

Melanesian Spearhead Group Secretariat

Annual Report 2015



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Photos on the cover page, from top left to right:

1. Traditional dancing and *sing-sing* in Mt Hagen, Western Highlands, Papua New Guinea
2. A business couple in Honiara, Solomon Islands: Ms Nanette Tutua and Mr Kevis Harry of Timol Timbers Limited;
3. The MSG Eminent Persons Group in Suva, from left: Hon. Joe Natuman (Vanuatu), Mr Leonard Louma (Papua New Guinea), Hon. Manasseh Sogavare (Solomon Islands), Hon. Voreqe Bainimarama (Prime Minister of Fiji), Ambassador Kaliopate Tavola (Fiji and Group Leader) and Mr Roch Wamytan (FLNKS)
4. A fuel retail outlet on Tanna Island, Vanuatu rebuilt after Cyclone Pam
5. Mt Tavurvur Volcano, Rabaul, East New Britain, Papua New Guinea
6. The headstone of Corporal Sefanaia Sukanaivalu VC, a Fijian soldier and posthumous recipient of the Victoria Cross, at the Bita Paka Military Cemetery, Rabaul, East New Britain, Papua New Guinea

Flags from left: Fiji, FLNKS, Papua New Guinea, Solomon Islands and Vanuatu

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BACKGROUND

Melanesian Spearhead Group

The Melanesian Spearhead Group (MSG) was established during an informal meeting held in Goroka, Papua New Guinea on 17 July 1986 which was attended by the Prime Ministers of Papua New Guinea, Solomon Islands and Vanuatu as well as a representative of the *Front de Libération Nationale Kanak et Socialiste* (FLNKS) of New Caledonia. The meeting followed these Leaders' vision, backed by a strong and shared political desire, for the entire decolonization and freedom of Melanesian countries and territories which were still under colonial rule in the South Pacific, thereby developing a stronger cultural, political, social and economic identity and link between the people and communities of Melanesia.

The MSG Agreed Principles of Cooperation among the Independent States in Melanesia was signed in Port Vila, Vanuatu on 14 March 1988 by the founding MSG Members namely, Papua New Guinea, Solomon Islands and Vanuatu. FLNKS formally joined in 1989 and Fiji was admitted as a Member in 1996 following the conclusion of the MSG Trade Agreement (MSGTA). Timor Leste and the Republic of Indonesia joined as Observers in 2011. Later in 2015, the Republic of Indonesia was accorded Associate Membership representing the five Melanesian Provinces of Indonesia, while the United Liberation Movement for West Papua was admitted as an Observer. The Chairmanship of MSG rotates every two years among Members.

MSG 2038 Prosperity For All Plan

The MSG 2038 Prosperity for All Plan was formulated by the MSG Eminent Persons Group in 2013 following their review of MSG over 25 years since its establishment in 1988. The review entailed a Strengths, Weaknesses, Opportunities and Threats or SWOT analysis, MSG-wide stakeholder consultations, rigorous tests to define priorities and develop common objective interests, the outcomes of which facilitated the mapping out of a new vision, mission, direction and a plan for the Melanesian sub-region over the next 25 years up to 2038. The vision of MSG under the MSG 2038 Prosperity For All Plan is ***An MSG community that is democratic, strong, integrated, enlightened, happy, prosperous, secure and caring***, which is to be pursued through the four noble objectives of **Political Stability, Economic Prosperity, Social Equality and Inclusivity** and, **Sustainable Development**.

MSG Secretariat

The office of the MSG Secretariat in Port Vila was officially opened on 30 May 2008. It is headed by the Director General, who is responsible for the implementation of Leaders' mandates and for directing and coordinating policies within the framework of the MSG 2038 Prosperity For All Plan. The Governing Body of MSG consists of the Senior Officials Meeting (SOM) which reports to the Foreign Ministers Meeting (FMM). The Director General is supported by the Deputy Director General and the Directors and staff of the following Divisions: Operations, Governance and Sustainable Development and, Trade and Investment and, Economic and Social Development. The working languages of the Secretariat are English and French.

VISION AND MISSION STATEMENT

The MSG Secretariat's Corporate Plan 2013-2015 sets out the following Vision, Mission, Values, Goal and Objectives as key components of the strategy for moving the organisation forward:

Vision

- Excelling together towards a progressive and prosperous Melanesia.

Mission

- To serve our Members with dedication and integrity.

Values

We are an organization that exists for the sole purpose of serving the interest of our Members, bearing in mind our:

- Melanesian heritage;
- Diverse cultures;
- Obligations for the promotion of a peaceful and safe environment;
- Aspirations to improve the livelihoods for all our citizens, especially our women and youth; and,
- Commitment to advance the protection of human rights.



An expression of Melanesia's rich and diverse cultures, the *Bilikiki* dance, captured here in Honiara, Solomon Islands

In this context, we are:

- God-fearing and embrace Christian principles;
- Dedicated, responsible and fair;
- Responsive, respectful and protecting of the interests of our Members;
- Innovative, smart, technically-capable and hardworking;
- Caring of our people and our properties; and,
- Law-abiding and sensitive to the needs of the Host Country.

Goal

- To facilitate mutual cooperation and dialogue to enhance solidarity of our membership, encourage our Members to promote a region that is stable, peaceful and safe, and encourage our Members to implement policies to achieve sustained improvements in livelihoods.

Objectives

- Provide sound policy and technical advice;
- Facilitate the implementation of Members' decisions;
- Advocate Members' collective interests in regional and international fora; and,
- Efficient management of resources to serve our Members.

CHAIR'S MESSAGE

It is with great honour that I present the 2015 Annual Report for MSG.

Solomon Islands was privileged to have taken over as Chair of MSG from FLNKS during the 20th MSG Leaders' Summit that my government hosted in Honiara on 25-26 June 2015. FLNKS' chairmanship was momentous as they co-chaired the MSG, particularly the technical sub-committees with the previous and incoming Chairs: with Fiji over the first 12 months and then with Solomon Islands over the second 12-month period. The arrangement was pivotal in the strengthening of their institutional capacity. I therefore wish to express our most sincere gratitude to FLNKS for their leadership of MSG over the past two years, which culminated with the successful Leaders' Summit that I chaired.



The theme of the 20th Leaders' Summit, ***Let's build a strong Melanesia in the Pacific where peace, progress and prosperity are ensured and sustained for all***, entrusted a collective responsibility on all Members to be strategic in our respective nation building endeavours. This is aligned with the noble aspirations and intentions of the MSG 2038 Prosperity For All Plan that was developed by the MSG Eminent Persons Group which I was honoured to be part of. The Plan was endorsed at the 19th Leaders' Summit which FLNKS hosted in Noumea, New Caledonia on 20 June 2013.

FLNKS provided guidance on the work of the Secretariat that led to the eventual signing by our Leaders in Honiara of a series of Instruments of Cooperation which are aimed at promoting, coordinating and strengthening intra-MSG relations. The Instruments support our Members' shared goals of economic growth, sustainable development, good governance and, peace and security. They are as follows:

1. **Agreement Establishing MSG (Revised 2015)**, the main legal document governing relations between Members and the affairs of the Secretariat, is also referred to as the Constitution of MSG;
2. **Declaration on the MSG 2038 Prosperity for All Plan** is the policy framework to achieve MSG's Vision and Mission of enhanced sub-regionalism and integration, while its Implementation Framework serves as the operational guideline for the Plan's Objective and Strategies and to guide future MSG resource allocation and programming;
3. **Agreement Establishing the Regional Police Academy** aims to strengthen police cooperation and encourage specialized training for police forces from Member countries to be able to address law and order and security threats in the region;
4. **Framework Agreement for the MSG Formed Police Unit** provides a framework that allows Members to participate in peacekeeping operations regionally or internationally;
5. **MOU on the Humanitarian and Emergency Coordination Centre** focuses on natural disasters, man-made disasters like oil spills, civil aviation or maritime accidents and complex emergencies;
6. **Declaration on Transshipment of Nuclear Wastes and Trans-boundary Movement of Hazardous Wastes (Revised 1995 Lakatoro Declaration)** encourages dialogue on nuclear transshipment that usually passes through MSG Exclusive Economic Zones and the risk of spillage due to likely accident or natural disaster in the region;

7. **MOU on Technical Cooperation in Coastal Fishery and Aquaculture Development between Members of the MSG** facilitates a collaborative approach to build Members' capabilities and resources in a coordinated and efficient way in the areas of sustainable coastal fisheries and aquaculture development;

8. **MSG Roadmap for Inshore Fisheries Management and Sustainable Development** provides a strategic direction on the way forward that is relevant to Members' inshore fisheries sectors, policies and legislation and provides a detailed structure for the implementation within the inshore fisheries sector;

9. **Declaration on Combating Domestic and Family Violence** recognises the importance of a regional approach to combating domestic and family violence at the national and regional levels, such as in advancing the role of MSG in complementing the work of relevant international and regional partners;

10. **MOU on Sports Cooperation** promotes and develops cooperation in sports exchange programs, including coaches and technical officials, and direct financial support for the preparation of major regional sports events; and,

11. **Revival of the Melanesian Soccer Cup** which was last held in 2000 in Suva, Fiji will now be brought back to the mainstream of MSG events, with participation limited to MSG citizens given the increasing number of foreigners playing in the League competitions in Member countries.



Leaders seated, from left: Mr Tutugoro of FLNKS, Hon. Bainimarama of Fiji, Hon. Sogavare of Solomon Islands, Hon. O'Neill of Papua New Guinea and Mr Naviti of Vanuatu

The broad interests of MSG are demonstrated by the scope of the above Instruments of Cooperation which in turn necessitate the Secretariat's coordination and collaboration with Members as well as between Members. As noted later in this report, the Group has also fostered linkages not only with FLNKS but also with other stakeholders in the French Overseas Country and Territory of New Caledonia.

Given the geopolitical space that our Members occupy between Asia and Oceania, their territorial size and natural and human resource endowments, MSG clearly has both political and economic clout in Oceania. At least four recent developments demonstrate MSG's leadership in the Pacific region. Firstly, the participation of the MSG Observer Mission in Fiji's general elections in 2014; secondly, the approval of the United Liberation Movement for West Papua or ULMWP, as an Observer member of the MSG; thirdly, the approval of Indonesia as an Associate Member representing the five Melanesian Provinces in Indonesia; and lastly, the helping hands of MSG Members including governments, the private sector and civil society groups were evident during times of need and distress as recovery support from within our sub-region poured into Vanuatu following Cyclone Pam in March 2015.

Infrastructure development continues to be an onerous challenge to MSG Members despite ongoing significant contributions from noble institutions such as the International Monetary Fund, World Bank and Asian Development Bank towards our developmental aspirations. While these institutional relationships are to continue, our Members should consider diversifying their partnerships with other sources of funds. In that regard, our sub-region has been proactively exploring the feasibility of an MSG Development and Investment Fund. The new Asian Infrastructure Investment Bank, which respected and prosperous economies around the world are also supporting, presents our Members with an alternative and attractive source of infrastructural development funds.

Proper infrastructure is fundamental for stable and equitable economic growth through sustained trade and investment. While intra-MSG trade flows have grown in accordance with the terms of the MSG Trade Agreement (MSGTA), improvements to the Trade Agreement were pursued through the Pacific Integration Technical Assistance Project (PITAP). This is to result in the extension of the MSGTA from covering just Trade in Goods alone to also



Trade and tourism shipping in Port Vila Harbour

include Trade in Services, Labour Mobility and Cross-Border Investments. In this regard, we acknowledge the funding support for PITAP from the European Union (EU) via the 10th European Development Fund (EDF), which is being administered by the Pacific Islands Forum Secretariat (PIFS). Negotiations on the revision of the MSGTA and other economic and environmental initiatives are expected to be pursued over the next couple of years, as agreed to by our Trade Ministers on 26 November 2014 under the Port Moresby Declaration. The 11 Ministerial commitments under that Declaration are as follows:

- (i) Achieving a Free Trade Area by 2017;
- (ii) Concluding MSGTA3 negotiations on Goods and Services by 2015;
- (iii) Concluding Double Tax Treaties and Investment Promotion and Protection Agreements by December 2017;
- (iv) Enhancing the mechanism for implementing the Skills Movements Scheme;
- (v) Strengthening MSG's customs and biosecurity cooperation in the context of the MSGTA3;
- (vi) Mapping out a clear Private Sector Development Strategy by 2015;
- (vii) Enhancing MSG Connectivity through the MSG Travel Card by 2015;
- (viii) Fund and conclude a MSG Shipping study by the end of 2015;
- (ix) Promoting investments in the MSG Roadmap on Inshore Fisheries and Management and Sustainable Development;
- (x) Fostering Investment Roadshows as a means to enhancing business to business linkages;
- (xi) Supporting the work of the Finance Ministers and Central Bank Governors and CEOs of Pension and Provident Funds on the establishment of a Development and Investment Fund and Emergency Stabilization Fund.

