCPL at close to Vt6 million and remain outstanding'. The board agreed to use the subsidy fund to settle the debt owed to Agripac. (Appendix A46)		
19	-Vt6,676,636	<p>Paid to 'Stanley Temakon' (cheque no 5411). Two payment vouchers refer to this cheque:</p> <ol style="list-style-type: none"> 1. One authorises Vt5,539,360 to be paid to Agripac for 'achat copra' (Invoices detail deliveries of 201.04 tonnes of copra to VCPL at different buying prices from January to June. Total value of copra delivered Vt9,241,650). 2. The other authorises VT1,137,276 to be paid to Agripac for copra subsidy payments of Vt3,000/t for 379.09 tonnes delivered between 28.7.2008 and 8.8.2008 (Appendix A47) 	Yes (subsidy and purchase)
19	-Vt5,902,431	Paid to VCCE (cheque no 5413) for 'payment for copra subsidy'.	Yes
20	-Vt7,150	(cheque no 5410)	
20	-Vt2,087,730	Paid to VCE (cheque no 5414) for subsidy on 695.91 tonnes of copra @3,000/t.	Yes
20	-Vt3,061,320	Paid to VCCE (cheque no 5412) for 'payment for copra subsidy'.	Yes
21	-Vt340,920	Paid to Agripac (cheque no 5415) for subsidy for 113.64 tonnes of copra @ Vt3,000/tonne.	Yes
21	-Vt538,357	Paid to Agripac (cheque no 5416) for purchase of 17.29 tonnes of copra at Vt31,137/tonne (no invoice attached).	No
22	-Vt1,393,600	Paid to VCCE (cheque no 5419) for subsidy on 107.2 tonnes of copra @ Vt13,000/t.	Yes
25	-Vt590,834	Paid to Agripac (cheque no 5418) for subsidy on 45.45 tonnes of copra @ Vt13,000/t.	Yes
26	-Vt2,867,423	Paid to VCE (cheque no 5420) for subsidy on 220.571 tonnes of	Yes

		copra @ Vt13,000/tonnes.	
26	-Vt3,860,178	Paid to Stanley Temakon (cheque no 5421) for subsidy on 296.94 tonnes of copra @ Vt13,000/t.	Yes
	-Vt2,000,115	Paid to VCE (cheque no 5422) for subsidy @ Vt13,000/t.	Yes
29	-Vt703,547	Paid to Stanley Temakon (cheque no 5423) for subsidy on 54.12 tonnes of copra @Vt13,000/tonne.	Yes
29	-Vt3,000,000	Paid to Agripac (cheque no 5424) for 'payment against invoice of copra'	No
29	-Vt1,069,809	Paid to VCE (cheque no 5425) for subsidy on 82.293 tonnes of copra @ Vt 13,000/tonne.	Yes
SEPTEMBER			
3	-Vt1,000,000	Paid to VCE (cheque no 5427) in part-payment for copra subsidy. Invoice was for 222.354 tonnes @ Vt13,000/tonne but only Vt1 million was paid (for 76.92 tonnes). The rest was to be paid later.	Yes
5	-Vt716,820	Paid to VCCE (cheque no 5426) for subsidy on 76.92 tonnes of copra at Vt13,000/tonne.	Yes
6	MTTCI Office Supervisor, Mr Roy W Bani, requests Department of Finance release Vt9 million for the month of December. No payment made as the Vt108 million Budget allocation had already been paid in full.		
OCTOBER			
7	-Vt148,540	Paid to Hotel Santo (cheque no 5429) for accommodation and meals for C Bice, G Borugu and C Lini in August. (Appendix A48)	Yes (admin)
10	-Vt14,950	(cheque no 5428)	
15	- Vt90,000	Paid to 'cash' (cheque no 5431) for VCPL board members allowances – three members at Vt30,000 each. (Appendix A49)	Yes (admin)

Source: VCPL operating account bank statements, copies of cheques, payment vouchers, invoices and related documentation. Summary is a partial account of the transactions.

5.18 Table 1 presents summary information about many (but not all) of the transactions relating to this account in 2008, including all of the subsidy deposits and most large withdrawals. In the interests of brevity, not all transactions are included in this summary.

5.19 However, it should be noted that after August, most of the subsidy funds had been spent and thus there were very few transactions for the remainder of 2008. The five September and October withdrawals listed above were the only substantial transactions for those months. There were a few deposits November and December, ranging from Vt26,000 to Vt76,500, and some withdrawals. By the end of December the closing balance was just Vt72,905.

5.20 The transaction summary in Table 1 raises a number of issues about the VCPL's management of copra subsidy payments from this account.

2007 expenses paid from the 2008 fund

5.21 As the VCPL Board's January minutes note, and the summary of transactions in Table 1 appear to confirm, a significant proportion of the Vt108 million set aside for subsidising 2008 copra purchases was actually used to repay debts incurred in 2007. As the figures in Table 1 indicate, at least Vt22.9 million (but perhaps as

much as Vt25.8 million) was drawn from the 2008 subsidy fund to repay debts carried over from 2007.

- 5.22 The biggest single payment of this group was a cheque for Vt6,578,765 paid to Wong Sze Sing on 16 January, as per the instructions given by the VCPL Board meeting on 4 January.
- 5.23 The January meeting also agreed to pay Agripac Vt8,136,678 'for funds advanced to the 2007 subsidy program', and for the money to be paid in instalments. Table 1 includes numerous payments to Agripac that were unsupported by invoices: transactions dated 15 Jan (Vt1 million), 18 Jan (Vt500,000), 21 Jan (Vt1.5 million), 23 Jan (Vt2 million and Vt1,500,346), 31 Jan (Vt1 million), 14 Feb (Vt500,000), 12 Mar (Vt1,060,000) and 26 Mar (Vt2 million). The timing of these payments (most were in January) suggests that they relate to the Vt8.1 million debt carried over from 2007. Yet the nine payments to Agripac in early 2008 that are unsupported by invoices total Vt11,060,346. That is, Agripac was paid Vt2,923,668 more than the amount nominated by the January board meeting as the amount owed from 2007. Although these additional payments may relate to legitimate debts (incurred in either 2007 or 2008), the lack of invoices makes it difficult to establish the basis for these additional payments.
- 5.24 As noted above, the VCPL January board meeting minutes note that the VCPL board instructed the VCPL General Manager to repay Agripac in instalments rather than with a single transfer. It should be noted that Stanley Temakon, as the General Manager, is also on the VCPL's Board. The beneficiary of this transaction, Agripac, was Mr Temakon's company. This meant that Mr Temakon was involved in approving the payment, implementing the board the decision to pay and then benefiting as the payee.
- 5.25 No reason is noted for the board's decision to pay the debt in instalments rather than as a lump sum. With the initial deposit of Vt18 million in subsidies in January, VCPL had enough to pay its debts to both Wong Sze Sing and Agripac. And indeed the first Vt8 million was paid to Agripac (in seven instalments, including two large payments on 23 January) before the VCPL subsidy account received its next Vt9 million payment from the government in February. If the board's intention of paying in instalments was to spread the payments, the strategy failed as the Vt8.1 million debt to Agripac was almost completely repaid in January.
- 5.26 Apart from the payments to Wong Sze Sing and Agripac, other 2007 debts drawn from the 2008 subsidy fund include Vt1.9 million paid to Sanma Province for outstanding Produce Cess, Vt1 million paid to the Cooperatives Development Fund in part payment for the Vt40 million borrowed to keep the 2007 subsidy scheme afloat, a Vt1.3 million contribution on 4 March 2008 towards the cost of the Chinese Vice Premier's visit to Vanuatu in 2007, and Vt364,560 paid to Ron Wilson for 12 tonnes of copra purchased in 2007.

Use of the subsidy account to fund trading activity

- 5.27 The copra subsidy account was intended to be used for paying copra subsidies. Yet a number of the payments to copra buyers appear to be for the full purchase price of the copra, indicating that on at least some occasions buyers were effectively acting as purchasing agents for VCPL, buying copra at the market price then profiting by selling that copra on to VCPL.
- 5.28 There is nothing necessarily improper about VCPL engaging in copra trading. VCPL was established as a commercial trader and remains an active player in the market. And, as an independent trader, it is entitled to use other copra buyers to purchase on its behalf rather than directly from producers or the cooperatives when such arrangements make commercial sense.
- 5.29 Yet it is essential to distinguish VCPL's role as a commercial copra trader from its responsibilities to administer the Vt108 million copra subsidy scheme on behalf of the Government and the VCMB. VCPL's use of the subsidy funds to finance its copra trading activities is at odds with its responsibility to manage copra subsidies responsibly. The first two large payments VCPL authorised to be paid from the 2008 subsidy account, Vt6.5 million to Wong Sze Sing and Vt8.1 to Agripac, both appear to be for the full cost of copra delivered, not just the subsidy amount, and both relate to 2007 expenses.
- 5.30 VCPL's use of subsidy funds for trading activity can compromise its ability to manage the subsidy scheme in at least two ways. Firstly, using subsidies to pay the full cost of purchases (and repay 2007 debts) can deplete the funds available to pay for copra subsidies – unless perhaps the proceeds from that trading activity are then returned to the subsidy account. There is no evidence to indicate that the subsidy fund was replenished by the sale proceeds. The only large payments into the account were the Vt108 million deposited by the Government and a single Vt1 million deposit on 29 May. There were other deposits paid into the account throughout the year, but none large enough to indicate proceeds from sales.
- 5.31 Secondly, even if sale proceeds were returned to the subsidy fund (or to another VCPL account), the volatility in copra prices make copra trading an inherently risky business. Thus there is no guarantee that subsidy funds used for purchases will return a profit to the subsidy scheme. The VCPL's use of third parties to buy copra from producers may even have amplified these risks, as it is not clear what control, if any, VCPL exercised over the prices that it was prepared to pay Agripac and other companies that were purchasing on its behalf.
- 5.32 As noted at paragraph 5.14, the VCPL did in fact incur losses from this trading activity in 2008. When prices soared in early to mid 2008, VCPL paid Agripac the full market price for copra that Agripac purchased on behalf of VCPL, then passed that copra on to UNELCO for a (lower) fixed price under a contract established before copra prices rose. This resulted in VCPL incurring losses

estimated at Vt2 million per shipment. The VCPL board meeting on 26 June rightly endorsed management's decision to cancel this costly arrangement. However, the next board meeting on 14 August then resolved to use the copra subsidy funds to settle its outstanding debt of almost Vt6 million to Agripac.