On Climate Change, our sub-region has been subjected to the social and economic challenges emanating from changing climate patterns, particularly natural disasters over the past 20 years. Recent evidence in this regard includes the destructive floods in Honiara last year and, widespread devastation this year from Cyclone Pam in Vanuatu and the extended drought and frosts in the highlands of Papua New Guinea. MSG thus has to aggressively invest in Climate Change-based research, develop stringent strategic climate change policies and most importantly, implement adaptation measures for sustainability. Hence and



Mourning with Vanuatu following Cyclone Pam, MSG flags fly at half-mast in front of the badly damaged Orange Shed where Secretariat events were often held

as part of the MSG Environment and Climate Change Framework for Action 2020, the Secretariat's presence at the United Nations Climate Conference of the Parties or COP 21 was highly relevant.

In conclusion, I thank my fellow Leaders, our Ministers, Senior Officials and stakeholders for their support since my assumption of the MSG Chair in June. I also offer my most sincere gratitude to the Host Government for its support of the Secretariat, especially in approving Secretariat officials to join the Vanuatu Delegation at key international meetings including the 10th World Trade Organisation (WTO) Ministerial Conference in Nairobi and COP 21 in Paris.

The staff of the Secretariat are duly acknowledged for their implementation of MSG Leaders' mandates and I am pleased to have met with them during my first visit to Port Vila as Chair in August. I also thank the Director General, Mr Peter Forau, for his contribution and whose resignation was effective on 31 December 2015. We look forward to ongoing collaboration between Members, with the Secretariat as well as with other strategic partners in the new year, 2016, as we continue with the pursuit of our overarching vision of ***An MSG community that is strong, integrated, enlightened, happy, prosperous, secure and caring.***

Hon. Manasseh Sogavare

Chair of MSG and Prime Minister of Solomon Islands



The Chair with members of the Diplomatic Corp and Secretariat staff during his official visit to Port Vila on 19-22 August 2015

EXECUTIVE

The Executive arm of the Secretariat comprises the Office of the Director General, the Deputy Director General and the Executive Officer and its principal role is to provide leadership of the Secretariat for the delivery of Leaders' and Ministerial mandates in line with the MSG 2038 Prosperity For All Plan. The Executive is also to guide the functioning of the Secretariat following the strategic directions contained in the Corporate Plan 2013-2015, as well as the Secretariat's annual work programmes.

Implementation of MSG 2038 Prosperity For All Plan

As part of the overall policy framework for MSG up to the 50th anniversary of its establishment, the vision, mission, objectives and strategies of the MSG 2038 Prosperity For All Plan are to be achieved under the leadership of the Director General. The Group's progress with this pursuit is to enhance sub-regionalism and integration within Melanesia and to facilitate this aspiration, the Executive developed the Declaration on the MSG 2038 Prosperity For All Plan which was endorsed at the 20th Leaders' Summit.

Organizational Restructuring

The Executive continued to execute its mandate of administering the functions of the Secretariat through substantive changes to the structure of the organization. These were put into effect by the Director General on 25 May 2015 in line with, firstly, the proposed changes contained in the Secretariat's Corporate Plan 2013-2015 and secondly, the Foreign Ministers' endorsement on 23 January 2015 of the establishment of Melanesian Solutions to generate income for the Secretariat.

The old structure, approved by Leaders in 2008, had four functional areas, namely Corporate Services, Political Affairs, Trade and Investment and, Economic and Social Development. The structure had served Members well and its synergy to achieve the purpose of Membership as encapsulated in the Agreement Establishing the MSG. The new structure is intended to reposition the Secretariat to more efficiently and effectively serve Members in advancing their policy interests in the medium term. The new structure thus retains the Deputy Director General's position to assist the Director General as agreed to by Leaders in 2008 and would also include the removal of two Divisional Director positions and the amalgamation of functional responsibilities under just two Directorships, namely Operations and Programs. The consolidation and amalgamation of activities under the two functional areas are aimed at promoting the efficient delivery of the organization's Operations and Programs under tight budgetary constraints. The structure would also generate additional operational cost savings with the removal of one Director's position. Further details of the restructuring are provided in the report of the Corporate Services Division.

Governing Body Meetings

The Governing Body meetings planned for October 2014 were rescheduled to the new year, 2015, and were thus convened in Port Vila, beginning with the SOM on 21-22 January 2015, followed by the FMM on 23 January 2015. Key decisions reached at these meetings included the endorsement of the Secretariat's

2015 Budget and Work Programme, the Remuneration Review, the further review of the Resourcing, Institutional Strengthening and Expansion or RISE Project in consultation with the Host Government and, the establishment and operation of Melanesian Solutions as the commercial arm of the Secretariat. The Ministers also supported the FLNKS by calling for the resolution of the political impasse in New Caledonia. The FMM was followed by the formal launching of Melanesian Solutions by Vanuatu's Minister for Foreign Affairs, Hon. Sato Kilman.



SOM Chair, Mr Joseph Ma'ahanua of Solomon Islands (right), with the Director General, Mr Peter Forau

The second series of Governing Body meetings held during the year, again in Port Vila, included the SOM on 14-15 October 2015 and FMM on 16 October 2015. The Governing Body endorsed the Secretariat's revised Budget for 2015 and the 2016 Budget and Work Programme, the Secretariat's Corporate Plan 2016-2020, and amendments to the Staff Regulations, Financial Regulations, and the Medical and Superannuation schemes. The reports of the other constituent bodies including the Trade and Economic Officials Meeting (TEOM) and the Sub-Committee on Legal and Institutional Issues (SCLII), were tabled at the Governing Body meetings, the outcomes of which were presented by the Ministers for Foreign Affairs to the Leaders' Summit.

The Executive coordinated high-level engagements between the Secretariat and Members as well as between Members through Officials, Ministerial and Leaders meetings. In this respect, the Secretariat is thankful to Members for their cooperation both in hosting and attending key MSG meetings, the highlight of which was the 20th Leaders' Summit that the Solomon Islands Government successfully hosted in Honiara on 25-26 June 2015. More details on these engagements are given in other sections of the report.

Pacific Islands Forum Leaders Meeting

Upon the invitation of the Prime Minister of Papua New Guinea, Hon. Peter O'Neill, the Director General, Mr Peter Forau, was among special guests at the 46th Pacific Islands Forum Leaders Meeting held in Port Moresby on 13-14 September 2015. The occasion provided the opportunity for the Director General to meet with MSG Leaders and to provide them with updates on the Secretariat's work and on relations with strategic partners including the Pacific Islands Forum. The Director General also took the opportunity to meet with Leaders of other Forum Members as well as guests from other key institutions. The occasion also helped strengthen the relationship between the MSG Secretariat and PIFS that was boosted by the visit of their Secretary General, Dame Meg Taylor, to Port Vila on 16 February 2015.

Post-Pam Support for Vanuatu

The Secretariat was obliged to broaden the scope of its services beyond relevant policy interventions to immediately assist a Member following a Climate Change-induced natural disaster. The extensive devastation caused by Cyclone Pam when it struck Vanuatu on 12-13 March 2015 brought Members together to attend a Special Foreign Ministers Meeting convened in Port Vila barely two weeks later, on 25

March 2015, for discussions on the country's rehabilitation needs. The meeting provided the opportunity for first-hand updates from the Vanuatu Government, including its National Disaster Management Office (NDMO), relating to the outcomes of their on-the-ground assessments and relief priorities. Chaired by Madam Caroline Machoro-Reignier of FLNKS, the meeting was attended by Foreign Ministers Hon. Rimbink Pato of Papua New Guinea, Hon. Ratu Inoke Kubuabola of Fiji, Hon. Milner Tozaka of Solomon Islands and Hon. Sato Kilman of Vanuatu. FLNKS was represented by Mr Mickael Forrest.

Papua New Guinea contributed VT221million and assigned an assessment team to help determine further support for Vanuatu in addition to its contribution of PGK1million to Tuvalu which was also struck by Cyclone Pam. Fiji deployed 40 of its military and health officials who were flown to Port Vila by the New Zealand Government, while eight other officials assigned to support NDMO brought with them food and water rations. Furthermore, Fiji set aside FJ\$250,000 for personnel, FJ\$122,000 for relief assistance and FJ\$70,000 for further assistance awaiting deployment, in addition to a commitment of FJ\$1million to facilitate ongoing relief and rehabilitation efforts. Solomon Islands approved VT11million for assistance to Vanuatu and assigned the Royal Solomon Islands Police patrol boat to assist as well while organizing rehabilitation in its own Temotu Province which was also hit by Cyclone Pam. FLNKS, while expressing sympathy for the losses suffered in Vanuatu, also supported the country in their time of need.



Ministers, from left: Hon. Kubuabola, Hon. Kilman, Madame Machoro-Reignier (Chair), Hon. Pato and Hon. Tozaka

Besides assistance from Governments, relief supplies were also provided by the private sector and civil society groups of Member countries. The Executive organised the Secretariat's donation of 5 tonnes of rice, 100 cartons of canned fish, 100 cartons of noodles and 100 cartons of water to NDMO. Furthermore, the Director General led a delegation of staff members on 17 April 2015 to visit the Fiji contingent that was in the country to assist the Vanuatu national authorities with their rehabilitation programmes. The overall support provided by all Members was duly acknowledged by the Government of Vanuatu.



Mr Shedrack Welegtabit, NDMO Director (centre) receives relief supplies from Secretariat staff led by the Director Operations, Mr Jean-Pierre Nirua (third from left)

GOVERNANCE AND SUSTAINABLE DEVELOPMENT

The purpose of the Governance and Sustainable Development Division is to monitor political and security developments and to provide appropriate advice on those issues in order to ensure a peaceful and stable sub-region. The Division is also responsible for promoting the fundamental principles of democracy, dialogue, sustainable development and human rights enshrined in the Agreement Establishing the MSG.

The work programme of the Division that relates to sustainable development is guided by the 2012 MSG Leaders' Declaration on Environment and Climate Change, the four pillars of which are the Green Growth Framework, Melanesia Terrestrial Commitment, Melanesia Blue Carbon Initiative and Melanesia Green Climate Fund. Further guidance is provided by the MSG Green Growth Strategy as well as the 2012 MSG Roadmap for Inshore Fisheries Management and Sustainable Management, in line as well with Commitment ix) under the Port Moresby Declaration, that is, for *Promoting investments in the MSG Roadmap on Inshore Fisheries and Management and Sustainable Development*. Progress achieved under each focal area of the Division is highlighted next.

Membership Guidelines

The Secretariat formulated in 2015 the Guidelines for New Membership to the MSG for consideration by the Sub-Committee on Legal and Institutional Issues (SCLII). The Guidelines acknowledge the prerogative powers of Leaders to firstly, decide on Membership issues as per the revised Agreement Establishing the MSG and secondly, to provide guidance to Leaders in their deliberation and decision making on those issues. In developing the New Membership Guidelines, the ideals expressed in the 2038 MSG Prosperity For All Plan by the MSG Eminent Persons Group were adhered to. The review of the Guidelines is ongoing and will play an integral part in building consensus among Members.

Political Impasse in New Caledonia

Following an update from FLNKS to the FMM in Port Vila on 23 January 2015 about the political uncertainty prevailing in New Caledonia since mid-December 2014, the Ministers signed a communiqué in support of the FLNKS Political Bureau's efforts to resolve the impasse in the French Territory through dialogue and consensus. This intervention took place in light of the Secretariat's role to monitor political developments in the interests of FLNKS and also to support the Territory's democratic processes and institutions.

Chairs' Consultations

Further support for FLNKS was provided by the Secretariat during the visit to Honiara on 04 March 2015 of the then MSG Chair and FLNKS Spokesman, Mr Victor Tutugoro, where he met with the Prime Minister of Solomon Islands and incoming MSG Chair, Hon. Manasseh Sogavare. The meeting provided the opportunity for discussions on political, economic and social issues affecting the MSG sub-region as well as the organisation of the 20th MSG Leaders' Summit, with emphasis also placed on the transition of the two-year Chairmanship of the Group from FLNKS to Solomon Islands at the Summit. Mr Tutugoro was

accompanied by FLNKS Advisor, Mr Rodrigue Tiavouane, the Secretariat's Head of FLNKS Unit, Mr Jimmy Naouna, Director Governance and Sustainable Development, Ms Barbara Age and Private Sector Development Advisor, Mr Henry Sanday, who briefed the Prime Minister on their respective areas.

Security and Policing

A series of Security and Policing meetings convened in Honiara commenced with the MSG Humanitarian and Emergency Response Co-ordination Center (HERCC) Symposium on 05-06 May 2015. The Symposium discussed and provided the way forward for the establishment of HERCC, including the drafting of a Memorandum of Understanding (MOU) for the Centre. The Symposium was followed by the 12th Sub-Committee on Security Meeting on 07-08 May which endorsed the MOU on the HERCC and the strategy for its implementation. Also included in the strategy are plans for relevant capacity building initiatives at the Secretariat as well as for the formulation of the HERCC Regional Response Strategy and Action Plan.