5.33 The Vt6,676,636 cheque subsequently issued to 'Stanley Temakon' on 19 August 2008 (see **Table 1**) was supported by two payment vouchers:

- one authorising Vt5,539,360 to be paid to Agripac for '*achat [purchase] copra*', and
- the other authorising Vt1,137,276 to be paid to Agripac for copra subsidy payments of Vt3,000/t for 379.09 tonnes delivered between 28.7.2008 and 8.8.2008.

Another instance of subsidy funds used to finance VCPL's copra purchases relates to a Vt726,720 cheque payable to 'cash' on 1 April for 15.14 tonnes of copra delivered by Agripac to VCPL on 31 March and 1 April.

Poor supporting documentation

5.34 A related issue is the poor documentation to support authorisations for payments from the copra subsidy fund. There are numerous other errors or anomalies in the supporting documentation used for many of the payments listed in Table 1, including:

- Cheques issued for substantially higher amounts than that authorised by the payment voucher – eg. Vt1.5 million cheque issued to 'cash' on 21 January supported by payment voucher authorising payment of Vt1 million to Agripac.
- Instances of payment vouchers being revised and replaced by vouchers authorising a higher payment – eg. a voucher issued on 18 March authorised Vt837,493 to be paid to Agripac for '*refund 2007 advance c/subsidy*' but was replaced by another on 26 March authorising a Vt2 million payment for '*refund hot air copra sundried*'. The amount paid was Vt2 million. Neither payment voucher was supported by invoices or even summary documentation to support Agripac's claim.
- At least one duplicate subsidy payment. This relates to Vt531,060 paid to VCE on 18 June for 177.02 tonnes of copra delivered between 12 and 23 May (@ Vt3,000/t), that appears to duplicate an earlier payment for exactly the same amount paid to VCE two weeks earlier. The same invoice was attached to both payment vouchers.

5.35 When invoices were attached, they often bore little resemblance to the payment specified on the payment voucher. One of the two payment vouchers authorising that Vt6,676,636 be paid to 'Stanley Temakon' on 19 August 2008 was a

Vt5,539,360 voucher for copra purchases. Yet the invoices attached to this voucher detailed the following deliveries:

Delivered	Tonnes	Price (Vt) / tonne	Cost (Vt)
January	35.28	41,000	1,446,480
January	12.72	41,000	521,520
January	21.44	45,000	964,800
January	17.76	45,000	799,200
February	4.38	45,000	197,100
February	8.62	45,000	387,900
February	10.14	45,000	456,300
February	16.04	45,000	721,800
February	30.3	45,000	1,363,500
April	14.42	48,000	692,100
May	6.87	48,000	329,730
June	23.07	59,000	1,361,130
TOTAL	201.04		9,241,560

That is, on this occasion Agripac invoiced VCPL for the full purchase price of 201.04 tonnes of copra valued at Vt9,241,650. It is unclear how VCPL determined that Vt5.5 million should be paid.

- 5.36 It also appeared to be common practice for cheques to be written out to 'cash'. In fact, almost all of the cheques issued to Agripac for copra purchases or subsidy payments were made out to 'cash'. While there is nothing necessarily improper about this, cash cheque payments are more difficult to audit and increase the importance of payment vouchers and other supporting documentation clearly stipulating who is being paid, and the basis for those payments. This was rarely the case in relation to the payments listed in Table 1.
- 5.37 There are also expenses noted in Table 1 where there appears to have been no attempt to explain the basis for the payment. For instance, the Vt1,005,874 cash cheque payment to Agripac on 17 July is supported by invoices and summary documents explaining part of the expenditure, but Vt388,274 is unaccounted for.
- 5.38 Our review found payments from the subsidy account totalling Vt22,176,050 that had no supporting documents, other than a payment voucher (see summary listed at **Appendix A50**). These vouchers typically had little information of substance, other than the date, the name of the payee, the amounts and a few words to describe the purpose of the payment. With no invoices or other records to explain the basis for these payments, there is no way to be sure that the payments were for legitimate expenses. This is especially the case in relation to instances where the cheque issued was for a different (usually higher) amount than that authorised, or where the payment voucher was replaced with a payment voucher for a higher amount.
- 5.39 It is normal administrative and accounting practices that any payment made by a government institution or a private organisation has documents attached as proof before a payment is made. It is very important that documents as invoices or receipts are attached to payment vouchers as proof that payments made are

genuine. In the absence of these vital documents, the basis for these payments is at least questionable.

Costs related to 'administration'

- 5.40 As noted earlier, the minutes from the VCPL Board's January meeting show that the VCPL board decided to set aside 5% of the Vt108 million total subsidy payments to 'cover administrative costs such as Board meetings, travel and copra weight reconciliations'. It then instructed the General Manager to establish a weight reconciliation system at minimal cost.
- 5.41 On the basis of the summary figures presented in Table 1, we estimated that the VCPL spent at least Vt2,569,972 on costs associated with administering the scheme, mostly related to airfares, accommodation, sitting fees, per diem allowance and other such expenses incurred by VCPL Board members.
- 5.42 However, if other payments from the subsidy account variously described in payment vouchers as 'staff salary' expenses (Vt2,002,880), 'wages for weight reconciliators' (Vt208,000) or fuel and tyre purchases in April and June (Vt58,750) are also be regarded as administrative costs, then the figures in Table 1 indicate that at least Vt4.8 million was spent in administrative costs. Yet these additional costs are difficult to reconcile as genuine administrative expenses. In relation to salaries, VCPL may have been entitled to be reimbursed for any hours that its staff spent administering the subsidy scheme, yet the lump-sum payments for 'staff salaries' in May, June, July and August indicate the payments were to pay staff generally, not just those engaged in administering the subsidies. Moreover, it is not always clear whose staff were being paid. A payment voucher dated 22 July authorised Vt594,528 be paid to VCPL for '*payment reimb. salari paid by Mr T. Stanley 13/06/2008*'. This presumably relates to VCPL salary expenses, but as Stanley Temakon has responsibility for both VCPL and Agripac staff, this is not clear. Like all of the salary payments, the cheque was made out to 'cash' and had no other supporting documentation.
- 5.43 It should also be noted that one of the four 'salary' payments was made after the VCPL board's meeting of 26 June 2008 rejected a suggestion by General Manager Stanley Temakon that '*funds of the copra should be allocated monthly to relief VCPL especially for staff salary*' because of revenue shortfalls. Instead, '*the Board resolved that GM of VCPL manages with the situation*' until a decision was made on a proposal that was expected to improve VCPL's revenue problems. Notwithstanding this direction, a further Vt200,000 was paid for 'staff salary' on 8 August. As the board meeting minutes indicate, an important consideration for the General Manager appeared to be his concern about how '*difficult*' it would be to '*terminate any staff at the moment when we are approaching General Elections*'. It was apparent that the board agreed that staff could not be dismissed so close to the 2 September elections, yet without funds to pay their staff it is not clear how Mr Temakon was expected to 'manage' **(Appendix A35)**.

Other costs not related to the subsidy scheme

- 5.44 There are a number of one-off and other costs listed in Table 1 that have been drawn from the copra subsidy account that appear to have little or no relationship to the subsidy scheme – or to copra trading generally. These vary, but include:
- a Vt150,000 refundable 'Lini Day contribution' paid by VCPL to VCPL on 23 January
 - Vt1.3 million paid to the Vanuatu Government on 4 March as a 'refund for expenses for the Chinese delegation in Port Vila'
 - Vt17,910 paid to Cellovila on 11 March for the purchase of 5,000 plastic bags that were airfreighted from Port Vila to Luganville and used for packing soap powder
 - various payments for Board member and ministerial travel expenses and allowances that might be related to the administration of the subsidy fund in some way, but where the supporting documentation is ambiguous or unclear, including Vt200,000 paid to Agripac for an 'allowance' paid to the Ministry of Trade for a Ministerial visit to Brussels, and
 - a Vt200,000 'cash' cheque given to Clifford Bice on 15 May as an '*advance towards Ban Ban CMC Church*'. Church leaders confirmed that they received this donation, but were unaware that the money came from the copra subsidy fund.

Discussion

- 5.45 What is remarkable about the transactions listed in Table 1 is just how few payments in the first half of 2008 appear to be related to 2008 copra subsidies. The first clear evidence of a 2008 subsidy payment is on 2 June, when Vt521,060 was paid to VCE for subsidy payments at Vt3,000/tonnes for deliveries in May totalling 177.02 tonnes of copra. Of the other Vt29.5 million in listed payments from the subsidy account prior to that date, most were for 2007 expenses, 'administrative' costs and some outright copra purchases. None relate to 2008 subsidy payments. Moreover, VCPL made a further payment to VCE for exactly the same amount two weeks later (18 June). This appears to be a duplicate payment.
- 5.46 The Department of Statistics copra production figures listed in Figure 1 estimate that in the seven months to the end of July 2008, Vanuatu had produced 25,928 tonnes of copra – indicating potential accumulated subsidy debts totalling Vt77.8 million (at a rate of Vt3,000/tonne). Large sums had been spent, but mostly on expenses unrelated to subsidy payments, leaving the VCPL fund administrators with a significant shortfall. Even if the subsidy funds had been used only for 2008 subsidies and for nothing else, the Vt72 million in subsidies released before

August (including the initial Vt18 million released in January), may still not have been enough to meet the potential subsidy commitments.

5.47 In fact, it appears that not all copra production was subject to a subsidy claim. Our inquiry was informed that copra buyers received the following amounts from the subsidy fund in 2008:

Copra buyer	Amount reimbursed to each buyer
VCPL	Vt2,633,425
VCE	Vt15,452,320
VCCE	Vt33,267,112
Agripac	Vt36,362,324
Total	Vt87,715,181

While not all copra was subsidised, the liability was substantial. It is not clear how the fund administrators thought they could pay these subsidies, especially after having already spent such large sums from the fund on:

- repaying debts of Vt22.9 million to Vt25.8 million carried over from 2007
 - the full cost of copra purchases that were paid for from the subsidy account yet appear to have yielded little or no revenue in return
 - substantial 'administrative expenses' and staff salaries, and
 - other large donations and expenses that appear to be unrelated to the subsidy scheme or even to VCPL's broader copra trading activities.
- 5.48 These problems are compounded by the VCPL's acceptance of vaguely worded or inadequate summary documentation, the lack of receipts or invoices to support buyers' claims for subsidies and other payments, and the prevalence of mistakes and anomalies in the accounts.

5.49 By early August 2008:

- there was just Vt83,865 left in the copra subsidy account
- much of the scheme's subsidy commitments from the first half of 2008 were yet to be paid
- VCPL had repaid just Vt1 million of the Vt40 million it borrowed from CDF to prop up the 2007 subsidy scheme, and
- copra prices were sliding rapidly.

The subsidy scheme was on the verge of insolvency just a few weeks before the General Election. Funds had been exhausted at the very time that price supports were actually needed. Despite having insufficient funds to meet existing

commitments, the VCPL board voted to increase spending by raising the subsidy from Vt3,000 to Vt13,000 per tonne.

- 5.50 With the benefit of hindsight, the VCPL's subsidy fund administrators should have held back the Vt108 million in subsidies in order to help stabilise prices when the world market for copra fell. The Vt13,000/tonne subsidy (or even the Vt3,000/tonne subsidy) would have been much more useful in November when prices averaged Vt14,592 per tonne, than in August. Although copra prices were falling in August, they were still higher than at any time in 2007 or 2006. Far from stabilising the highs and lows, VCPL inflated prices by adding subsidies when copra prices were high and then had nothing left to support the industry when prices collapsed.
- 5.51 The Interim Minister for Trade, Commerce, Industry and Tourism, the Hon. James Bule, requested that, in addition to the Vt9 million August subsidy payment, the Department of Finance release the remaining 2008 funds for immediate use (letter dated 8 August 2008 – **Appendix A44**). Without a clear plan to determine how the remaining funds would be used, the Minister's intervention appears to have contributed to the VCPL's gross mismanagement of the subsidy account. When the last Vt36 million was subsequently deposited, the VCPL was flooded with claims. In the period 19 August to 7 September 2008, Vt35,958,260 was paid from the subsidy fund. In effect, a third of the total Vt108 million subsidy allocation for 2008 was spent in less than three weeks. The payments stopped in September when there was nothing left to spend.
- 5.52 Finally, as noted throughout this report, there were numerous conflicts of interest and flaws in the processes and structures used to administer the 2008 copra subsidy scheme. The most prominent flaw is the Government's reliance on VCPL to administer the scheme. Under the Vanuatu Commodities Marketing Board (VCMB) Act [CAP 133], the VCMB has statutory responsibility for controlling and regulating of the marketing of copra and appears to be the body with ultimate responsibility for administering subsidy payments. Yet de facto responsibility for all important decisions related to the operation of the scheme was effectively delegated to the VCMB's fully owned subsidiary, VCPL. This raises serious legal and ethical issues.
- 5.53 Had the VCMB managed the subsidy scheme directly, it is likely that any decisions relating to the subsidy scheme would have been subject to all of the annual reporting, auditing and other accountability measures imposed on VCMB under the VCMB Act. However, in delegating these responsibilities to an incorporated company, albeit one fully owned by the VCMB, it is not clear whether these accountability and reporting measures still apply.
- 5.54 It is probable that VCMB retained legal responsibility for how the funds were managed. Although VCMB board members Clifford Bice, Stanley Temakon and Gabriel Bani (who was also the VCMB's General Manager) occupied three of the four VCPL board positions, the VCMB appears to have played no formal role in

managing the funds. Government subsidy payments were deposited directly into the VCPL account used to administer the scheme, and all decisions relating to the disbursement of funds appear to have been made by the VCPL board and the VCPL General Manager.

- 5.55 A related accountability issue is the involvement of VCMB and VCPL board members and staff in copra trading companies that benefitted from the VCPL's decisions relating to how the 2008 subsidy funds were spent. The minutes of several VCPL board meetings show instances of Stanley Temakon, in his role as VCPL General Manager, providing advice to the VCPL Board that had the potential to affect his private commercial interests in Agripac and then, in his capacity as a VCPL board member, taking part in board decisions on whether to accept and implement that advice. This constitutes a clear conflict of interest as defined by Section 7 of the Leadership Code Act [CAP 240]:

7. Conflict of interest

- (1) A leader has a conflict of interest in a matter if the matter relates in any way to:
- (a) property the leader directly or indirectly owns or controls; or
 - (b) property owned or controlled, directly or indirectly, by a member of the leader's close family; or
 - (c) property in which the leader has a beneficial interest of any kind, whether through a trust or otherwise.
- (2) A leader has a conflict of interest in a matter if the leader, or a member of the leader's close family, could benefit directly or indirectly from a decision on the matter, except as a member of a community or group.

- 5.56 Thus Mr Temakon's actions appear to be in clear breach of Sections 24 and 25 of the Act:

24. Conflict of interest

A leader who has a conflict of interest in relation to a matter must not act in relation to the matter, or arrange for someone else to act in relation to the matter, in such a way that the leader or a member of his or her close family benefits from the action.

25. Leader not to hold any other public office or position

A leader must not hold any other public office or position for which he or she receives a salary, payment or other benefit of any kind, whether financial or otherwise, from the government or a statutory body, if that other office or position conflicts with or interferes in any way with the ability of the leader to fulfil his or her principal tasks and duties as a leader.

- 5.57 There might also be an argument that Mr Temakon was in breach of the Section 26 requirement that leaders avoid any beneficial interest in Government contracts, *'other than on a transparent arms-length commercial basis'*. Also, Article 66 of the Constitution places an active duty on leaders such as Mr Temakon:

- (1) ... to conduct himself in such a way, both in his public and private life, so as not to –

- (a) place himself in a position in which he has or could have a conflict of interests or in which the fair exercise of his public or official duties might be compromised;
- (b) demean his office or position;
- (c) allow his integrity to be called into question; or
- (d) endanger or diminish respect for and confidence in the integrity of the Government of the Republic of Vanuatu.

- (2) In particular, a leader shall not use his office for personal gain or enter into any transaction or engage in any enterprise or activity that might be expected to give rise to doubt in the public mind as to whether he is carrying out or has carried out the duty imposed by subarticle (1).

5.58 Similarly, the involvement of VCMB accountant Marc Ati in running VCE also appears to constitute a conflict of interest between his public duties in relation to VCMB and his private interests. Even if Mr Ati was not directly involved in decision-making that could benefit VCE, his position in the VCMB at least gives rise to a public perception that he could have privileged access to sensitive information that could affect the commercial interests of his copra company. One obvious instance of when insider information could have benefited copra traders such as VCE was information in August and September that the subsidy fund was insolvent and the VCPL was therefore not in a position to continue paying the promised Vt13,000 per tonne subsidy. Any buyers that continued to factor in the subsidy in the price offered to producers after August would have been taking a very high risk indeed.

6. RESPONSES TO OUR DRAFT REPORT

6.1 In accordance with section 21(4) of the Ombudsman Act, draft copies of this report (with preliminary recommendations) were provided to those people who were directly affected by the issues raised. These consisted of all members of the VCPL and VCMB Boards of Management, other individuals who were subject to adverse comment, and Government Ministers who were either subject to adverse comment or who have responsibility for implementing the recommendations. Responses were received from:

- Minister for Trade, Industry, Commerce & Tourism, Hon. James Bule
- VCPL General Manager, Mr Stanley Temakon, and
- Minister of Finance and Economic Management, Hon. Sela Molisa.

The summary of the main points of each reply is set out below with my comments on those points.

6.2 The Minister for Trade, Industry, Commerce & Tourism, Hon. James Bule, replied with these comments:

... Amongst these issues raised I wish to comment on the Vt27 million copra subsidy released to VCPL at the time when the price of copra dropped from Vt59,000 to Vt46,000/tonne.

The copra subsidy is a government programme to promote the level of copra production in the islands with the aim of increasing economic benefits to the rural population through improved level of businesses, generates additional employment, and in the long run improved the livelihood standards within the rural areas in Vanuatu.

The Vt27 million copra subsidy brought forward to be used earlier purposely to subsidize losses that would be incurred by exporters and traders during the sudden drop in the world copra market price during July and August 2008. It was not done for political gain for NUP as the party did not gain additional number of voters in SANMA and MALAMPA (biggest copra producing Provinces). It's to safeguard the interest of businesses involved in copra trading and exports and rural farmers.

Letter to the Ombudsman, received 11 November 2009

Ombudsman's comments

- 6.3 Very little of the Vt72 million in subsidies released by early August had been used to subsidise new copra production. Instead, most of this money was used to pay for debts carried over from 2007, the full cost of copra trading (that yielded little or no revenue in return), costly 'administrative expenses' and staff salaries, and other large donations and expenses. Moreover, VCPL was still yet to pay millions of vatu for subsidy commitments incurred throughout the first half of 2008 (when prices were high), and still owed CDF Vt39 million of the Vt40 million it borrowed to prop up the 2007 subsidy scheme.
- 6.4 The Minister should have intervened earlier when money was being wasted and the VCPL had committed large sums to subsidise copra production when prices were at record highs. Instead, he waited until VCPL was already facing difficulties in meeting its commitments, then asked Finance to bring forward Vt27 million for the subsidy payments due in September, October and November, for immediate use in August. Rather than help fix the problems at VCPL, his action directly assisted VCPL to continue its mismanagement of the subsidy fund.
- 6.5 The Minister's intervention also enabled VCPL to keep subsidies in place until after the General Election in early September. The Minister argues that increasing the subsidy amount from Vt3,000 to Vt13,000 per tonne was not done for political gain and, in any case, did not win the support of any new voters in those provinces. Even if this is correct, his success in delaying the program's imminent collapse until after the elections at least limited the political damage that would have flowed from such a collapse.