MSG contingents at a Cyclone Pam parade in Port Vila

Following the above meetings, the MSG Department of Peacekeeping Operations Symposium was held also in Honiara on 11 May where discussions centred on capacity building opportunities linked to the United Nations Police Peacekeeping Operations guidelines, which were helpful in the development of the Standard Operating Procedures for the Department of Peacekeeping Operations. The meeting of the Regional Combined Working Group on Security and Policing then followed the Symposium on 12-13 May, where progress reports were tabled on the Formed Police Unit, Regional Police Academy, Technical Officials Meeting on Police and other Police Cooperation-related programmes.

Police Commissioners Conference

The 5th MSG Police Commissioners Conference held in Honiara on 14 May 2015 was opened by the Prime Minister of Solomon Islands, Hon. Manasseh Sogavare. Co-chaired by Royal Solomon Islands Police Force Commissioner, Mr Frank Prendergast and Mr. Philippe Ajapuhnya, representative of FLNKS, it was attended by Fiji Police Commissioner, Mr Bernardus J.J Groenewald, Assistant Commissioner Jim Wan of the Royal Papua New Guinea Constabulary, Assistant Commissioner Daniel Rakau of the Vanuatu Police Force, and Deputy Commissioner Juanita Matanga of the Royal Solomon Islands Police Force.



Police Commissioners, seated with Hon. Sogavare (centre)

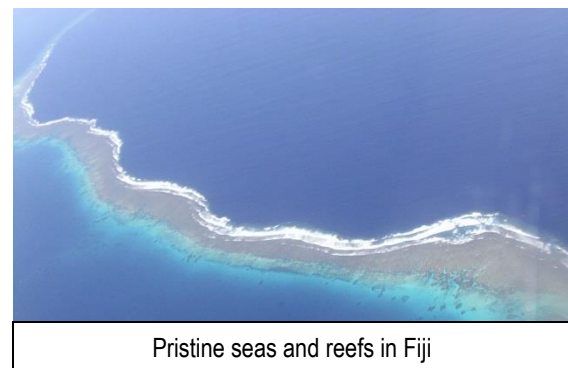
Issues of national, sub-regional and regional significance discussed by the Police Commissioners related to United Nations Peacekeeping, Cyber Crime, Domestic Violence, Emergency Management and Disaster Management. The experiences and lessons shared by Vanuatu on their response to Cyclone Pam enlightened Members given the increasing vulnerability of the sub-region to natural disasters. The Commissioners approved three administrative documents namely, the Guidelines for the MSG Formed Police Unit, Standard Operating Procedures for the MSG Department of Peacekeeping Operations, and Policy on the MSG Formed Police Unit. Key decisions from the Conference relating to the Agreement Establishing the Regional Police Academy, Framework Agreement for the MSG Formed Police Unit, and Declaration on Combatting Domestic and Family Violence, were all signed by Leaders at their 20th Summit.

Transshipment of Hazardous Wastes

Following the push for denuclearization processes to be pursued with added vigour as articulated in the MSG 2038 Prosperity For All Plan, the Secretariat carried out a comprehensive review of the 1995 Lakatoro Declaration. Of utmost concern in this regard was the need to avoid the risk of spillages from nuclear shipments passing through Melanesian waters. The review produced the Declaration on Transshipment of Nuclear Wastes and Trans-boundary Movement of Hazardous Wastes which urges the parties concerned to engage in meaningful dialogues whenever pertinent issues emerge. This particular Instrument of Cooperation was among those endorsed at the 20th Leaders' Summit.

MSG Environment and Climate Change Framework for Action 2020

The Secretariat drafted the MSG Environment and Climate Change Framework for Action 2020 in partnership with Griffith University of Australia during the year. This Framework serves as a guide to identify priority areas and potential actions for sub-regional collaboration on the Group's shared vision on the environment, climate change, and sustainable development. It incorporates the four key pillars of the 2012 MSG Leaders Declaration on Environment and



Pristine seas and reefs in Fiji

Climate Change namely, Green Growth Framework, Melanesia Terrestrial Commitment, Melanesia Blue Carbon Initiative and Melanesia Green Climate Fund. The focal areas of Climate Change Adaptation and Mitigation, Waste Management, and Sustainable Energy have also been incorporated in line with the United Nations Sustainable Development Goals. Information Management was also included to facilitate sustainable development policymaking and awareness raising with stakeholders. The Secretariat is to help Members in 2016 for mainstreaming the Framework and the Green Growth Strategy into their respective national development planning and implementation processes.

MSG Roadmap for Inshore Fisheries Management and Sustainable Development

The MSG Roadmap for Inshore Fisheries Management and Sustainable Development provides a strategic direction on the way forward that is relevant to Members' inshore fisheries sectors, policies and legislation and provides a detailed structure for implementation within the inshore fisheries sector. In pursuit of awareness raising on the Roadmap, the Secretariat partnered with the Pacific Community (SPC), with support from the New Zealand South-South Cooperation Programme, on the development of a fisheries resource kit for Vanuatu teachers that contains basic information on fisheries, suggestions for exercises and activities for primary and secondary students, learning outcomes and curriculum links.

Solomon Islands has used the Roadmap as the basis for drafting its new Coastal Fisheries Policy for subsequent tabling with Cabinet. Fiji-based Consultant, Dr Hugh Govan, who assisted the Solomon Islands Ministry of Fisheries and Marine Resources in developing this new Policy, conducted extensive consultations in 2014 for the preparation of an inshore and provincial fisheries sector planning framework. In December 2015, Dr Govan then assisted the Papua New Guinea National Fisheries Authority in developing a national Roadmap for Coastal Fisheries and Marine Aquaculture Management 2016-2026. Similar support is being considered for Vanuatu and Fiji, which is developing its own policy framework.



An inshore catch in
Solomon Islands

These measures are sensitive to the MSG approach for addressing environmental challenges by integrating environment and climate change measures into livelihoods development, given that the majority of the Melanesian population is dependent on inshore fisheries for their subsistence and local economic needs. Further impetus was provided by the Leaders-endorsed MOU on Technical Cooperation in Coastal Fishery and Aquaculture Development between Members which is to facilitate collaboration towards strengthening the capacity of Members in sustainable coastal fisheries and aquaculture development.

Participation at the COP 21

In the lead-up to COP 21, MSG Chair and Prime Minister of Solomon Islands, Hon. Manasseh Sogavare, appealed on 11 September 2015 to all Pacific Island Countries to act collectively to safeguard the health of our planet and our existence which was being threatened by the most defining phenomenon of our time – Climate Change. He also urged Members to stand together with one clear message calling for firm and decisive action on Climate Change by the global community that everyone was a part of.

MSG Members sent strong delegations to COP21 in Paris on 30 November-12 December 2015. Mr Stanley Wapot, Program Manager Governance and Sustainable Development, represented the Secretariat through the Vanuatu delegation. While the delegations were enriched by the networking opportunities in Paris, the Secretariat would be utilizing the knowledge it gained to supplement its work on addressing Climate Change issues especially in relation to the key elements of the Paris Agreement namely, Strengthen Climate Actions, Adaptation, Long-Term Goal, Enhanced Transparency and Climate Finance.

TRADE AND INVESTMENT

The purpose of the Trade and Investment Division is to provide policy advice on trade, investment and private sector development (PSD) to Members, with a view to improving their trade, investment and private sector performance, which in turn would help enhance their overall economic performance.

The work programme of the Division was supported principally under the Pacific Integration Technical Assistance Project (PITAP) through the 10th EDF which is administered by PIFS. Its activities are guided by seven of the 11 Commitments under the 2014 Port Moresby Declaration, in line also with the strategies contained in the MSG 2038 Prosperity For All Plan. Those seven Commitments are given below following the order of their classifications in the Declaration:

- i) Achieving a Free Trade Area by 2017;
- ii) Concluding MSGTA3 negotiations on Goods and Services by 2015;
- iv) Enhancing the mechanism for implementing the Skills Movements Scheme;
- v) Strengthening MSG's customs and biosecurity cooperation in the context of the MSGTA3;
- vi) Mapping out a clear Private Sector Development Strategy by 2015;
- vii) Enhancing MSG Connectivity through the MSG Travel Card by 2015; and,
- x) Fostering Investment Roadshows as a means to enhancing business to business linkages.

Revisions to the MSG Trade Agreement

The pursuit of “Achieving a Free Trade Area by 2017” was enabled through the Technical Working Group Negotiations (TWGN) process that provided Parties to the MSG Trade Agreement (MSGTA) – Fiji, Papua New Guinea, Solomon Islands and Vanuatu – with the opportunity to review the Agreement at both the national and sub-regional levels. The original MSGTA, known as MSGTA1, entered into force in 1993 on the basis of a Positive



List that identified only those MSG-made Goods which were tradable under preferential tariff rates. A revision of the MSGTA in 2005, MSGTA2, saw the adoption of a Negative List in place of the Positive List, thus allowing the importation of all Goods except those identified in the Negative List. Further revisions to the MSGTA were initiated through the TWGN in 2012 under MSGTA3, which broadened the Agreement's coverage of Goods alone to also include Trade in Services, Labour Mobility and Cross-Border Investments.

Four TWGN meetings during 2015 were held in Port Vila on 15-16 April and on 15-16 October, in Nadi on 24-26 August and in Noumea on 09-10 November. Negotiations on the MSGTA3 reached an advanced stage with the draft chapter on Trade in Goods fully completed by November, while the remaining work on the liberalization of Trade in Services, Labour Mobility and Investment is to be concluded in 2016. The final version of the MSGTA3 is to be presented to the MSG Trade Ministers Meeting (TMM) by mid-2016.

Rules of Origin Requirements

The need for awareness and understanding of the Rules of Origin (ROO) requirements to help administer the eligibility of exporters is vital for effective business transactions under trade pacts such as the MSGTA. Hence, a ROO Workshop for Trade Officials was held in Port Vila on 14 April 2015. Unlike previous workshops which involved the engagement of external experts, this workshop was conducted by the Secretariat's Trade Economist/Legal, Mr Petros Shayanowako. Given their acquaintance with him, the 20 participating Trade Officials from the MSGTA Parties were actively engaged in deliberations at a level that had never been realised at previous workshops. The efforts of participants to share their newly acquired knowledge back home were further supplemented by Mr Shayanowako when he visited the capitals, selected ports of entry and other centres during the MSG PSD Strategy mission between April and June 2015. This enabled discussions on key ROO issues with Customs and Biosecurity Officials and the private sector. Feedback from these in-country workshops was positive as participants learnt first-hand about the application of ROO rules and were also able to take part in policy dialogues with representatives of the Secretariat and of their own governments on issues pertaining to the MSGTA, ROO and PSD Strategy.

MSG Business Travel Card

An exploratory visit by Secretariat officials to Papua New Guinea and the Asia Pacific Economic Cooperation (APEC) Secretariat in Singapore was undertaken on 16-24 February 2015 for consultations on the proposed MSG Travel Card. The delegation leader, Director Governance and Sustainable Development, Ms Barbara Age, was joined in Singapore by the Program Manager Trade and Investment, Mr John Licht, and in Port Moresby by the Private Sector Development Advisor, Mr Henry Sanday. A key lesson learnt from APEC was the 38 per cent reduction in travel costs attributed to the APEC Business



From left: Ms Age, Mr Pangeran Situmorang of the APEC Secretariat and Mr Licht

Travel Card that the private sector initiated through the APEC Business Advisory Council. This translated to a savings of US\$3.7m in 2010-11 alone, compared to the 5 per cent reduction targeted for 2007-10. The need for harmonized legislation was the most critical issue raised by MSG authorities on the proposed Travel Card. The Secretariat's findings were tabled at the Trade and Economic Officials Meeting (TEOM) in Port Vila on 17 April 2015 and at the TWGN on Trade in Goods and Services in Nadi on 24-26 August 2015. In Nadi, Members noted that the deadline of 2015 was too ambitious given the reforms and capacity issues which had to be addressed prior to the creation and operation of the MSG Business Travel Card.

Promoting MSG Exports

An Export Products Study coordinated by the Trade Research Analyst, Ms Tendai Chigwada, was conducted by New Zealand Consultants, Mr Jeff Blackburn and Mr Barry Hellberg, who visited all MSG capitals during September-October 2015 to identify key issues and strategies for enhancing the export potential of selected products. Fiji, FLNKS and Papua New Guinea each identified three products known to

be facing difficulties with market access requirements and supply-side constraints, while Solomon Islands and Vanuatu were allowed to identify four products each in recognition of their Least Developed Country (LDC) status. The products thus identified by Members are as follows:

Fiji – virgin coconut oil, sweet biscuits and yoghurt;

FLNKS – tunnels and soil-less crop systems, cinder ash and solar water heaters;

Papua New Guinea – biscuits and snacks, corned beef and hand-made bilums (string bags);

Solomon Islands – canned tuna, coconut oil, coffee and processed timber; and,

Vanuatu – cocoa, sandalwood, beef and kava.

The findings of the study were scrutinized by Members at a Validation Workshop held in Noumea on 12 November 2015 and recommendations from both the study and workshop are to be considered for 2016.