6.6 The General Manager of VCPL Mr Stanley Temakon's response (dated 16 November 2009), included the following comments:

- I. That VCMB's responsibility to manage the subsidy scheme was imposed on VCPL and that Mr Temakon took on this role despite knowing that he would be accused of a conflict of interest.

We wish to point out that copra subsidy fund is a government program aimed at providing service delivery to the rural population and to enhance economic development in the rural areas. The program fell within the jurisdiction of VCMB but for other reasons, it was imposed on VCPL to implement. I as manager of VCPL, undertook to manage the fund on behalf of VCMB knowing that I would later be accused of conflict of interest and the like.

- II. That keeping the copra subsidy set at Vt3,000 per tonne would not have been enough to prevent the slump in copra production.

The VCPL Board was criticised for increasing the subsidy to Vt13,000/[metric tonne]. The argument assumes that the rate should remain the same and follow the market trend. The merit in this argument is logical but with the sudden huge drop in copra prices from Vt59,000/mt to Vt40,000/mt and it dropped further, the subsidy rate would have had little effect on farmers' decision to stop making copra. In fact copra production slowed down drastically from September 2008 until May 2009, only when the copra subsidy in 2009 resumed.

- III. That the main reason to increase the subsidy rate to Vt13,000 per tonne was to reduce the losses incurred by shippers and buyers who had already paid peak prices in outlying islands but who were yet to deliver.

Copra shippers and copra buyers in the islands who bought copra in the islands at previously higher prices made huge losses when their copra was paid for in Santo, at lower prices. The board in taking the decision to increase the subsidy rate to Vt13,000/mt kept the copra price at Vt53,000/mt which was less than the previous high of Vt59,000/mt but it was enough to clear most of the stock in the islands. In normal copra price changes, especially when prices fall, VCMB in the past normally allowed 2 to 3 weeks notice. This was to allow for copra paid at higher prices to be brought to Santo.

- IV. That the previous managers of VCPL were not subject to the Leadership Code Act and that his appointment to VCPL was in accordance with the VCMB Act.

On the issue of conflict of interest, I need to point out that previous managers of VCPL were not subjected to the Leadership Code Act. Unlike other copra exporters who held copra export authorities from VCMB, both myself and my company [Agripac] were appointed as agents of VCMB to purchase and export copra on behalf of VCMB. I was operating my copra business prior to being appointed again, by VCMB to manage its subsidiary business, VCPL. I believe that all my appointments by VCMB were in accordance with the VCMB Act.

- V. That his private business interests were not in conflict with his public duties as manager of VCPL and manager of the subsidy program.

The subsidy program was somewhat imposed on VCPL ... we undertook the role out of our duty to the nation. The notion that my copra company may have been competing with VCPL for copra is not true. VCPL is not and without proper financing, cannot be a copra exporter and in the face of strong competition from other copra buyers, it finds it difficult to get copra. My copra delivered copra at prevailing prices, without profit, to VCPL to meet its oil requirements for soap and bio-fuel manufacturing.

- VI. That VCPL's costly contract to supply coconut oil to UNELCO arose from a Government directive imposed on VCPL.

Like the subsidy program, the Government policy on renewable energy in 2006 was imposed on VCPL to supply coconut oil to UNELCO to substitute diesel fuel. When copra prices rose in 2008, UNELCO was not prepared to pay VCPL for the oil at cost and VCPL in turn, was unable to pay for the copra used to produce the oil. As it was a Government directive, I was not prepared to stop the contract individually and sought the Board and, met the cost of board meetings to cancel the contract and also sought from the board the copra payment and various VCPL salary payments as outlined in your report.

- VII. That the VCPL Board authorised the payments raised in our report and that it was usual practice for new subsidy funds to be used for debts carried over from the previous year.

A number of expenditure issues were raised and I am of the view that I have acted within the board's decisions to approve payments. The 2007 subsidy outstanding accounts which were paid from the 2008 subsidy funds were approved by the board ... your assessment of how the 2008 subsidy program was implemented is correct but in 2007, the subsidy funds were used to buy copra and other associated expenses and the copra was sold to exporters at prevailing market prices. One cannot expect a clear cutoff and there would always be some outstanding from the previous year. Even in 2009, when payments are now done by the Department of Finance, we can expect some outstanding subsidy refunds. On the issue of donations, the board approved that they be refunded by VCPL... I would have hoped that we could have discussed the various discrepancies noted in your report to clarify these discrepancies but as we were not asked to do so, I will wait to clarify these issues with your recommended further investigations.

- VIII. That the subsidy program delivers substantial net benefits to the Vanuatu economy.

We are of the firm view that we provided the service required of us to a wide sector of the rural population and your report confirmed the enhancement of the rural economy by increased copra production from 2006 to 2008. We also believe that the subsidy also contributed substantially to foreign exchange earnings and also in revenue to the Government through VAT in 2007, 2008 and this year. The copra subsidy program is one the best service delivery programs to the rural population and should not be stopped... The program is not only a service delivery device, it encourages copra production which contributes to foreign exchange and it contributes considerably to government revenue.

Refinements are needed of which the principal one being payments. This has already been implemented in 2009 where the Department of Finance is currently paying out subsidy refunds.

Ombudsman's comments

6.7 I will respond to Mr Temakon's arguments in the order he presented them:

- I. *That VCMB's responsibility to manage the subsidy scheme was imposed on VCPL and that, as manager, Mr Temakon took on this role despite knowing that he would be accused of a conflict of interest.*

Mr Temakon is right to assert that VCPL should not have been asked to take on VCMB's responsibility to manage the subsidy program. However, he should not have taken it on, especially after recognising the potential for a conflict of interest.

- II. *That keeping the copra subsidy set at Vt3,000 per tonne would not have been enough to prevent the slump in copra production.*

The VCPL wasted money by giving buyers Vt3,000 per tonne to buy copra when prices were already high and subsidies were not needed. It increased the subsidy to Vt13,000/tonne just as it was running out of funds. A higher subsidy may have been needed to sustain production from August, but VCPL did not have the funds to pay for it.

- III. *That the main reason to increase the subsidy rate to Vt13,000 per tonne was to reduce the losses incurred by shippers and buyers who had already paid peak prices in outlying islands but who were yet to deliver.*

Mr Temakon's own company, Agripac, was one of the biggest buyers and had much to lose from the sudden fall in copra prices. Thus Agripac was also one of the biggest beneficiaries of VCPL's decision to increase the subsidy. Mr Temakon's involvement in this decision appears to constitute a clear conflict of interest.

- IV. *That the previous managers of VCPL were not subject to the Leadership Code Act and that his appointment to VCPL was in accordance with the VCMB Act.*

Since its inception in 1998, section 5(f) and 5(j) of the *Leadership Code Act* has defined 'Leaders' to include:

- (f) members and the chief executive officers (however described) of the boards and statutory authorities;

- (g) ...
- (h) ...
- (i) persons who are:
 - (i) directors of companies or other bodies corporate wholly owned by the Government; and
 - (ii) appointed as directors by the Government;

As the General Manager of VCPL and as a member of both the VCPL and VCMB Boards of Management, Mr Temakon is a 'Leader' and thus subject to the jurisdiction of the Leadership Code Act.

- V. *That his private business interests were not in conflict with his public duties as manager of VCPL and manager of the subsidy program.*

Under section 7 of the Leadership Code Act, a leader is deemed to have a conflict of interest in a matter if the matter relates in any way to:

- (a) property the leader directly or indirectly owns or controls; or
- (b) property owned or controlled, directly or indirectly, by a member of the leader's close family; or
- (c) property in which the leader has a beneficial interest of any kind, whether through a trust or otherwise.

Notwithstanding Mr Temakon's claim that he did not profit in any way from VCPL decisions affecting his interests in Agripac and that his ownership of Agripac pre-existed his appointment to the VCPL and VCMB Boards of Management, I am satisfied that a conflict existed. In my view, he was obliged under section 18 of the Leadership Code Act to divest his interest in Agripac or resign from his positions at VCPL and the VCMB.

18. Divesting of assets

- (1) A person who becomes a leader in an area in which he or she has an interest in a business or personal capacity must:
 - (a) divest himself or herself of the interest if that interest is or is likely to conflict with the leader's official duty or duties; or
 - (b) resign from that position of leader.
- (2) To divest himself or herself of the interest, the leader may:
 - (a) sell the interest; or
 - (b) transfer the interest to a trust to manage on the leader's behalf while the leader remains a leader in that area.
- (3) In any case, the leader must not involve himself or herself in the day-to-day management of the interest.

Mr Temakon has provided no evidence to indicate that he adopted either course of action and remained in breach of the code.

- VI. *That VCPL's costly contract to supply coconut oil to UNELCO arose from a Government directive imposed on VCPL.*

Mr Temakon undoubtedly acted properly in advising the Board to terminate its contract to supply coconut oil to UNELCO under terms that resulted in VCPL incurring significant losses. At issue is whether VCPL should ever have agreed to supply copra at a fixed-price in the first place, and whether it was appropriate to divert copra subsidy funds to subsidise its losses. The experienced copra traders on the VCPL Board would have known the risks associated with fixing the price. If, as Mr Temakon asserts, these arrangements were as a result of a Government directive, this issue warrants further investigation.

- VII. *That the VCPL Board authorised the payments questioned in our report and that it was usual practice for new subsidy funds to be used for debts carried over from the previous year.*

As General Manager of VCPL, Mr Temakon regularly advised the VCPL Board. As a member of the VCPL Board, Mr Temakon played a role in its decisions to authorise the payments in question. I am not satisfied that the discrepancies and other issues noted in this report have been satisfactorily explained. However I note Mr Temakon's commitment to cooperate with future inquiries.

- VIII. *That the subsidy program delivers substantial net benefits to the Vanuatu economy.*

The objectives of the Government's subsidy program are not in dispute. At issue is the apparent waste and mismanagement of the 2008 fund, and how much of the Vt108 million allocated in 2008 was actually spent on subsidising new copra production.

6.8 *The Minister of Finance, Mr Sela Molisa, responded with these comments:*

The Government has stopped giving the subsidy to VCPL in 2009. It has set up another system which is much simpler. That the buyers are paid directly for the total number of tonnes of copra purchased during the month by the government cashier in Luganville after proper checks have been done.

File note of Minister's conversation with the Ombudsman, 20 November 2009

Ombudsman's comments

- 6.9 In light of the gross waste and mismanagement of copra subsidy funds identified through this investigation, the steps taken to remove the handling of the fund from VCPL is a very welcome development.

7 FINDINGS AND RECOMMENDATIONS

- 7.1 The first part of our findings and recommendations focuses on the conduct of individuals who appear to have contributed to the waste and mismanagement of copra subsidy funds. The report then concludes with a discussion of the failure of institutional arrangements intended to ensure that the subsidy funds were used responsibly, notably the VCMB and VCPL's roles in the failure of the subsidy scheme.

A. FINDINGS RELATING TO INDIVIDUALS

Stanley Temakon

- 7.2 The evidence indicates that Stanley Temakon's private commercial interests in Agripac were in conflict with his public duties as an employee of VCPL, and as a member of VCPL's and the VCMB's boards of management. This was particularly the case with respect to:
- a. His participation in recommendations and decisions relating to VCPL's management of the Vt108 million copra subsidy fund that affected, or had the potential to affect, the commercial interests of Agripac.
 - b. His responsibilities as General Manager of VCPL to manage VCPL's copra trading business while at the same time managing Agripac, a copra trader that was a major commercial competitor to his employer, but which was also engaged by VCPL in purchasing arrangements that resulted in VCPL incurring significant operating losses.
- 7.3 It is also of concern that the other members of the VCPL board failed to take action despite knowing that Mr Temakon was running his own company Agripac while at the same time he was employed to manage VCPL, and sitting on the VCPL and VCMB boards of management.
- 7.4 Under Section 5(i) of the Leadership Code Act, Mr Temakon is regarded as a leader. Under Section 24, a leader who has a conflict of interest in relation to a matter must not act in relation to that matter. Mr Temakon has been sitting in the VCPL board meetings and also occupying the position of manager of VCPL. His presence in board meetings and handling of the subsidy fund of Vt108 million in 2008 and in previous years and arranging payments to his own company shows a clear conflict of interest.

Recommendation 1: That the VCMB (as owner of VCPL) terminate the appointment of the VCPL General Manager Stanley Temakon with immediate effect, and remove him from the boards of management of the VCMB and VCPL.

Recommendation 2: That the Public Prosecutor considers the information presented in this report to determine whether there are sufficient grounds to prosecute Stanley Temakon for breaches under the Leadership Code Act or any other Act.

Marc Ati

- 7.5 It is not clear whether Marc Ati, as an accountant employed by the VCMB, is a 'leader' as defined by the Leadership Code Act and thus potentially liable to be prosecuted under that Act. However, it is clear that his private interests in VCE are at odds with his public duties as an employee of VCMB and must be addressed without delay. One way to resolve Mr Ati's conflict of interest would be for him to dispose of his financial interests in VCE. Another might be for VCMB to take steps to terminate Mr Ati's employment.
- 7.6 Mr Ati might be liable for prosecution or disciplinary action for breaches of the Public Service Act [CAP 246]. There is also a possibility that he could be liable for prosecution under the Section 20A secrecy provisions of the VCMB Act, which make it an offence for any VCMB Board member, officer, employee or consultant to:
- (1) ... disclose to any person any information relating to the affairs of the Board or of any business enterprises associated with the Board or other person which he has acquired in the performance of his duties except for the purpose of the performance of his duties or as lawfully required by a court.

His liability for prosecution may depend on the availability of evidence that any such disclosure was actually made. In any case, the provision underlines the difficulty of reconciling his public duties as an employee of the VCMB with his private financial interests in VCE.

Recommendation 3: That the VCMB take immediate action to resolve the apparent conflict of interest between Marc Ati's private interests in VCE and his public duties as an employee of the VCMB.

Recommendation 4: That the Public Prosecutor consider whether Marc Ati may be liable for prosecution under the Leadership Code Act or any other Act and take appropriate action.

Responsibility of VCPL individuals for misuse of subsidy funds

7.7 Consideration should also be given to the actions of VCPL board member and general manager Stanley Temakon, and VCPL board members Clifford Bice, George Borugu and Gabrielle Bani, with respect to overseeing how the 2008 subsidy funds were spent and whether action can be taken to recover subsidy funds that were used to pay for expenses that were not related to copra subsidies or to administering the subsidy fund.

7.8 There is no question that the 2008 subsidy fund could be used for subsidy payments, probably including payments for subsidy debts carried over from previous years, and for reasonable administrative expenses. However, as noted throughout this report, **there appears to be no basis for the VCPL using the 2008 government subsidy funds to pay for:**

- **outright purchases** of copra
 - Vt6,456,987 paid to Wong Zse Sing for 182.02 tonnes of copra purchased in 2007 and paid for from the 2008 subsidy fund, and
 - Vt8,136,678 paid to Agripac 'for funds advanced to the 2007 subsidy program' that appear to be for the full purchase price.
 - Vt364,560 paid to Ron Wilson 'for copra adjustment payment on copra from 2007' (weight 12 tonnes @ Vt31,000/t less 2% for Produce Cess).
 - numerous VCPL payments to Agripac that appear to be for the full purchase price.
- debts incurred by the VCPL's **copra trading** activity, such as the large trading losses generated through VCPL's agreement to supply copra to UNELCO at a fixed price
 - see VCPL board meeting minutes dated 14 August resolving to use the copra subsidy funds to settle an outstanding debt of almost Vt6 million to Agripac and a subsequent payment to Stanley Temakon on 19 August that included Vt5,539,360 for copra purchases.
- expenses where there were **discrepancies** between the amount authorised by the payment voucher or where the voucher was revised and reissued to authorise a higher payment

Date	Payment Voucher amount	Cheque No.	Cheque amount	Payee
21-Jan	1,000,000	5324	1,500,000	Agripac
23-Jan	297,060	5330	557,060	VCPL
23-Mar	1,300,346	5326	1,500,346	Agripac
18-Mar	837,493	5357	2,000,000	Agripac
12-Mar	1,000,000	5350	1,060,000	Agripac
	4,434,899		6,617,406	

- expenses where the payment was **for a purpose not authorised** by the payment voucher
 - Vt1,500,346 payment on 23 January includes supporting documents (a cash book entry) noting that this expense was made up of Vt1,400,346 payable to Agripac and Vt100,000 to Clifford Bice.
- **duplicate payments**
 - Vt531,060 paid to Vanuatu Copra Export on 18 June that appears to duplicate an earlier payment for the same amount.
- claims where there were **no invoices** or other documentation to verify the basis for these payments
 - including the nine payments to Agripac noted at Paragraph 5.22 that are unsupported by invoices and total Vt11,060,346. See **Appendix A50** for a list of payments from the 2008 subsidy fund that were unsupported by basic documentation.
- claims that were supported by invoices but **where the invoices or other documentation differ** from the amount paid
 - Vt5,539,360 paid to Agripac on 19 August for copra purchases supported by invoices detailing deliveries of 201.04 tonnes of copra with a total value of Vt9,241,650.
- **excessive ‘administration’ costs** – that is, costs that do not directly relate to the administration of the subsidy fund or where the costs appear excessive such as ‘bonus’ payments, per diem allowances and other expenses that were in addition to board members’ travel and accommodation costs and ‘sitting fees’.
 - payments totalling Vt2,002,880 for ‘salary’ expenses that appear to include costs greater than that needed to reimburse VCPL for staff used to administer the fund
 - Vt557,060 payment dated 23 January that was supported by a payment voucher revised to include Vt180,000 in ‘sitting allowances’ for the four board members and Vt80,000 ‘bonus’ payments at Vt20,000 each.
 - Vt433,300 payment dated 1 July for expenses related to board meetings on 24 and 26 June that include ‘board allowances’ of Vt60,000 for each member (Vt30,000 for each board sitting) and three days’ miscellaneous and per diem expenses paid to Stanley Temakon and Clifford Bice. Holding two meetings so close together inflated the associated administrative costs.
- **donations, Ministerial travel or visits by foreign delegations**, and other one-off costs that appear to have no relationship to the subsidy scheme or to copra trading generally.
 - Vt1.3 million paid to the Vanuatu Government for *‘refund for expenses for the Chinese delegation in Port Vila’*

- Vt200,000 Clifford Bice 'donation' from the subsidy account to Ban Ban CMC church on 15 May.
- Vt150,000 paid to VCPL for Lini Day celebrations.
- Vt17,910 for purchasing and freighting plastic bags used to pack soap powder.
- Vt24,000 and Vt7,150 for fuel purchases, and Vt27,600 for purchasing tyres.
- Vt808,220 towards the purchase of empty cartons.
- Vt20,000 to reimburse an advance payment by Marc Ati to David Karl

- 7.9 In addition, there are other listed payments from the 2008 subsidy account that may have a legitimate basis, but more information is needed to explain how the expenses relate to the subsidy scheme. These include Vt114,760 for expenses incurred by VCMB general manager Gabriel Bani and VCPL general manager Stanley Temakon when visiting Pentecost Island in April, and Vt59,800 for expenses related to Gabriel Bani and Stanley Temakon's attendance at an 'Integrated Framework meeting' at Ambae (13-16 July 2008).
- 7.10 Several other payments listed in Table 1 also related to the use of subsidy funds to pay 2007 and 2008 Produce Cess debts owed to Sanma Province. As noted at the start of this report, the Local Produce Cess Act allows provincial councils to levy a cess of up to 2% on local produce. Section 4 of the Act makes the VCMB responsible for collecting and paying any local cess imposed on any 'prescribed commodity'. What is unclear is why a trading expense such as cess was paid from the subsidy account (payments to Sanma Province totalled Vt2,426,234), or how cess payments to other provincial councils were managed – as no other provincial cess appear to have been paid from this account.
- 7.11 Primary responsibility for explaining the various items of expenditure must lie with Stanley Temakon who, as general manager of VCPL, was responsible for the day-to-day management of the subsidy account and for ensuring that appropriate processes were in place to manage the subsidy scheme.
- 7.12 However, all VCPL board members – Stanley Temakon, Clifford Bice, George Borugu and Gabrielle Bani – had responsibility for ensuring appropriate processes were in place and thus should all be required to explain any steps taken to ensure the effective management and integrity of the scheme.
- 7.13 Moreover, at least some of the spending decisions, including decisions relating to some of the largest payments, board members were directly involved. For instance, the evidence indicates that Clifford Bice, who is also First Political Adviser to the Minister of Trade, should take direct responsibility for the decision to use Vt200,000 from the subsidy fund as a 'donation' to Ban Ban CMC church. In a few cases, board members appear to have benefited from the decisions made.