Selected export products and processes, from left: Virgin coconut oil (Fiji), bilum bags (Papua New Guinea, photo supplied), tuna canning (Solomon Islands) and kava drying (Vanuatu)

MSG Investment Symposium

The promotion of business opportunities and investment policy dialogue were undertaken during the 3rd MSG Investment Symposium in Noumea on 18 November 2015 which was attended by 150 stakeholders including the private sector from Member countries, Australia and New Zealand as well as representatives of strategic regional and international organisations. The four sessions of the Symposium were themed as follows: *Readying the Region for the Melanesian Free Trade Area in 2017 – Lessons from the European Union*; *Taking Advantage of Business Opportunities in MSG Countries*; *Growing Private Enterprises in Rural and Maritime Areas*; and, *Addressing the Challenges of Climate Change to the Private Sector*. Selected public and private sector representatives from Member countries, H.E. Roy Mickey Joy, Vanuatu Ambassador to the EU, senior officials from the United Nations Development Programme (UNDP) Pacific Office in Suva, the Pacific Islands Trade & Invest Office in Auckland and a European Customs Union specialist from Brussels, were among the resource persons. The Draft MSG PSD Strategy was also presented by its Consultant, Mr Jesoni Vitusagavulu to the Symposium, the outcomes of which are to be considered for the Secretariat's 2016 work programme.

MSG Trade Fair

The promotion of trade between MSGTA Parties and also with the lucrative New Caledonian market was undertaken through the participation of over 60 companies from Fiji, Papua New Guinea, Solomon Islands, Vanuatu and New Caledonia as well as from Indonesia which exhibited their Melanesian-produced goods and services at the 3rd MSG Trade Fair that was held in Noumea on 18-20 November 2015. On display were quality products from the handicraft, agricultural, fisheries and forestry sectors, from the manufacturing, cosmetics, food and beverages industries, as well as from the tourism, travel, information and communications technology (ICT), arts, environment and health sectors. MSG Investment Promotion Agencies were also present to publicize investment opportunities and incentives in their countries. Vital contacts with MSG and New Caledonian businesses were made while sales and orders were also recorded by the exhibitors. The strong representation of women entrepreneurs and the diversity of their products, from information technology to artistic drawings and health products were remarkable. Networks to facilitate the exchange of information relating to markets, quality standards and biosecurity requirements were established among the exhibitors as well as with visitors to the Trade Fair. These developments are expected to boost the further growth of intra-MSG trade and investment flows.



Exhibits, from left: Batteries (Fiji), pet foods (New Caledonia), healthy drinks (Papua New Guinea) and artworks (Vanuatu)

Collaborating With Pacific Stakeholders

As part of efforts to broaden collaboration with Pacific regional partners and to foster Pacific-wide Regional Economic Integration, the Secretariat strengthened its networks and active engagements with PIFS and the Pacific Islands Private Sector Organisation (PIPSO) based in Suva, the Office of the Chief Trade Advisor (OCTA) located in Port Vila and the Pohnpei-based Micronesian Trade and Economic Community Office. Partnering with PIFS is vital in light of their Secretary General's role as the Pacific Regional Authorizing Officer for EU programmes, particularly in the context of the 10th and 11th EDFs.

The Secretariat was represented by the Trade Economist/Legal, Mr Petros Shayanowako, at the 10th WTO Ministerial Conference (MC10) Pacific ACP Preparatory Meeting held on 07-8 October 2015 in Port Vila, which was attended by officials from Papua New Guinea, Solomon Islands, Tonga and Vanuatu. The meeting was co-organized by the Government of Vanuatu, through its Embassy in Brussels and the PIFS Geneva Office. The meeting considered proposals by Pacific members of the African Caribbean and Pacific (ACP) Group to address outstanding Doha Development Agenda issues and development outcomes for tabling at the WTO MC10 Conference held in Nairobi, Kenya. Presenters in Port Vila

included PIFS' Permanent Representative to Geneva and former MSG Director of Trade and Investment, Ambassador Mrs Mere Falemaka and Counselor Mr Noah Kouback of the Vanuatu Embassy in Brussels. Key decisions from Port Vila were tabled at the Pacific Ministerial Meeting held in Brussels on 19-21 October 2015 prior to the ACP Ministerial Meeting on 14 December which preceded the WTO MC10.

Furthermore, Mr Shayanowako and OCTA's Chief Trade Advisor, Dr Edwini Kessie, joined the Vanuatu Delegation to the WTO MC10 in Nairobi on 15-19 December 2015. As assistance through the MC10 Outcomes is available to Developing Countries – Fiji and Papua New Guinea – as well as to the LDCs – Solomon Islands and Vanuatu – the Secretariat has encouraged Members to pursue these opportunities for assistance and to collectively champion their individual and common causes on these platforms for a more prosperous MSG and wider Pacific region.



From left: Dr Kessie (OCTA), Mr Shayanowako and Mr Sumbue Antas (Vanuatu) in Nairobi

Collaborating With External Stakeholders

Multilateral trade engagements were also advanced by the Secretariat through the visit by the Director Programs, Mr Peni Sikivou and Program Manager Trade and Investment, Mr John Licht, to Brussels and Luxembourg on 07-10 July 2015 for consultations with strategic EU and ACP institutions. Strengthened MSG-ACP/EU relations were pursued in the context of the Intra-ACP Facility and the 10th and 11th EDFs. The Vanuatu Embassy to the EU was instrumental in facilitating the programme for the visit, which included a joint briefing with the Embassies of Fiji, Papua New Guinea, Solomon Islands and Vanuatu. A courtesy call was also made to the Secretary General of the ACP Secretariat, Dr Patrick Gomes, who affirmed his commitment to bolster MSG-ACP relations, while meetings were also held with the Technical Centre for Agricultural and Rural Cooperation (CTA) and the European Investment Bank. The visit thus laid the groundwork for reinforcing MSG-ACP relations and engaging EU Customs Union Specialist, Mr Alastair Sutton, to explore the prospects and options for an MSG Customs Union. Mr Sutton tabled his report at the MSG Investment Symposium in Noumea on 18 November 2015.



At the ACP Secretariat, from left: Mr Sikivou, Dr Gomes and Mr Licht

Mr Sutton tabled his report at the MSG Investment Symposium in Noumea on 18 November 2015.

In addition, Mr Licht attended the South Pacific Training Workshop on Trade Dispute Settlement that was organized by the United Nations Commission on International Trade Law (UNCITRAL) in Port Moresby on 24-25 September 2015. While further collaboration between MSG and UNCITRAL is being explored, State Law Officials from Papua New Guinea and Solomon Islands have reportedly been engaging with UNCITRAL to address their country-specific issues.

MSG Private Sector Development Strategy

The formulation of the MSG PSD Strategy commenced with the hiring of its Consultant, Mr Jesoni Vitusagavulu of Fiji, who was accompanied by the Private Sector Development Advisor, Mr Henry Sanday and Mr Shayanowako throughout their unprecedented in-country consultations. This involved 365 stakeholders in 130 meetings held from 28 April to 14 June 2015 at 15 different cities, towns and other rural centres. They started off in Port Moresby and moved to Kokopo, Rabaul, Lae and Mt Hagen in Papua New Guinea. In Solomon Islands, visits were made to Honiara as well as to Gizo, Munda and Noro in Western Province, while a scheduled boat trip to Malaita Province was called off due to a cyclone alert. The programme in Fiji was launched in Suva before the team travelled to Labasa, Seaqqa, Wailevu and Savusavu on Vanua Levu, and then to Nadi, Lautoka, Ba and Tavua on the main island of Viti Levu. Finally, in Vanuatu, the team covered Port Vila, Luganville and Port Olry on Santo, Aore Island and Tanna. As noted later, a prominent feature of the consultations entailed the participation of national policymakers for capacity building and visibility enhancing purposes.



Mr Vitusagavulu (left) with Mr and Mrs Duckworth of Tininga Ltd in Mt Hagen, Western Highlands, Papua New Guinea



In-country consultations, from left: Roundtable with Customs Officials in Honiara; with rural entrepreneurs, Mr and Mrs Chute in Seaqqa, Fiji; and with Ms Sandrine Wallez of ACTIV in Port Vila which facilitates fair trade for local products

Consultations were held with the public sector which included national government officials, utility service providers and local and provincial authorities, while the private sector comprised peak industry bodies, formal and informal enterprises, women in business, cooperatives and indigenous business groups. Others consulted included regional organizations, development partners, academic and research institutions, people with disabilities, Corrections Services, faith-based organizations, the media and community representatives including women, youth and traditional resource owners. In recognition of PITAP funding support for the PSD mission from the 10th EDF, courtesy calls were made to the EU Delegation Offices in Port Moresby, Honiara and Suva. The Consultant also had dialogues with stakeholders via telephone and the internet. Notably, the participation of Mr Shayanowako was recommended by the TEOM in Port Vila on 17 April 2015 as the PSD Mission provided the opportunity for direct interactions with stakeholders, especially the private sector, on the MSGTA3 and its ROO requirements.

The initial Draft PSD Strategy, which was reviewed at the 3rd Heads of Investment Promotion Agencies and Industry Officials Meeting (HIPA+IOM) in Nadi on 27 August 2015, focused on achieving “higher, inclusive and sustainable growth through private sector development”. Members subsequently undertook further reviews of the revised Draft Strategy prior to the 4th HIPA+IOM convened in Noumea on 11 November 2015. Following its refinement, the revised Draft PSD Strategy has eight strategic goals namely, *Unleashing Entrepreneurship in Rural and Informal Economies*;



HIPA+IOM discusses the PSD Strategy in Noumea

Encouraging Inclusive Private Entrepreneurial Development; Climate Proofing Private Sector Development; Improving Economic Management; Boosting Infrastructure Development; Improving Access to Capital; Reforming State Owned Enterprises; and, Encouraging Greater Competition. The first three of these goals are considered to be the hallmarks of the Strategy given their direct relevance to Members’ interests and growing donor interest in them. The Strategy, covering the period 2016-2020 with a total budget of US\$3.6million, was subjected to further scrutiny by public and private stakeholders at the MSG Investment Symposium in Noumea on 18 November 2015. Following further post-Symposium reviews by Members, the Final Draft Strategy is to be tabled at the TEOM and ultimately at the TMM in 2016.

Indigenous Entrepreneurship

In sync with the aspiration for indigenous entrepreneurship in the development strategies of most Members, the concerns of indigenous entrepreneurs featured prominently during the PSD Strategy consultations. Meetings were held with the Fiji Indigenous Business Council, Papua New Guinea Indigenous Business Council (PNGIBC) and the Indigenous Business Council of Solomon Islands, as well as with indigenous entrepreneurs who are not members of these Councils, including in Vanuatu. A key driver for supporting the aims of indigenous entrepreneurship was the consensus reached during the Fiji Indigenous Business



At the Mapai company premises in Lae, from left: Mr Shayanowako, Mr Jacob Luke (Managing Director, Mapai Transport Ltd), Mr Vitusagavulu and Sir Nagora Bogan, President, PNGIBC

Symposium in Suva on 19-20 March 2014 for the three national Councils to form the Melanesian Indigenous Business Council. Notably, the former MSG Higher Level Representative, Ambassador Kaliopate Tavola, delivered an MSG policy statement on indigenous entrepreneurship at that Symposium.

Advocating Growth with Civil Society

A noteworthy finding during the PSD Strategy consultations was the growing attention paid by various civil society groups including faith-based organisations to small-scale income-generation projects which can help support the livelihood of their members. This was affirmed during the Secretariat’s discussions with the

Vanuatu Christian Council in Port Vila in late 2014 as well as with the United Church in Solomon Islands at their national headquarters in Munda on New Georgia Island, Western Province on 13 May 2015. A conference organised in Port Vila by the Vanuatu Seventh Day Adventist Church which was attended by 400 female and male participants, including 111 from Solomon Islands, provided Mr Sanday with the opportunity to conduct three workshop sessions on 08 December 2015 covering key PSD issues including the significance of the informal sector on sustaining livelihoods in both urban and rural areas. A significant observation from these discussions was the recognition that the lack of income-generating opportunities was not only prevalent among youths but also with middle-aged women and men, including retirees. These groups are among those targeted in the PSD Strategy.



The MSG PSD team with leaders of the United Church in Solomon Islands at their headquarters in Munda, Western Province

Capacity Building for Members

The implementation of the Secretariat's Trade and Investment work programme was focused on the overall objective of PITAP to improve trade policy outcomes through technical capacity building, enhancing private sector engagement in trade policy processes and increasing exports and investments for Members. This complemented the efforts of PIFS in building and strengthening Members' capacity in trade policy matters as well as to increasing institutional synergies for the effective use of EDF resources.

Capacity building for Members was achieved via various means, such as through the participation of officials as well as private sector and civil society representatives at the four MSGTA TWGN meetings and the two HIPA+IOM meetings convened by the Secretariat during the year. Other opportunities, as articulated earlier in this report, were realised through the MSGTA Rules of Origin Workshop, Investment Symposium and Trade Fair as well as at the national and even at the sub-national levels during in-country consultations conducted by Secretariat staff.