Recommendation 5: That the Department of Finance, in consultation with the Public Prosecutor and the Commissioner of Police, investigate the use of 2008 copra subsidy funds for expenses unrelated to subsidising copra in order to determine whether:

- a. any individuals involved in misusing subsidy funds or benefiting from payments made are liable for prosecution under the Leadership Code Act or any other Act, and
- b. any action can be taken to recover copra subsidy funds that were used for purposes unrelated to copra subsidies or administering the subsidy scheme.

Recommendation 6: In the event that such an investigation establishes prima facie evidence of any criminal offences and/or ways to recover misdirected subsidy funds, the Department of Finance should immediately refer the matter to prosecuting authorities for appropriate action.

Other beneficiaries of the VCPL's spending decisions

7.14 Although the VCMB board – and through it the board and management of its subsidiary, VCPL – must accept primary responsibility for the VCPL's mismanagement of the copra subsidy funds, at least some of the transactions call into question the actions of some other leaders.

James Bule

7.15 Several transactions listed in Table 1 indicate that the Minister of Trade, Commerce and Tourism, the Hon. James Bule, should accept some responsibility for the VCPL's poor decision-making and mismanagement of the subsidy scheme. Potentially problematic payments benefitting or decisions involving Mr Bule included:

- using copra subsidy funds for various accommodation and travel expenses incurred by Mr Bule (payments dated 30 January, 10 March, 10 April, 6 May and 20 May)
- a Vt200,000 contribution to the Minister's visit to Brussels, and

- the Minister's request to bring forward the remaining Vt27 million in subsidy funds for immediate use in August.
- 7.15 One likely explanation for VCPL paying Mr Bule's accommodation expenses might be that he was a guest of VCPL and that he accepted the benefit in good faith. Yet it should be noted that most dates do not coincide with VCPL board meetings or any other obvious reason for VCPL covering the costs incurred. In one instance, a payment of Vt204,014 on 10 April for accommodation expenses incurred by Mr Bule and Clifford Bice, the payment is supported by a voucher noting that the expense related to 'tourism issues'. Some explanation should be provided for why VCPL paid these costs.
- 7.16 Another concern is a payment to Agripac on July 17 that was said to include Vt200,000 to reimburse Agripac for an '*allowance paid to Ministry of Trade for Ministerial visit to Brussels in June, 2008*'. While there is no evidence that the Minister was aware of this payment or knew the money was coming from the subsidy fund, the misuse of subsidy funds in this way is unfortunate and consideration should be given to reimbursing the subsidy fund.
- 7.17 Of greater concern was the Minister's decision to involve himself in petitioning the Department of Finance to bring forward and immediately release Vt27 million of subsidy fund payments (for the months of September, October and November) because the subsidy fund administrators were having difficulty meeting their financial commitments. Although there is no evidence to indicate that Mr Bule acted in bad faith in asking that the funds be brought forward, and may even have been well-intentioned in making this request, nonetheless his intervention had the effect of contributing to the VCPL's mismanagement of the subsidy fund.
- 7.18 As the Minister making the request to bring the remaining Vt27 million forward because of a shortage of funds, he should have sought some assurance that the money would be used responsibly. Instead, the evidence indicates that even though money was scarce, the VCPL used the last remaining subsidy funds to:
- continue paying staff salaries because, as the VCPL general manager explained, it would be '*difficult*' to '*terminate any staff at the moment when we are approaching General Elections*' (see paragraph 5.42)
 - pay Agripac the money owed from operating losses generated by VCPL's costly deal to sell copra to UNELCO, (see paragraph 5.31) and
 - raise the subsidies to Vt13,000 per tonne just two weeks before the General Election (see paragraph 5.48).

The VCPL board and management would have known that the money would not last long beyond the general election scheduled for 2 September 2008, but accelerated their spending regardless.

- 7.19 The timing of Mr Bule's request to fill the copra subsidy account with cash just a few weeks before the general election may even raise questions about whether there was a political motive on his part. As an MP campaigning for re-election, he would certainly have been alert to the political damage that would have resulted from a collapse of copra subsidies in the weeks before an election. The extra Vt27 million enabled VCPL to remain solvent and keep spending for a few weeks longer.
- 7.20 Had Mr Bule also known that VCPL would then use the last remaining funds to splash out on higher subsidies, he might even have seen short-term political benefits from bringing the funds forward for immediate use. There is no evidence to indicate that this was the case, but nor is there any evidence to indicate that Mr Bule had sought assurances that the funds would be spent responsibly.

Clifford Bice

- 7.21 Clifford Bice's actions (and omissions) as a member of the VCMB and VCPL boards of management have already been noted. However, not all of his accommodation and travel expenses can be explained by reference to his work for the VCPL or VCMB. Some of the payments call into question his actions as First Political Advisor in the Ministry of Trade, Tourism, Commerce and Industry (MTTCI), such as the Vt204,014 paid for Mr Bice's and Mr Bule's accommodation in April. If, as the payment voucher states, that expense related to 'tourism issues', it is difficult to understand what justification Mr Bice may have had for allowing VCPL to pay the bill.
- 7.22 It may be that Mr Bice did not know that VCPL would use subsidy funds to pay the bill. Yet the more fundamental issue is why he accepted a benefit from VCPL for an expense that was apparently unrelated to his work for the VCPL board. If the expense was related to the copra subsidy scheme, this should have been noted in the documents used to claim the payment.
- 7.23 Similarly, Mr Bice's direct involvement in the VCPL's decision to donate Vt200,000 from the copra subsidy account to Ban Ban CMC church is another example of questionable judgement on his part. Although he may not have benefitted personally, he appears to have breached his duties as a leader by deliberately misusing public funds for a personal donation.

Charles Lini

- 7.24 One transaction in October indicates that the then Air Vanuatu chairman Charles Lini also benefited from having VCPL pay his accommodation costs. Although this was a one-off expense, the benefit was comparatively small and Mr Lini may not have been aware that VCPL was using subsidy funds to cover his accommodation costs, it is difficult to understand what justification Mr Lini could have had for accepting a benefit from VCPL in the first place.

- 7.25 As leaders, the actions of James Bule, Clifford Bice and Charles Lini are potentially subject to the provisions of the Leadership Code Act. Whether their actions and omissions in relation to the transactions noted above are sufficient to constitute offences under the Act will depend on the evidence. As noted in their actions should be the subject of further inquiry to determine whether any are liable for prosecution.
- 7.26 Yet even if their actions are not sufficient to warrant prosecution or formal disciplinary action under the Leadership Code Act, the evidence indicates that their actions at least contributed to the VCPL's mismanagement of the subsidy scheme. As a general rule, leaders should avoid accepting any benefits from any public fund, unless there is a clear and transparent reason for using the funds in that way. Actions such as those outlined above have the potential to undermine public confidence in the honesty and integrity of leaders. Leaders generally should be wary of compromising their public positions of trust in this way.

Recommendation 7: That the Prime Minister review the involvement of leaders whose actions or omissions may have contributed to the mismanagement and misuse of copra subsidy funds, and consider issuing practical guidance directing all leaders to exercise care to when accepting benefits or involving themselves in agencies' financial affairs.

B. FINDINGS RELATING TO VCPL AND THE VCMB

- 7.27 The remaining findings and recommendations will deal with broader issues relating to the management of the copra subsidy scheme.

VCPL's authority to exercise functions under the VCMB Act

- 7.28 Although the VCPL is a fully owned subsidiary of the VCMB and almost all of the VCPL Board members are also members of the VCMB Board, VCPL is also a private company incorporated under the Companies Act [CAP 191]. In some ways VCPL acts as a commercial copra trader. Yet at other times VCPL appears to act as an arm of the VCMB, taking on regulatory functions under the Vanuatu Commodities Marketing Board Act [Cap 131]. This includes responsibility for managing funds from government grants or other sources that are intended to benefit the producers of a prescribed commodity.
- 7.29 Section 15 of the VCMB Act allows the VCMB to establish separate funds and accounts to manage its responsibilities in relation to each prescribed commodity. But it is doubtful that this extends to transferring those responsibilities to a separate legal entity such as the VCPL. The VCMB Act clearly provides for certain functions to be managed by the VCMB. It is unclear whether – or how –

the VCMB could delegate these functions to a company incorporated under the Companies Act.

- 7.30 At issue is whether the VCPL Board has the legal authority to exercise regulatory functions under the VCMB Act, such as administering the copra subsidy scheme. Even if the VCPL can act on the VCMB's behalf, there are questions about the legal mechanisms for delegating this authority and the control should the VCMB should exercise in overseeing VCPL decisions. If the VCPL had no formal power to undertake VCMB functions, then any such decisions made by the VCPL board may be null and void.
- 7.31 Related issues are whether the accountability measures that should normally apply to the VCMB would also apply to VCPL, and which body – the VCPL or the VCMB – has ultimate legal responsibility for decisions made and liabilities incurred by the VCPL Board.
- 7.32 On a broader level, it makes little sense for the VCMB to use a second board of management and incur extra sitting fees, travel and other additional expenses to undertake the duties and responsibilities of the VCMB board. Also, whereas the VCMB's functions are defined by the VCMB Act, it appears that the VCPL board's duties and responsibilities are far less clear.
- 7.33 It is difficult to understand how or why the government could have permitted VCPL to manage the copra subsidy scheme in the first place, or why it permitted such a flawed arrangement to remain in place. What is clear is that any remaining VCPL involvement in administering the copra subsidy fund should cease immediately.

Recommendation 8: That the Minister of Finance, in consultation with the Department of Finance and VCMB:

- c. take immediate steps to suspend the copra subsidy scheme, and**
 - d. transfer responsibility for the scheme from the VCPL to a more appropriate body until a permanent decision can be made about whether, and in what form, government support for copra farmers and the copra industry should continue.**
- 7.34 COMMENT: As noted above at Paragraph [6.8] the Minister of Finance advised he has transferred responsibility for administering the scheme to the Department of Finance and a longer term review is underway. This is a very positive development.

The management and viability of copra subsidies

- 7.35 There was grossly inadequate planning from the very beginning when the government decided to introduce and implement copra price subsidies. There was no clear direction and planning, little information on how the scheme would work, and no monitoring to check whether copra farmers actually benefited in the form of higher prices. Buyers were represented on the VCPL board, but not producers or cooperatives. Thus there was no-one on the board who could provide feedback on how effective the subsidy scheme was in delivering benefits to producers.
- 7.36 Competition between copra buyers was presumably one mechanism intended to ensure that producers received a fair price. However, at least two of the VCPL's commercial competitors – Agripac and VCE – were run by individuals employed by the VCPL or its owner, the VCMB. Moreover, a number of Agripac and VCE purchases were on-sold to VCPL, effectively making them agents for rather than competitors of the VCPL.
- 7.37 The record-keeping used to manage the scheme was terrible. The VCPL often relied solely on summary invoices prepared by buyers themselves to calculate how much buyers were owed. Often, there were not even invoices. Without copies of the receipts issued to copra farmers showing details of individual purchases, there was no way VCPL could cross-check the accuracy and reliability of the buyers' subsidy claims.
- 7.38 The VCMB Act provides for the control and regulation of the marketing of copra and other prescribed commodities. The VCMB's functions under section 6 of the Act include responsibility for securing the most favourable arrangements for the purchase, sale and export of copra, implementing measures to help the industry prosper, taking steps to stabilise prices, and keeping and maintaining detailed purchasing records. Section 7 of the Act gives the VCMB wide range of powers to carry out its functions.
- 7.39 The gross mismanagement of the 2008 copra subsidy fund indicates that the VCMB Board and its General Manager, Gabriel Bani, failed in their responsibilities under the VCMB Act to use that money to stabilise prices and foster healthy market conditions. As noted above, the VCMB – through decisions made by VCPL – may have in fact added to the problems caused by the sudden rises and falls in the copra market in 2008. It spent large sums to subsidise copra when prices were relatively high (and rising), thereby leaving the scheme with insufficient funds to intervene when prices fell and some level of price support may have helped.
- 7.40 The VCPL's board meeting minutes indicate that the information needed to support prudent decision making was available at the time. The January 2008 minutes note that prices at that time were 'relatively adequate' at Vt31,000 per tonne and were 'likely to increase', yet the board proceeded to put a subsidy in

place. Prices continued to rise, yet VCPL board meetings on 18 and 29 February, 27 March and 24 and 26 June left the subsidy in place. When prices began to fall, the VCPL's board meeting in August voted to increase the subsidy to Vt13,000 per tonne, despite knowing that there were limited funds and large outstanding subsidy debts.

- 7.41 Urgent consideration should be given to getting rid of the current copra subsidy scheme and instead using the funds to benefit copra farmers in other ways.
- 7.42 If copra subsidies are retained, amendments must be made. Money is currently paid to buyers with no guarantee that it will benefit producers. Also, too much is wasted on poorly documented expenses and costs that have nothing to do with assisting copra farmers. It would be preferable to pay producers directly. However, direct subsidies can be expensive and difficult to administer, and would not necessarily avoid the more fundamental errors already noted in this report – poor financial management, incomplete or inaccurate documentation, deliberate misuse of funds, and the damage caused by spending on subsidies when prices are high and abandoning support (because of insufficient funds) when prices are low.
- 7.43 It would be better to get rid of subsidies and instead use the money to assist copra producers in other ways, perhaps through funding to local services or to local cooperatives. Indeed, had the Vt40 million loaned by the Cooperatives Development Fund (CDF) to VCPL's subsidy fund administrators in 2007 been used – as intended – to finance and support commercial initiatives proposed by local cooperatives throughout Vanuatu, copra producers may have been more likely to have seen some benefit.
- 7.44 The Minister of Trade recently presented the Council of Ministers with a report on the strategic review of the copra industry. The review reportedly recommends that the government repeal the VCMB Act, abolish the VCMB and create new institutional arrangements. It also recommends other measures to revive the coconut sector, including replanting incentives, improved information to farmers and investments in capital and machinery (ref. 'Government to repeal VCMB law', *The Independent*, 17 Oct 2009, p2). Changes such as these would be a positive step forward.
- 7.45 In reviewing government supports for the coconut sector, the Council of Ministers should consider the issues raised in this report, particularly the issues relating to the waste and mismanagement of government copra subsidies. This report highlights the failure of subsidies and the urgent need to find better, more effective ways to support copra producers and the coconut sector.
- 7.46 In reviewing the institutional arrangements needed to manage any new supports provided to the coconut sector, the Council of Ministers should consider the roles of both the VCMB and VCPL in creating the problems highlighted in this report. The VCMB had responsibility under the VCMB Act to administer subsidies and

other supports for the copra industry, yet failed to do so. Instead, the regulatory regime created by the VCMB Act was undermined and corrupted by the VCPL taking on those responsibilities, completely mismanaging the scheme and then not being held to account for its mistakes. It is difficult to understand how VCPL, an incorporated company with no powers under the VCMB Act, was allowed to assume these responsibilities in the first place. Any new institutional arrangements avoid the same mistakes.

Recommendation 9: That, as part of the current strategic review of supports provided to copra producers and the coconut sector, the Council of Ministers:

- a. consider replacing the copra subsidy scheme with more effective incentives and supports for copra production, and
- b. ensure that any institutional arrangements used to administer public spending on incentives and supports are subject to proper scrutiny.

Dated this 1st day of December 2009

Peter TAURAKOTO
OMBUDSMAN OF THE REPUBLIC OF VANUATU

8. INDEX OF APPENDICES

- A** VCPL Certificate of Incorporation
- B** VCCE Certificate of Incorporation
- C** Agripac Certificate of Registration of Business Name
- D** VCE – The Business Names Act No.6 of 1990. Certificate of Renewal of a Business Name
- E** Letter from Honourable James Bule to Mr. George Borugu dated 8 February 2007.
- F** Letter from CDF committed to Mr. Bob Hugh, Managing Director of National Bank of Vanuatu dated 26 February 2007.
- G** Letter from Rt. Hon. Vanua Roroa Ham Lini, MP, Prime Minister to Hon. James Bule dated 6 March 2007.
- H** Letter from Honourable Prime Minister to Mr George Borugu dated 6 March 2007
- I** Letter from CDF Committee to the Managing Director of Westpac Pacific Banking dated 9 March 2007.
- J** Letter from CDF Committee to Mr. Bob Hugh Managing Director of National Bank of Vanuatu dated 30 April 2007.
- K** Part of Mr. G. Borugu's letter dated 23 July 2009 response to the Ombudsman's letter dated 7 February 2009.
- L** Cheque no.5317 dated 20 December 2007. Return airfare for Mr Clifford Bice.
- M** Letter from Mr. Benjamin Shing Director of the Department of Finance to Mr Clifford Bice dated 3 January 2008.
- N** First instalment of subsidy fund paid into Mr. Clifford Bice's account.
- O** VCPL Board Minutes dated 4 January 2008
- P** Cheque no. 5318 paid to Air Vanuatu dated 26 March 2008 for return airfare for Mr. George Borugu Vila/Santo/Vila.
Cheque no.5319. No invoice. Payment appears to relate to debts incurred in 2007.
- Q** Cheque no. 5321 paid to Northern Island Stevedoring Company (Niscol) dated 16 January 2008.
- R** Cheque no.5322 paid to Wong Sze Sing for 182.02 tons of copra sold to VCPL in dated 16 January 2008.
Cheque no.5323. No invoice. Payment appears to relate to debts incurred in 2007.

- Cheque no.5324. No invoice. Payment appears to relate to debts incurred in 2007.
- S** Cheque no.5324 paid to Agripac dated 21 January 2008 for the amount of Vt1.5 million made out to 'cash'. No explanation of the different amounts in the payment documentation.
- T** Cheque no.5327 paid to Sanma Province for March & April 2007 outstanding Produce Cess dated 22 January 2008.
- Cheque no.5331 paid to Agripac. No invoice. Payment appears to relate to debts incurred in 2007.
- Cheque no.5346 paid to Agripac. No invoice. Payment appears to relate to debts incurred in 2007.
- U** Cheque no. 5329 paid to Hotel Santo for accommodation and meals for C. Bice and G. Borugu dated 30 November to 1 December 2007.
- V** VCPL authorises Vt297,060 payment to VCPL for costs of VCPL Board Meeting, restaurant charges and travel expenses.
- W** The amount is revised and a further payment voucher is issued, authorising payment of Vt557,060 (cheque no.5330) for costs of the board meeting. Revised costs include Vt180,000 sitting allowances & Vt80,000 'bonus' payments.
- X** Payment voucher authorises Agripac be paid Vt1,300,346. A second payment voucher issued on the same dated authorises Vt1,500,346 payment to Agripac. The cheque (no.5326) is made out to 'cash' as payee. Supporting documentation indicates Vt100,000 of the Vt1,500,346 was to be paid to Mr Clifford Bice, and the balance to Agripac.
- Y** Vt150,000 payment to VCPL (cheque no. 5328)) for "Lini Day Contribution".
- Z** Cheque no.5334 paid to Hotel Santo for accommodation and meals for Hon. Minister Bule (5 & 6 January 2008, and for C. Bice and G. Borugu 6 January 2008.
- Cheque no.5336 paid to Agripac. No invoice. Payment appears to relate to debts incurred in 2007.
- A1** February subsidy deposit to VCPL account.
- A2** Cheque no.5343 paid to Sanma Province for May 2007 outstanding Province Produce Cess.
- A3** Cheque no. 5345 paid to the Vanuatu Government for cost of the Chinese Vice Premier's visit to Vanuatu in 2007.
- A4** March subsidy deposit to VCPL account.
- A5** Cheque no. 5348 paid to Air Vanuatu for Minister James Bule's airfare Longana/Santo.
- A6** Cheque no. 5349 paid to Cellovila Ltd for 5,000 plastic bags including the cost of freight to Santo.