A definitive illustration of institutional capacity building undertaken by the Secretariat involved its collaboration with Members on the participation of national trade and investment officials in the in-country MSG PSD Strategy consultations. This allowed the officials to meet with diverse stakeholders, exposing them to practical and on-the-ground issues especially in the rural areas which required the attention of national policy makers in the capitals. The support of these officials in facilitating access to data and information as well as in arranging appointments, translations and transportation was helpful indeed. The positive impacts of their participation were evident as the knowledge and experience they gained went beyond trade and investment policy issues, and included the strengthening of their leadership skills, a better understanding of local contexts and the broadening of their in-country networks.

Government officials who joined the MSG PSD Strategy Mission are as follows:

Fiji - Ms Melania Talau, Ministry of Industry and Trade;

Papua New Guinea - Mr Anthony Korau, Department of Trade, Commerce and Industry;

Solomon Islands - Mr Lonsdale Lungana and Mr Jack Gulauma of the Ministry of Commerce and Industry and Ms Tracey Choko, Ministry of Foreign Affairs and External Trade; and,

Vanuatu - Mr Reuben Tafau, Department of Industry and Mr Adolphe Bani, Department of External Trade.



Ms Talau and the team during consultations in Wailevu Village, Cakaudrove Province, Fiji

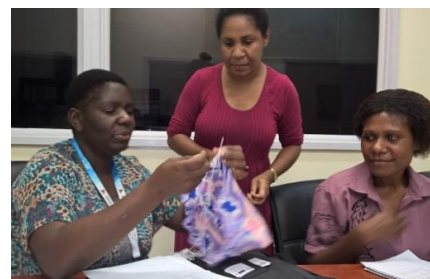


With Ms Choko, Mr Gulauma (far right) and Mr Jim Alexander of Soltuna Ltd (with hat) in Noro, Western Province, Solomon Islands



Among those on the boat to Aore, Vanuatu: Mr Bani (front left) and Mr Tafau (front right)

For the Export Products Study in Papua New Guinea, Ms Martinez Wasuak-MB and Mr Morea Onno of the Department of Foreign Affairs accompanied the Consultant, Mr Jeff Blackburn, and the Secretariat's Trade Research Analyst, Ms Tendai Chigwada, during stakeholder consultations in Port Moresby. For the same study in Fiji, the country's Trade Commissioner-designate to Papua New Guinea, Mr Navitalai Tuivuniwai, and Mr Kamlesh Prasad from the Ministry of Industry and Trade were also present with the Consultant, Mr Barry Hellberg, and Mr Sanday throughout the consultations in Suva.



From left: Ms Chigwada, Ms Sharlene Gawi of the Papua New Guinea Bilum Export Association, and Ms Wasuak-MB

Feedback from private sector and civil society stakeholders affirmed the value of engagements with the Secretariat throughout the consultations in all Member countries, particularly those in more remote areas including the highlands and islands where the participants felt privileged to meet with officials from their own capitals, Secretariat staff as well as with the Consultants. While the Secretariat teams gathered valuable insights, stakeholders also acknowledged the benefits of their involvement as knowledge was gained on the history and functions of MSG as well as on the diversity of MSG policy issues, from the technicalities of the MSGTA, environmental and security issues to the benefits of small business creation in the formal and informal sectors which could help address the social ills that community groups and churches in particular continue to grapple with.

ECONOMIC AND SOCIAL DEVELOPMENT

The purpose of the Economic and Social Development Division is to formulate and offer economic and social policy advice to Members, with the aim of improving their socio-economic welfare and livelihoods.

The Division focused on those mandates of the MSG 2038 Prosperity For All Plan that relate directly to economic and social policy issues as well as to Commitments iii), viii) and xi) under the 2014 Port Moresby Declaration, which are as follows:

- iii) Concluding Double Tax Treaties and Investment Promotion and Protection Agreements by December 2017;
- viii) Fund and conclude a MSG Shipping study by end of 2015;
- xi) Supporting the work of the Finance Ministers and Central Bank Governors and CEOs of Pension and Provident Funds on the establishment of a Development and Investment Fund and Emergency Stabilization Fund.

MSG Emergency Stabilization Fund

The inaugural MSG Governors of Central Banks Consultation held in Port Vila on 27 February 2015 was opened by the Vanuatu Minister for Finance and Economic Management, Hon. Maki Simelum, and chaired by Mr Simeon Athy, Governor of the Reserve Bank of Vanuatu. The meeting considered a report by the Consultant and former Governor of the Reserve Bank of Fiji (RBF), Mr Savenaca Narube, on the proposed MSG Emergency Stabilization Fund (MESF) which Members encountering a Balance of Payment crisis could access for the provision of emergency funding. The meeting was attended by Mr Loi Martin Bakani, Governor of the Bank of Papua New Guinea, Mr Barry Whiteside, Governor of RBF, and Mr Denton Rarawa, Governor of the Central Bank of Solomon Islands. After intense deliberations, Members agreed to recommend the MESF to the MSG Finance Ministers Meeting that is scheduled for 2016. Funding support for the project was provided by the Government of Timor Leste.

MSG Development and Investment Fund

The Heads of MSG Provident and Pension Funds convened their second meeting, hosted by the Fiji National Provident Fund, in Suva on 07 December 2015. They considered the report prepared by Fijian Consultants, Mr Gilbert Veisamasama and Mr Viliame Vodonaivalu, on the proposed MSG Development and Investment Fund (MDIF). In attendance were the Solomon Islands National Provident Fund CEO, Mr Tony Makabo and Chair of their Investment and Credit Committee, Mr Gideon Zoleveke, Vanuatu National Provident Fund CEO, Mr Santos Vatoko and FNPF Chief Operating Officer, Mr Jaoji Koroi, and Assistant General Manager of Member Services, Mr Alipate Waqairawai. The Director General, Mr Peter Forau, represented the Secretariat at the meeting.



The concept of the MDIF originated from the 2013 MSG Eminent Persons Group Report, which recommended a scheme to facilitate a degree of self-funding to support Members' development activities when aid is declining, and secondly to assist Members with the national implementation of decisions reached at the MSG level as well as other initiatives which promote their developmental interests. The principles discussed for the proposed Fund relate to: (i) responding to Members' priorities which other programmes cannot support; (ii) initially funding essential infrastructure projects; and (iii) funding the implementation of key decisions that enhance Members' capacity to benefit from agreed initiatives. The recommendations from that meeting are to be presented to the MSG Finance Ministers Meeting in 2016. As with the MESF, funding support for the project was provided by the Government of Timor Leste.

Shipping Connectivity

The enhancement of shipping and airline connectivity within the MSG sub-region remains a priority as the Group continues to pursue higher levels of trade, labour mobility and investment. The 20th MSG Leaders' Summit in Honiara on 26 June 2015 thus endorsed the Secretariat's proposal for improving connectivity through an MSG Shipping Service. The development of the Terms of Reference (TOR) for the proposal was led by the Program Manager Economic Development, Mr David Hopa, who collaborated with SPC in drafting the TOR and also in liaising with relevant contacts in Member countries. The proposed study is expected to be undertaken in 2016 with funding pledged by the Government of Papua New Guinea.



Aviation and Tourism Sectors

The recommendation of the inaugural MSG Aviation and Tourism Sectoral Dialogue held in Port Vila in 2014 for the development of an MSG Multi-Destination Tourism Programme and an MSG Tourism Marketing Brand was the subject of research undertaken by the Division during 2015. Consultations were conducted with Members' National Tourism Offices, Visitors' Bureaus, national airlines and industry operators. Key findings from these consultations especially in relation to industry interests and connectivity via air transportation are to be tabled at the 2nd Sectoral Dialogue scheduled for early 2016.



Forestry and Mining Sectors

Policy reforms to help Members with their natural resource-based sectors through higher productivity, value addition and commercial opportunities for sustainable growth are a priority of the Secretariat. Research was thus conducted by the Division in preparation for the PITAP-funded Forestry and Mining studies in 2016.

Double Taxation and Investment Agreements

Work on the Double Tax Treaties and Investment Promotion and Protection Agreements, as specified under the Port Moresby Declaration, did not progress during the year owing to in-house resource limitations. It is anticipated that this work would be pursued within the next of couple of years.

Stock Exchanges

The Secretariat assisted the Chair of the Suva-based South Pacific Stock Exchange (SPSE), Dr Nur Bano Ali, and CEO Ms Latileta Qoro, with their visit to Port Vila on 23-24 June 2015. SPSE is one of the two stock exchanges in the Pacific region; the other being the Port Moresby Stock Exchange, or POMSoX. The trends and challenges for both SPSE and POMSoX were examined in the MSG Regional Stock Exchange (MRSE) study in 2013 by Fijian Consultant, Mr Savenaca Narube. Upon their review of that study, MSG Finance Ministers and Central Bank



Dr Ali (left) and Ms Qoro at the Secretariat

Governors noted fundamental macroeconomic conditions as critical enablers for an effective and sustainable MRSE, the technical aspects of which are to be considered by a Technical Working Group. The visit helped SPSE explore MSG business opportunities, with special emphasis placed on the private sector's appetite for having a trading board. Dr Ali and Ms Qoro met with senior officials of the Vanuatu Chamber of Commerce and Industry, Vanuatu Investment Promotion Authority, Reserve Bank of Vanuatu, Vanuatu Financial Services Commission and the Secretariat.

Culture and Nature

The MSG-Griffith University Australian Award Fellowship Program on *Valuing Culture and Nature for Sustainable Natural Resource Management* (NRM) held at the University's Gold Coast Campus on 17 May–04 June 2015 was attended by 16 officials from the Departments of Planning, Finance, Lands, Environment, Agriculture, Climate Change, and Culture of Vanuatu, Fiji and Solomon Islands. Sessions focused on NRM policy and case studies at Gold Coast and at the Australian



At the Australian Museum in Sydney

National University in Canberra. Field visits were made to key sites including the Australian Museum in Sydney which has the world's largest collection of Pacific and Melanesian artifacts and also to Lamington National Park in Gold Coast and Dimbulah Aboriginal country in Northern Territory. Participants networked and were exposed to Sustainable NRM policy and practice in the Australian context, NRM approaches based on culture and traditional knowledge blended with science to achieve development goals. A customized Policy Evaluation Tool was also developed to assess policies and papers on culture and NRM for translation into templates for national policy interventions within Melanesia. The Program Manager Governance and Sustainable Development, Mr Stanley Wapot, represented the Secretariat at the Program.

Sports Development

In recognition of the role that sports can play in facilitating social equality and inclusivity, the 4th MSG Sports Committee Meeting was convened in Noumea on 12-13 March 2015. Hosted by FLNKS and opened by Madame Valentine Eurisouke, Minister for Youth and Sports of New Caledonia, the key agenda items included the reviews of the Draft Melanesia Games Charter that was initially prepared by Papua New Guinea and of the Draft MOU on Sports Cooperation between Members, the revival of the Melanesia Soccer Cup and the inaugural Melanesia Games in October 2016. The decisions of the Committee were

endorsed at the MSG Sports Ministers Meeting held in Port Moresby during the margins of the XV Pacific Games on 04-18 July 2015. Secretariat officials present in Noumea were the Director Governance and Sustainable Development, Ms Barbara Age, the then Program Manager Governance and Sustainable Development, Mrs Laisiana Tugaga and, Translation and Interpretation Officer, Ms Cheyenne Bouchet.



MSG Sports Committee members briefed by International Sports Centre staff in Noumea

Youth Leadership and Empowerment

Consistent with the directive from the 20th MSG Leaders' Summit for actions on the advancement of youth, women and civil society groups, the Secretariat hosted on 28 May 2015 a group of 12 young volunteers from New Caledonia who were co-sponsored by *France Volontaire*, the Provincial Governments of South, North and Loyalty Islands Provinces, and the French Government. Led by Mr Gael Audras, the volunteers served as Teaching Assistants at French schools, as Cultural Attachés at cultural centres and also helped in



Some of the young volunteers from New Caledonia pictured here at the Secretariat

cooperation building activities on Efate. Six other volunteers were already in Santo and Tanna, while nine others were in Fiji. Ranging from six months to three years, the attachments are designed to develop youths through first-hand cross-cultural experiences and direct involvement in addressing local capacity and institutional needs.

Exemplifying public-private partnerships, the Secretariat assisted the Sydney-based Lowy Institute for International Policy, with support from the Pacific Media Assistance Scheme and ANZ Bank, in convening the *Melanesia New Voices: Investing in the Next Generation Dialogue* in Port Vila on 23 June 2015. The Secretariat facilitated the nomination of young women engaged in entrepreneurial development who also participated in the MSG PSD Strategy consultations. This brought some of the 25 participating young and emerging leaders (five from each Member) to discuss their challenges and hopes for the sub-region, and also to explore opportunities for cooperation. A key recommendation they made was for MSG Leaders to provide the youth with more space for contributing to political and economic decision-making processes.