- A7** Cheque no.5350 paid to 'cash'. Payment voucher authorises Vt1 million to be paid to 'Agripac/VCPL' for 'Achat (purchase) copra Malekula'. No invoice. Payment appears to relate to debts incurred in 2007.
- A8** Cheque no.5351 paid to 'cash'. Payment voucher authorises payment to Ron Wilson 'for copra adjustment payment on copra from 2007' (weight 12 tonnes @Vt31,000/t less 2% for Produce Cess.
- A9** Cheque no.5357 paid to 'cash'. Supported by payment voucher dated 18 March authorising Vt837,493 to be paid to Agripac for 'refund 2007 advance c/subsidy'. Revised payment voucher issued on 26 March authorising Vt2 million payment to Agripac for 'refund hot air copra sundried'. It is not clear why two payment vouchers were issued.
- A10** Cheque no. 5354. Payment for 'sitting allowances' of the four VCPL board members.
- A11** Return airfare for Stanley Temakon paid to Air Vanuatu Santo/Vila/Santo.
Cheque no.5357 paid to Agripac. No invoice. Payment appears to relate to debts incurred in 2007.
- A12** Cheque no. 5359 paid to VCPL Board for 'sitting allowance' (sitting in Port Vila)'.
A13 Cheque no.5360 paid to Sanma Province for June 2007 outstanding Produce Cess.
- A14** VCPL Board authorises monthly payments of Vt500,000 to be paid to CDF.
- A15** Paid to 'cash' (cheque no 5362). Supporting payment voucher authorises payment to the VCMB General Manager and the VCPL General Manager for airfares, subsistence, transport and accommodation for a visit to Pentecost in April 2008. The purpose of the trip is not stated.
- A16** Paid to VCPL for purchase of 200 litres of bio-fuel from the Cooperatives Department.
- A17** Paid to 'cash' (cheque no 5365). Supporting invoice notes payment is for 15.14 tonnes of copra sold by Agripac (Stanley Temakon) to VCPL (delivered 31.3 and 1.4.2009) at Vt48,000 per tonne.
- A18** Paid to Hotel Santo (cheque no 5366). Payment voucher notes payment is *'for Minister James Bule and Clifford Bice (tourism issues)'*.
- A19** April subsidy deposit to VCPL account.
- A20** Paid to John Lum & Associates (cheque no 5368) for two tyres for Minister James Bule's visit.
- A21** Paid to 'cash' (cheque no 5367) for *'VCPL Board allowance'*.
- A22** Paid to SANMA Province (cheque no 5373). Payment voucher dated 28.4.2008 authorises the payment *'for Province Cess for Sanma Province July 2008'*.
- A23** Paid to Hotel Santo (cheque no 5374) for accommodation for Hon. Minister James Bule, Clifford Bice and George Borugu.

- A24** May subsidy deposit to VCPL account.
- A25** Paid to 'cash' (cheque no 5376) for VCPL '*staff salary*'.
- A26** Paid to 'cash' (cheque no 5375). Payment voucher notes payee is Clifford Bice and the payment is for '*advance towards Ban Ban CMC Church*'.
- A27** Paid to Hotel Santo (cheque no 5380) for accommodation for the Hon. James Bule and Clifford Bice.
- A28** Paid to Cooperatives Development Fund (cheque no 5381). Payment voucher dated 22.5.2008 notes payment is to 'refund fund' for 2007 loan.
- A29** Paid to 'cash' (cheque no 5382). Payment voucher authorises payment to David Karl to reimburse an advance paid by Mark Ati.
- A30** Paid to 'cash' (cheque no 5398). Payment voucher dated 1.6.2008 authorises payment to VCPL Board members for '*refund board meeting*' on 24 and 26.6.2008. Cost made up of airfares for VCPL General Manager Stanley Temakon and VCMB General Manager Gabriel Bani, per diem for both managers for three days, miscellaneous costs for both managers for three days, board allowances for four board members and accommodation for Stanley Temakon.
- A31** Paid to VCPL (cheque no 5383) 55 litres of bio fuel for the Minister's visit to Santo.
- A32** June subsidy deposit to VCPL account.
- A33** Paid to Vanuatu Copra Export (VCE) (cheque no 5387) for deliveries (12-23 May) of 177.020 tonnes of copra at Vt3,000 per tonne.
- A34** Paid to Vanuatu Copra Export (VCE) (cheque no 5392) for deliveries (12-23 May) of 177.020 tonnes of copra at Vt3,000 per tonne.
- A35** VCPL General Manager advises board meeting of likely revenue shortfall. The minutes note: '*...the GM of VCPL mentioned maintaining existing staff will be difficult especially when there is a shortfall in revenue. GM further mentioned that it will be difficult to terminate any staff at the moment when we are approaching General Elections. As short term remedy of the situation, he suggested that funds of the copra should be allocated monthly to relief VCPL especially for staff salary. The Board resolved that GM of VCPL manages with the situation until a decision is made on the Agri-Com proposal which would definitely assist VCPL in terms of additional revenue.*' The minutes for this meeting and previous meetings in 2008 make no other mention of 'the Agri-Com proposal'.
- A36** Paid to 'cash' (cheque no 5393) for VCPL '*staff salary*'
- A37** Paid to Punjas (Vanuatu) Ltd (cheque no 5397) for balance of Vt1,212,330 owed for 10,542 empty cartons. The initial Vt404,110 was paid from another VCPL account.
- A38** July subsidy deposit to VCPL account.
- A39** Paid to Cooperatives Development Fund (cheque no 5401) as a reimbursement for funds borrowed in 2007.

- A40** Paid to 'cash' (cheque no 5403). Supporting documents note the Vt1,005,874 was payable to Agripac and included:
- Vt208,000 in wages for weight reconciliators (26 weeks @Vt8,000/week)
 - Vt90,000 for VCPL board sitting allowance (July meeting)
 - Vt200,000 to Agripac for '*allowance paid to Ministry of Trade for Ministerial visit to Brussels in June, 2008*'.
 - Vt59,800 for expenses related to Gabriel Bani and Stanley Temakon's attendance at an 'Integrated Framework meeting' at Ambae (13-16 July 2008)

There appears to be no supporting documents relating to the remaining Vt388,274.

- A41** Paid to 'cash' (cheque no 5406) as reimbursement to VCPL for salary expenses paid by Stanley Temakon on 13.6.2008.
- A42** Paid to 'cash' (cheque no 5409) to reimburse VCPL for 'staff salary' expenses.
- A43** Department of Finance releases Vt9 million August subsidy.
- A44** Department of Finance releases Vt27 million September, October, November subsidy payments.
- A45** following request by the Interim Minister for Trade, Commerce, Industry and Tourism, the Hon. James Bule, to help VCPL cope with subsidies for increased copra production.
- A46** The Acting Director of Finance, Mrs Betty Zinner Toa, writes to the MTTCI stating that the full amount for the copra subsidy has been released and there remains only Vt851,384.

VCPL board approves subsidy increase from Vt3,000/tonne to Vt13,000 to '*put confidence in the copra industry*' following a sharp drop in prices. The VCPL General Manager advises the board that '*due to the costly coconut oil supply with UNELCO, Agripac supplied copra to VCPL at close to Vt6 million and remain outstanding*'. The board agreed to use the subsidy fund to settle the debt owed to Agripac.

- A47** Paid to 'Stanley Temakon' (cheque no 5411). Two payment vouchers refer to this cheque:
1. One authorises Vt5,539,360 to be paid to Agripac for '*achat copra*' (Invoices detail deliveries of 201.04 tonnes of copra to VCPL at different buying prices from January to June. Total value of copra delivered Vt9,241,650).
 2. The other authorises VT1,137,276 to be paid to Agripac for copra subsidy payments of Vt3,000/t for 379.09 tonnes delivered between 28.7.2008 and 8.8.2008.

Paid to VCCE (cheque no 5413) for '*payment for copra subsidy*'. (cheque no 5410)

Paid to VCE (cheque no 5414) for subsidy on 695.91 tonnes of copra @3,000/t.

Paid to VCCE (cheque no 5412) for '*payment for copra subsidy*'.

Paid to Agripac (cheque no 5415) for subsidy for 113.64 tonnes of copra @ Vt3,000/tonne.

Paid to Agripac (cheque no 5416) for purchase of 17.29 tonnes of copra at Vt31,137/tonne (no invoice attached).

Paid to VCCE (cheque no 5419) for subsidy on 107.2 tonnes of copra @ Vt13,000/t.

Paid to Agripac (cheque no 5418) for subsidy on 45.45 tonnes of copra @ Vt13,000/t.

Paid to VCE (cheque no 5420) for subsidy on 220.571 tonnes of copra @ Vt13,000/tonnes.

Paid to Stanley Temakon (cheque no 5421) for subsidy on 296.94 tonnes of copra @ Vt13,000/t.

Paid to VCE (cheque no 5422) for subsidy @ Vt13,000/t.

Paid to Stanley Temakon (cheque no 5423) for subsidy on 54.12 tonnes of copra @ Vt13,000/tonne.

Paid to Agripac (cheque no 5424) for '*payment against invoice of copra*'

Paid to VCE (cheque no 5425) for subsidy on 82.293 tonnes of copra @ Vt 13,000/tonne.

Paid to VCE (cheque no 5427) in part-payment for copra subsidy. Invoice was for 222.354 tonnes @ Vt13,000/tonne but only Vt1 million was paid (for 76.92 tonnes). The rest was to be paid later.

Paid to VCCE (cheque no 5426) for subsidy on 76.92 tonnes of copra at Vt13,000/tonne.

MTTCI Office Supervisor, Mr Roy W Bani, requests Department of Finance release Vt9 million for the month of December. No payment made as the Vt108 million Budget allocation had already been paid in full.

A48 Paid to Hotel Santo (cheque no 5429) for accommodation and meals for C Bice, G Borugu and C Lini in August.

A49 Paid to 'cash' (cheque no 5431) for VCPL board members allowances – three members at Vt30,000 each.

A50 Payment Vouchers (PVs) with no supporting documents in 2008.