Women Economic Empowerment

Cognizant of the potential which women entrepreneurs have in empowering other women, young girls and communities, information on Members' women-focused business groups was gathered and circulated. The groups included the Papua New Guinea Women in Business Foundation and Women's Chamber of Commerce and Industry, Solomon Islands Women in Business, Fiji Women in Business, Fiji Women Entrepreneurs and Business Council, and the Vanuatu Chamber of Commerce and Industry.



Businesswomen in Lae, Papua New Guinea, from left: Mrs Nellie McLay, Mrs Jane Kenni, Mrs Sheila Harou, Mrs Sarah Todd and Mrs Philomena Elijah

Remarkably, two national Chambers were headed by women, namely Ms Rose Abana of the Solomon Islands Chamber of Commerce and Industry, and Ms Astrid Boulekone of the Vanuatu Chamber of Commerce and Industry. Entities such as the National Councils of Women were also actively engaged in supporting income generating projects for women at both the formal and informal levels. To further supplement the endeavour for increased women's participation in economic activities, women entrepreneurs were profiled in the Secretariat's *Melanesian Tok* newsletter. The real life experiences of Ms Ellis Waragat of Kokopo, Papua New Guinea, Ms Nanette Tutua of Honiara and Mrs Esther Suti of Gizo in Solomon Islands were found to inspire existing and potential businesswomen, their male counterparts, youths and policymakers. They had all participated in the MSG PSD Strategy consultations.

Interventions by the Secretariat at the national level included a joint presentation, entitled *MSG Support for the Economic Empowerment of Women* by the Capacity Development Advisor, Mrs Eleni Tevi and Private Sector Development Advisor, Mr Henry Sanday, at the *Vanuatu Woman I Help Bidim Ekonomi Blong Neisen Seminar* organised by the Vanuatu National Council of Women in Port Vila on 11 March 2015. The seminar also featured reports from the Council's representatives to the 2014 PIPSO Pacific Women in Business Conference. The Secretariat's coverage of key aspects of accessing support from development partners and of income generating opportunities in both the formal and informal sectors enlightened the 50 seminar participants and assisted the Council with their work programming.

Cooperatives

Although the once popular cooperative societies have waned in importance since the 1970s, their growth is still being targeted in Members' development strategies. The Vanuatu Department of Cooperatives and Business Development, for instance, provides advisory and marketing services in support of nearly 500 active cooperatives which have over 16,000 members and a total annual turnover of VT650million. Upon their request, Mrs Tevi and Mr Sanday spoke on *Accessing the Support Schemes of Development Partners* and on *Small Indigenous Business Development Through Cooperatives* at the 2014 Vanuatu Cooperatives Annual General Meeting and Staff Workshop in Port Vila on 30 January 2015. The Secretariat also facilitated networking and exchanges for capacity building purposes between Members' Cooperatives authorities. It is highly anticipated that the authorities in this regard will meet together next year.

Agricultural Development

CTA, PIPSO, SPC and the Vanuatu Embassy to the EU were instrumental in the Secretariat's attendance at the Supporting the Agrifood Sectors in Vanuatu and the Pacific Region Conference in Port Vila on 23-25 June 2015, which was followed by the launch of Vanuatu's Agriculture Sector Policy 2015-2030 on 26 June 2015. A subsequent engagement attended to by the Secretariat upon the invitation of CTA was the Pacific Community Agritourism and Agribusiness Forum in Nadi on 01 -03 July 2015. The Secretariat's presentation at the Conference in Port Vila focused on the *Significance of the Informal Economy and Trading Between Adjacent Sovereign Provinces* while in Nadi, it centred on *Agritourism Opportunities Associated With Sub-Regional Trade Collaboration*. Networking with ACP and EU partners and information sharing on policy matters, markets and capacity building were highlights of the meetings. The Secretariat was represented at the conferences by Trade Research Analyst, Ms Tendai Chigwada and Mr Sanday.



Matchmaking farmers (left) with hotel chefs and staff in Nadi
(Photo supplied)

LEGAL SERVICES

The Legal Services Unit is responsible for the provision of legal advice to the Secretariat's Management on corporate and organisational issues and of strategic policy advice on important legal instruments of cooperation as well as other issues of interest and concern to Members. As a direct consequence of the broad scope of its work, the services of the Unit were utilised by all Divisions of the Secretariat.

Instruments of Cooperation

The 10th meeting of SCLII held in Port Vila on 20-21 April 2015 discussed key policy initiatives which had to be finalised before the 20th MSG Leaders' Summit in Honiara on 25-26 June 2015. The first of these initiatives related to the MOU for the HERCC which was made all the more relevant following the devastation caused by Cyclone Pam in Vanuatu during March 2015. The second initiative related to the Agreement on Establishing the Regional Police Academy. Progress was also noted on the promotion of legal co-operation between MSG Members through the Treaty of Reciprocal Enforcement of Foreign Judgments and the Treaty on Custody and Maintenance of Children. As noted in the Chair's Message, Leaders signed during their 20th Summit the revised Agreement Establishing the MSG, MOU for the HERCC, Agreement Establishing the Regional Police Academy and the Framework Agreement on the Formed Police Unit.



The SCLII meeting in session

Ratification and Implementation of Treaties

After the 20th Leaders' Summit, the Secretariat convened the 11th SCLII meeting in Port Vila on 03-04 September 2015 where they discussed the ratification and implementation of the treaties signed by Leaders. Members are continuing to advance their ratification of these treaties. In addition, the Secretariat partnered with the Pacific Small Arms Action Group in co-organising the 2nd MSG Regional Workshop on the United Nations Program of Action and Arms Trade Treaty also in Port Vila on 01-02 September 2015. The workshop helped build the capacity of Members in the ratification of the Arms Trade Treaty as well as on the submission of their country reports on the United Nations Programme of Action.

Traditional Knowledge

Legal advisory support from the Secretariat to Members included the provision of technical resources to the Solomon Islands National Workshop on Traditional Knowledge in Honiara on 03-07 August 2015. Around 50 participants from the Government, private sector, civil society groups and individuals including indigenous resource owners attended the workshop, which provided them with the opportunity to scrutinize and discuss the Solomon Islands Traditional Knowledge Bill. An understanding of the Bill was crucial for safeguarding cultural heritage and values from exploitation and misappropriation, and to maximise tangible benefits to the original owners from their use. The need to enact this Bill emanated from the National Government's commitment to implement the MSG Treaty on Traditional Knowledge and Expressions of Culture. The capacity building workshop in Honiara followed a similar workshop in Fiji last year. The Manager Legal Services, Mr Ilan Kiloe, co-facilitated both workshops.



Samples of hand-woven bags from Simbo, Western Province, Solomon Islands (Photo supplied)

ENGAGEMENTS WITH STRATEGIC PARTNERS

In pursuit of mutually beneficial relations with strategic institutions, the Secretariat attended to key engagements as highlighted below.

Pacific Islands Forum Secretariat

The Acting Director General, Mr Molean Kilepak, hosted the new Secretary General for PIFS, Dame Meg Taylor, on 16 February 2015 and took the opportunity to discuss the Secretariat's work in response to MSG Leaders' mandates in line with the MSG 2038 Prosperity for All Plan. Support from PIFS was acknowledged, particularly through the 10th EDF-funded PITAP, in line with the Agreement that was signed between the Secretariat and PIFS on 06 February 2014. Following the visit, an MOU to formalize collaboration between PIFS and the MSG Secretariat was prepared. The MOU is yet to be signed.



Dame Taylor (front, second from right) with Mr Kilepak and other staff

European Union

Cognizant of EU support for the MSG Trade and Investment work programme, Secretariat officials paid courtesy calls to the EU Delegations. Meetings were held with H.E. Mr Leonidas Tezapsidis, Ambassador to Solomon Islands, during the visit of the Director Governance and Sustainable Development, Ms Barbara Age and Private Sector Development Advisor, Mr Henry Sanday on 06 March 2015 and with H.E. Mr Martin Dihm, Ambassador to Papua New Guinea, in Port Moresby on 30 April 2015 during the visit of the PSD Strategy mission team. In Suva on 01 June 2015, the team met with Mr Jerome Pons, Head of Economic and Social Sectors, and Mr Patrick Polacsek, Programme Manager, EU Delegation for the Pacific. The meetings enabled updates and the exchange of views on key developmental issues.



At the EU Delegation Office in Honiara, from left: Ms Age, Mr Sanday, H.E. Mr Tezapsidis and Ms Marga Peeters

The visibility of the Secretariat was boosted through its publications and promotional materials at the MSG booth during the Europe Day celebrations in Suva on 09 May 2015. Capacity Development Advisor, Mrs Eleni Tevi and Information Technology and Website Officer, Ms Monica Abau-Sapulai, attended the celebrations. This was followed by the Monitoring and Evaluation of the Strengthening Pacific Economic Integration Through Trade (SPEITT) meeting on 13 May 2015 and the 11th EDF Programming meeting on 14 May 2015 also in Suva. Both were attended by Mrs Tevi and the Program Manager Trade and Investment, Mr John Licht. For capacity building on the 11th EDF Procurement Procedures and Implementation Requirements, intensive training jointly conducted by the EU and PIFS was also held in Suva on 03-13 August 2015. Mrs Tevi and Senior Accountant, Mr John Palmer, attended the training.



At the MSG booth on Europe Day, from left: Mrs Tevi, Head of the EU Delegation in Suva H.E. Mr Andrew Jacobs and Ms Abau-Sapulai

The generosity of the EU was evident from its invitation to the Secretariat for the presentation of the Draft MSG PSD Strategy to the Pacific PSD Donors Group Meeting that the EU Delegation hosted in Suva on 26-27 November 2015. Mr Sanday thus took up the opportunity to sensitize donors including the Australian and New Zealand Governments, Asian Development Bank, UNDP, World Bank and regional organisations about key features of the MSG PSD Strategy, its synergies with national and regional as well as with development partners' PSD priorities, and lastly, the resource requirements of the Strategy. Related to this and the drive for resource mobilisation, Mr Licht and Mr Sanday then attended the Identification and Prioritization of 11th EDF Proposals Workshop that was also held in Suva on 09-10 December 2015.

Lastly, in compliance with the Monitoring and Evaluation requirements for PITAP, the Secretariat had extensive discussions with Ms Karen McHugh, the Results-Oriented Monitoring Consultant engaged by the EU, during her visit to Port Vila on 12-13 October 2015.

Secretariat of the Pacific Regional Environment Programme

Consistent with the MOU signed between MSG and the Secretariat of the Pacific Regional Environment Programme (SPREP) on 04 December 2013, Mr Sefanaia Nawadra, SPREP's Director Environmental Monitoring and Governance held a seminar at the Secretariat on 06 March 2015 where he highlighted their progress with work in the Melanesian sub-region. He revealed plans for having a national SPREP presence in Fiji, Solomon Islands and Vanuatu to coordinate activities relating to Biodiversity and Ecosystems Management, Climate Change, Waste Management, Pollution Control and, Environmental Monitoring and Governance. SPREP has since appointed its Country Managers namely, Mr Herman Timmermans in Fiji, Mr Fred Paterson in Solomon Islands and Mr David Loubser in Vanuatu, whose office is based at the Secretariat. An office for Papua New Guinea is also being considered by SPREP.

Pacific Islands Private Sector Organisation

An MOU was signed on 13 May 2015 in Suva between the Secretariat and PIPSO, which is the peak representative body for the private sector throughout the Pacific region. PIPSO members include the National Private Sector Organisations (NPSO) of MSG Member countries. The signing affirmed the commitment of both institutions to collaborate on initiatives geared for sustainable economic growth at the national level and Pacific regional economic integration through private sector development. The MOU, which the Director General, Mr Peter Forau, signed with PIPSO CEO, Mrs Mereia Volavola, was exchanged during the SPEITT meeting in the presence of PIFS Deputy Secretary General, Ms Andie Fong Toy and EU Head of Economic and Social Sectors, Mr Jerome Pons. Mr Licht represented the Secretariat at the ceremony.



At the MOU signing, from left: Mr Licht, Ms Fong Toy, Mr Pons and Mrs Volavola

Besides the benefits of networking and information sharing with the MSG private sector through the PIPSO Secretariat and NPSOs, an immediate demonstration of the partnership with PIPSO was the attendance of Mr Sanday at the PIPSO Annual General Meeting in Nadi on 03 July 2015. This enabled his direct interactions with the NPSO representatives from MSG Member countries on pertinent trade and investment policy issues as well as on the prospects of further improving intra-MSG trade in both goods and services including labour mobility as well as on stimulating higher intra-MSG investment flows.

Pacific Islands Association of Non-Governmental Organisations

Social Equality and Inclusivity under the 2038 MSG Prosperity For All Plan is pursued via extensive stakeholder consultations, among other means. A key partner in this regard is the Pacific Islands Association of Non-Governmental Organisations, or PIANGO, whose Executive Director, Ms Emele Duituturaga, met with the Director General, Mr Peter Forau, at the Secretariat on 17 August 2015. They explored avenues for mutually beneficial collaboration.



Mr Forau and Ms Duituturaga

Fiji High Commissioner to Papua New Guinea, Solomon Islands and Vanuatu

The new High Commissioner of Fiji to Papua New Guinea, Solomon Islands and Vanuatu, H.E. Mr Esala Teleni, paid a courtesy call to the Secretariat on 18 August 2015 during his visit for the presentation of his credentials to the President of Vanuatu, H.E. Mr Lonsdale Baldwin. His contributions to Vanuatu's development included participation in the country's Independence celebrations and charting the country's Exclusive Economic Zone. Although based in Port Moresby, he pledged to pay special attention to the interests of not only Fiji but also of the MSG sub-region.



H.E. Mr Teleni

Commonwealth Secretariat

The Deputy Secretary General (Economic and Social Development) of the Commonwealth Secretariat, Mr Deodat Maharaj, met with the Acting Director General, Mr Molean Kilepak on 17 September 2015 during his tour of Commonwealth-member Pacific island states including Vanuatu. Discussions centred on common issues of concern such as the vulnerability and resilience of small island states to various factors particularly climate change, gender sensitivity, trade policy to advance developmental aspirations and other relevant global issues. Opportunities for future collaboration were also explored.



Mr Maharaj receives a gift from Mr Kilepak

Technical Centre for Agricultural and Rural Cooperation

The Secretariat signed an MOU on 07 December 2015 in Paris with the Technical Centre for Agricultural and Rural Cooperation (CTA) to formalize their partnership. The signing was attended by the Program Manager Governance and Sustainable Development, Mr Stanley Wapot and remarkably, engagements between the Secretariat and CTA commenced even prior to the signing. An illustration in this regard was the Secretariat's representation by Ms Chigwada and Mr Sanday at the Pacific Agritourism and Agribusiness Forum in Nadi on 01-03 July 2015, which was jointly organised by CTA, PIPSO, SPC and the South Pacific Tourism Organisation. The Secretariat anticipates a stronger partnership with CTA to improve capacities for agricultural and rural development in pursuit of food security, prosperity and sound natural resources management. MOU activities are scheduled to be executed from 2016 onwards.

African, Caribbean and Pacific Secretariat

While collaborative engagements involving the Secretariats of MSG and of the African, Caribbean and Pacific (ACP) Group have been ongoing for years, the organisations bolstered their partnership through an MOU that was signed in Paris on 08 December 2015. The Vanuatu Ambassador to the EU, H.E. Mr Roy Mickey Joy, and his Embassy staff contributed significantly towards preparations for the signing ceremony. The MOU was signed by Dr Patrick Gomes, Secretary General of the ACP Secretariat while the MSG Secretariat was represented by Mr Wapot. The ceremony was also witnessed by Papua New Guinea's Minister for Environment and Climate Change, Hon. John Pundari and his counterpart from Solomon

Islands, Hon. Samuel Manetoali. The MOU resulted from consultations held in Brussels in July 2015 between Dr Gomes and Mr Sikivou and Mr Licht of the Secretariat. While the activities under the MOU are to be pursued from 2016 onwards, opportunities would also be explored with the Caribbean Export Development Agency and Caribbean Association of Investment Promotion Authorities, contacts for which were also in Nadi for the above-mentioned Pacific Agritourism and Agribusiness Forum.



At the signing, from left: Hon. Pundari, Hon. Manetoali, Mr Wapot and Dr Gomes

Pacific Community

In line with the MOU between MSG and SPC that was signed on 17 July 2012 and reviewed on 11 November 2014, a further Letter of Agreement signed between them on 16 December 2015 facilitated the hosting of a new SPC Regional Office for Melanesia at the Secretariat's premises. The SPC office is headed by their Regional Director Melanesia, Ms Mia Rimon. Prior to the opening of the new office, Ms Rimon had accompanied Mr Moses Amos, Director of the Fisheries, Aquaculture and Marine Ecosystems Division to the Secretariat on 10 August 2015 for discussions on MSG-SPC collaboration in strategic areas including Agriculture and Forestry, Capacity Development, Coastal Fisheries, Cultural Industries, Deep Sea Mining, Statistics, Sustainable Energy, Transport and Shipping, Water Quality and Youth.

MELANESIAN SOLUTIONS

The ongoing expansion of mandates and workload made it imperative for the Secretariat to prioritize its activities and consider options for generating funds to sustainably support its internal operations. Melanesian Solutions was thus registered in 2014 with the Vanuatu Financial Services Commission as the trading arm of the Secretariat. Its Interim Board of Directors includes Mr Johnny Koanapo, Chairman and Director General, Vanuatu Ministry of Foreign Affairs and International Cooperation; Mr Peter Forau, Deputy Chairman and Director General; Mr Molean Kilepak, Deputy Director General; and Mr Jean Pierre Nirua, Interim Managing Director. Ms Vulori Baleisolomone, Chief Operating Officer, is the Board Secretary.

Following the endorsement of Melanesian Solutions by the Governing Body and its launch by Vanuatu's Minister for Foreign Affairs and International Cooperation, Hon. Sato Kilman, on 23 January 2015, an internal rotation of staff initiated by the Director General on 25 May 2015 led to the appointment of Melanesian Solutions staff. Details of the restructure are in the report of the Corporate Services Division.

Melanesian Solutions was subsequently transformed to a limited company, known as Melanesian Solutions Limited. Its subsequent advertisements and in-country awareness programmes led to the purchase of 2,496 shares valued at VT4,992,500. All of the investors were from Vanuatu. However, limited expertise and financial resources within the company and consequent ambiguities resulted in considerable operational difficulties as the year drew to its close. As highlighted in the attached 2015 Auditors Report, the company's establishment cost of VT23.28million incurred by the Secretariat was written off.

CORPORATE SERVICES

The purpose of the Corporate Services Division is to assist the Executive in the management of finances, human resources, properties and assets of the Secretariat and the provision of support and technical services to enable the smooth conduct of the Secretariat's operations.

As at 31 December 2015, the Secretariat had a total of 29 staff members, consisting of 19 Professional Staff and 10 Administrative and Support staff. Their breakdown by nationality was as follows: Fiji - 5, FLNKS – 1, Papua New Guinea – 3, Solomon Islands – 3, Vanuatu – 15 and Zimbabwe – 2.

Internal Staff Rotation

The commitment to strengthen the Secretariat's operational functions and improve its financial base, as articulated in the Corporate Plan 2013-2015, saw the restructuring of the entire functions of the Secretariat into the Operations and Programs Divisions, as well as the formation of Melanesian Solutions. The restructuring that was put into effect by the Director General, Mr Peter Forau, on 25 May 2015 resulted in the following staff reshuffle:

- a) Mrs Barbara Age, former Director Governance and Sustainable Development, became Director Operations;
- b) Mr Peni Sikivou, former Director Trade, Investment and Economic Development, became Director Programs which incorporated the Trade, Investment, Economic Development and, Governance and Sustainable Development Programs;
- c) Mrs Laisiana Tugaga, former Program Manager Governance and Sustainable Development, became Manager Corporate Services; and,
- d) Mr Stanley Wapot, former Environment and Climate Change Advisor became Program Manager Governance and Sustainable Development.

The staff appointments for Melanesian Solutions were as follows:

- a) Mr Jean-Pierre Nirua, former Director Operations, as the Interim Managing Director;
- b) Ms Vulori Baleisolomone, former Manager Corporate Services, as Chief Operating Officer; and,
- c) Mr Mansen Ahelmalahlah, former Research Assistant, as Manager Research and Marketing.

Staff Recruitments and Departures

Three new staff members joined the Secretariat during the year. Ms Tendai Chigwada, Trade Research Analyst, who started on 23 January 2015, was followed by Mr Petros Shayanowako, Trade Economist Legal, who joined on 11 February 2015. Both worked under the EU-funded PITAP Project. In line with EU funding regulations for positions to be advertised and open to ACP and EU nationals, Ms Chigwada and Mr Shayanowako were both recruited from Zimbabwe. The third new staff member of the Secretariat was Mr John Palmer of Solomon Islands who joined as Senior Accountant on 01 May 2015.

Six staff members left the Secretariat during the year and they included the following:

- a) Ms Rose Wete of FLNKS, Corporate Development Officer, departed on 13 February 2015 upon the end of her contract;
- b) Mr Jamie Tanguay of the United States, Project Coordinator for Alternative Indicators for Well Being in Melanesia, departed on 30 April 2015 following the request of the Vanuatu Government for the Project's relocation to the Vanuatu National Statistics Office;
- c) Ms Barbara Age of Papua New Guinea, Director Operations, departed on 27 July 2015 upon the end of her contract;
- d) Mr Jimmy Naouna of FLNKS, Head of the FLNKS Unit, departed on 20 November 2015 upon the end of his contract;
- e) Mr Jean Pierre Nirua of Vanuatu, Interim Managing Director, Melanesian Solutions, departed on 30 November 2015 upon the end of his contract;
- f) Mr Peni Sikivou of Fiji, Director Programs, departed on 31 December 2015 upon the end of his contract; and,
- g) Mr Peter Forau of Solomon Islands, Director General, who officially finished off on 31 December 2015 following his resignation from office on 16 October 2015.

2016 -2020 Corporate Plan

In readiness for the end of the Corporate Plan 2013-2015, a new Corporate Plan 2016-2020 was developed internally during October 2015. The new Vision and Mission for the Secretariat under the new Plan are:

Vision

- To be the leading sub-regional organisation in advancing the common socio-economic development and political interests of Melanesia and of the wider Pacific region.

Mission

- To serve the best interests of our Members by supporting, initiating, facilitating and coordinating programmes for the realization of the regional integration objectives of the MSG through:
 - The efficient and cost effective use of available resources;
 - Upholding the principles of the MSG as enshrined in the MSG Agreement; and,
 - Commitment of our skilled and motivated staff.

The Governing Body meetings held in Port Vila on 14-16 October 2015 approved the new Corporate Plan but recommended that the proposed organizational structure be reviewed and streamlined to ensure cost effectiveness. The changes are therefore to be reviewed in the new year.

Communications and Visibility

The production of the *Melanesian Tok* newsletter was initiated through PITAP as a means to raise awareness on its work programme, as well as to inform readers about business opportunities in the Melanesian sub-region, facilitate networking and business matchmaking, disseminate good work practices and business profiles, and to raise the visibility of MSG. Work other than PITAP-funded activities also featured in the newsletter. Just five of the projected six bi-monthly issues of the newsletter were produced during the year and this was attributed to competing priorities under PITAP. Averaging 20 articles per issue and disseminated via the MSG website and by email to some 2,000 subscribers, the newsletter effectively enhanced the image of MSG and of the Secretariat within and beyond the sub-region. It was also circulated through online networks, blog sites and the media. In light of the positive and inspiring feedback from readers, including Member Governments, the private sector, civil society, inter-governmental organisations, development partners, researchers and even the media, the *Melanesian Tok* newsletter project is to be maintained in 2016.



The front page of the first issue of *Melanesian Tok*

Information Technology

In pursuit of reliable and effective information and communications support that would benefit Members and the general public, the Secretariat has been undertaking major information technology upgrading projects. The networking infrastructure was re-wired in 2014 with the factory-made Category 6 cables replacing the hand-made Category 5 cables. This improved data transfer speeds and network connectivity between Clients and the Server. The Conference Room of the Secretariat was also modernised with a ceiling-mounted overhead projector and wireless sound and conferencing equipment.



The new IBM server

In 2015, the Server Infrastructure including hardware and software was overhauled. The HP ProLiant Tower Server was replaced with a rack mountable IBM X Series server. The Server Operating System was also upgraded from the SBS 2011 Standard hosted on a Windows 2008 platform to a Windows Server 2012 R2, while the Email Server was upgraded from Exchange 2010 to Exchange 2013 thus the use of Outlook. The Client Operating Environment was standardised, based on Windows 7 Pro and MS Office 2013. The Client desktops and laptops were also standardised to Dell machines with a few MacBook. All user printers were standardised to Brother Machines with one heavy duty Ricoh printer for printing bulk and public relation materials. There was also migration from the Asymmetric Digital Subscriber Line internet, a high speed service delivered over copper wires, to Broadband Internet over Optic Fibre cables. Wi-Fi internet was also made available as standby and for use by visitors to the Secretariat.

Review of Secretariat Policy Documents

The difficulties in implementing certain provisions of the Staff Regulations 2012 were attributed to inadequate, unclear or inconsistent Regulations, newly introduced work approaches as well as emerging and changing circumstances. This necessitated the review of the Staff Regulations and of the Financial Regulations, the outcomes of which were endorsed by the Governing Body in Port Vila during their meetings on 13-16 October, 2015.

Financial Management

A Total Consolidated Budget of **VT712,248,128** was approved for 2015 by the FMM at its meeting held on 23 January 2015 in Port-Vila. This Total Budget is made up of a Regular Budget of **VT418,052,324** with an Extra Budget of **VT294,194,804**. The Regular Budget is funded predominately by Members' Assessed contributions and Voluntary contributions to meet the operational costs of the Secretariat including staff emoluments. The Extra Budget is funded by donor partners targeted at specific projects and activities. As part of reforms to improve its Budgeting Framework, the Secretariat undertook work on consolidating its finance and budgeting processes during the year.

2015 Audited Accounts

The Secretariat's Financial Statements for 2015 which was prepared by the Auditors, Barrett & Partners, is attached.

Melanesian Spearhead Group Secretariat

Financial Statements

For the Year Ended 31 December 2015



Barrett & Partners
Chartered Accountants & Business Advisers



Barrett & Partners

Melanesian Spearhead Group Secretariat
Financial Statements
For the Year Ended 31 December 2015

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20 July 2016

Barrett & Partners
Chartered Accountants

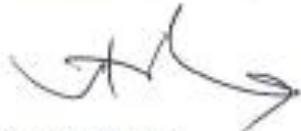
MELANESIAN SPEARHEAD GROUP SECRETARIAT

**STATEMENT BY THE DIRECTOR GENERAL
FOR THE YEAR ENDED 31 DECEMBER 2015**

The Director General of the Melanesian Spearhead Group Secretariat has prepared these financial statements at the request of the members of the Melanesian Spearhead Group. This special purpose financial report has been prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

In the opinion of the Director General the financial report as set out on pages 3 to 11:

- 1 - Presents a true and fair view of the financial position as at 31 December 2015 and its performance for the year ended on that date.
- 2 - As at the date of this statement, there are reasonable grounds to believe that it will be able to pay its debts as and when they fall due.



Director General
Melanesian Spearhead Group Secretariat



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Melanesian Spearhead Group Secretariat

**INDEPENDENT AUDITORS' REPORT
TO THE MEMBERS OF THE MELANESIAN SPEARHEAD GROUP**

Scope

We have audited the financial statements of Melanesian Spearhead Group Secretariat (herein referred to as the "Secretariat") for the year ended 31 December 2015 as set out on pages 2 to 11 which consists of the Statement of Financial Performance, Statement of Movements in Equity, Statement of Financial Position, Statement of Cash flows and notes to the Financial Statements.

Secretariat's responsibility for the Financial Statements

The Melanesian Spearhead Group Secretariat is responsible for the preparation and presentation of the financial statements and the information they contain, in accordance with International Financial Reporting Standards (IFRS), and for devising and maintaining a system of internal accounting controls to enable the preparation of a financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Financial Statements based on our audit. We have conducted an independent audit of these financial statements in accordance with International Auditing Standards to provide reasonable assurance as to whether the financial statements are free of material misstatement.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial statements, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion as to whether, in all material aspects, the financial statements are presented fairly in accordance with applicable accounting concepts and standards and statutory requirements so as to present a view which is consistent with our understanding of the Secretariat's financial position, and the results of its operations.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion:

- (a) the financial statements of Melanesian Spearhead Group Secretariat have been properly drawn up:
 - (i) so as to give a true and fair view of the Melanesian Spearhead Group Secretariat state of affairs as at 31 December 2015 and of its results for the period ended on that date; and
 - (ii) in accordance with International Financial Reporting Standards;
- (b) we have been provided with all information and explanations required
- (c) proper accounting records have been kept by the Secretariat

Port Vila, 30/11/2016

Barrett & Partners
Chartered Accountants

Qualified auditors under
Section 130 of the
Companies Act No.25 of 2012

MELANESIAN SPEARHEAD GROUP SECRETARIAT

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015	2014
		VT	VT
INCOME			
Contributions	330,395,031	207,248,158	
Pledges	110,886,455	53,429,690	
Donor Funds	129,592,658	71,443,208	
Interest Income	780,238	1,116,181	
Merchandise Income	(513,981)	469,879	
Other Income	4,052,067	-	
	575,192,466	333,707,116	
EXPENSES			
25th Anniversary Celebrations	-	1,448,006	
Advertising	299,349	589,195	
Audit Fees	244,285	451,066	
Bank Charges	991,961	1,657,940	
Business Entertainment	1,304,523	1,120,536	
Capacity Building	432,908	1,428,407	
Contributions provided for	58,029,776	-	
Contributions written off	24,771,000	60,960,157	
Depreciation	7,931,188	13,844,532	
Donations	3,254,238	-	
Equipment Rental	53,436	589,247	
Foreign Exchange Loss(Gain)	(803,680)	-	
General Expenses	57,610	7,831,184	
Insurance	1,738,246	7,755,831	
Interest	7,408,036	4,112,048	
Legal and Consultancy Fees	5,449,138	4,930,450	
Melanesian Solutions write off	23,277,670	-	
Motor Vehicle Expenses	808,228	862,708	
Postage	13,019	118,875	
Power & Water	3,104,462	3,868,062	
Printing & Stationery	2,143,484	1,788,855	
Project Expenditure on Donor Income	107,852,171	-	
Provision VAT	3,280,728	3,092,187	
Repairs & Maintenance	3,395,068	1,482,158	
Salaries and Wages	178,715,057	172,592,942	
Security Costs	1,499,794	1,614,097	
Severance	48,255,334	11,109,730	
Staff Expenses	35,559,117	48,904,667	
Telephone	3,560,567	4,024,780	
Travel and Meeting Expenses	20,320,008	70,302,882	
TOTAL EXPENSES	643,244,701	426,360,757	
NET SURPLUS (DEFICIT)	31,947,764	(92,653,641)	

The accompanying notes form part of these financial statements.

Barnett & Partners
Chartered Accountants

MELANESIAN SPEARHEAD GROUP SECRETARIAT

**STATEMENT OF MOVEMENTS IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015**

	Note	2015	2014
		VT	VT
EQUITY AT START OF PERIOD		252,247,549	344,901,190
Net Surplus (Deficit) for the Year		31,947,764	(92,653,641)
		<u>284,195,313</u>	<u>252,247,549</u>

The accompanying notes form part of these financial statements.

Barrett & Partners
Chartered Accountants

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MELANESIAN SPEARHEAD GROUP SECRETARIAT

**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015**

	Note	2015	2014
		VT	VT
EQUITY			
Retained Earnings		284,195,313	252,247,549
CURRENT LIABILITIES			
Bank Overdraft		64,467,167	38,684,023
Accounts Payable	3	16,060,834	12,125,006
Deferred Revenue	4	65,004,384	125,080,182
Provisions	5	64,815,841	30,088,271
Loans Secured (Current Portion)	6	4,267,044	4,267,044
		<u>234,715,360</u>	<u>210,242,528</u>
NON CURRENT LIABILITIES			
Secured Loans	6	30,088,844	30,989,406
TOTAL EQUITY & LIABILITIES		<u>548,977,517</u>	<u>493,479,483</u>
CURRENT ASSETS			
Cash on Hand		992,888	895,848
Cash at Bank		81,423,756	103,861,081
Other Current Assets	7	966,800	3,962,989
Accounts Receivable	8	125,534,495	37,591,159
Fixed Interest Investments		20,323,282	20,452,812
Stock on Hand		715,700	1,817,485
		<u>229,956,499</u>	<u>167,981,354</u>
NON CURRENT ASSETS			
Property, Plant and Equipment As per Schedule (at Book Value)	9	319,021,018	325,498,129
TOTAL ASSETS		<u>548,977,517</u>	<u>493,479,483</u>


Director General

24 Nov 2016
Date

The accompanying notes form part of these financial statements.

Barrett & Partners
Chartered Accountants

MELANESIAN SPEARHEAD GROUP SECRETARIAT

STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	2015	2014
	VT	VT
OPERATING ACTIVITIES		
<i>Cash was provided from:</i>		
Receipts from members	342,039,071	283,645,089
Receipts from non-members	133,844,725	133,965,365
Interest Received	780,236	1,115,181
	<u>476,464,032</u>	<u>398,725,635</u>
<i>Cash was applied to:</i>		
Payments to suppliers	287,132,870	100,277,031
Payments to employees and related expenses	227,799,838	217,690,912
Interest paid	7,408,036	4,112,048
	<u>522,340,544</u>	<u>322,079,991</u>
<i>Net Cash Inflow (Outflow) from Operating Activities</i>	<u>(45,876,512)</u>	<u>76,645,644</u>
INVESTING ACTIVITIES		
<i>Cash was provided from:</i>		
Fixed Interest Investment	129,550	12,487,409
<i>Cash was applied to:</i>		
Purchase of Fixed Assets	<u>1,454,077</u>	<u>5,847,995</u>
<i>Net Cash Inflow (Outflow) from Investing Activities</i>	<u>(1,324,527)</u>	<u>6,639,414</u>
FINANCING ACTIVITIES		
<i>Cash was applied to:</i>		
Repayment of Bank Loan	<u>922,582</u>	<u>482,261</u>
<i>Net Cash Inflow (Outflow) from Financing Activities</i>	<u>(922,582)</u>	<u>(482,251)</u>
<i>Net Increase (Decrease) in Cash Held</i>	<u>(48,123,601)</u>	<u>82,803,797</u>
Add Opening Cash brought forward	<u>66,072,885</u>	<u>(16,730,911)</u>
<i>Ending Cash Carried Forward</i>	<u>17,949,285</u>	<u>66,072,886</u>
Cash Balances in Balance Sheet		
Bank Overdraft	(64,457,157)	(38,584,023)
Cash at Bank	81,423,756	103,851,061
Cash on Hand	<u>892,686</u>	<u>893,848</u>
<i>Ending Cash Carried Forward</i>	<u>17,949,285</u>	<u>66,072,886</u>

The accompanying notes form part of these financial statements.

Barrett & Partners
Chartered Accountants

MELANESIAN SPEARHEAD GROUP SECRETARIAT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 STATEMENT OF ACCOUNTING POLICIES

The Melanesian Spearhead Group Secretariat has the legal capacity of a body corporate in Vanuatu under the Host Country Agreement between the Melanesian Spearhead Group Secretariat and The Government of the Republic of Vanuatu.

These financial statements have been prepared in accordance with the International Financial Reporting Standard for Small and Medium-Sized entities issued by the International Accounting Standards Board. They are presented in VATU.

MEASUREMENT SYSTEM

The financial statements have been prepared in accordance with the historical cost convention which permits revaluations of non-current assets but otherwise has no regard to changing money values or, except where stated, the current value of non-monetary assets. Accrual accounting has been used to match revenue with expenses. The accounting policies have been consistently applied, unless otherwise stated.

PARTICULAR ACCOUNTING POLICIES

The following is a summary of the significant accounting policies adopted in the preparation of these financial statements.

Property, Plant and Equipment

Fixed assets are depreciated over their expected useful lives as follows.

	Rate	Method
Motor Vehicles	16.67%	SL
Office Furniture & Equipment	20%	SL
Computer Software & Equipment	20%	SL
Buildings	5%	SL
Leasehold Land	Term of Lease	SL

Valuation of Inventories

Inventories are valued at the lower of cost and net realisable value. Cost has been assigned to inventory items on hand at balance date using the first-in first-out basis.

Accounts Receivable

Accounts receivable are stated at their estimated realisable value.

Value Added Tax

Under the Host Country Agreement the Melanesian Spearhead Group Secretariat is exempt for taxes. Where VAT has been paid on purchases it is recorded as an asset. A provision has been created to offset the asset as the elapsed time finalising the refund has created the potential for non recoverability.

Revenue

Contribution revenue is recognised over the period to which the contribution relates. Pledge revenue is recognised when the payment is received (general purpose pledge) or the later of the payment being received and the undertaking of the activity (specific purpose pledge).

Donor Funds

Includes funds from Donors such as the European Union's Pacific Integration Technical Assistance Project (PITAP), administered through the Pacific Islands Forum Secretariat (PIFS), GIZ, Christensen Fund, Center for Technical Development Cooperation (CTA), Government of Timor Leste and Government of Luxembourg.

Barrett & Partners
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MELANESIAN SPEARHEAD GROUP SECRETARIAT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Changes in Accounting Policies

For the year ending 31st December 2015 Melanesian Spearhead Group Secretariat has grouped together costs relating to European Union's Pacific Integration Technical Assistance Project funded activity under Project Expenditure on Donor Income.

With that exception, there have been no specific changes in accounting policies and they have been applied on a consistent basis with those of the previous period.

2 MELANESIAN SOLUTIONS LTD WRITE OFF

The Melanesian Spearhead Group Secretariat Governing Body endorsed a trading arm of the Secretariat to be established to supplement its operations. Consequently this was converted during the year into a Limited Company called Melanesian Solutions Ltd and was wholly owned by shareholders, defeating its original purpose. It incurred establishment cost to the Secretariat in the form of salaries and start-up expenses to a total amount of 23,277,670 VT and these costs were treated as a receivable from the company to the Secretariat. Considering its uncertainty to operate due to limited resources and lack of finances this company is deemed to be very doubtful and thus the receivable amount of 23,277,670 VT was written-off.

3 ACCOUNTS PAYABLE

	2015 VT	2014 VT
Accounts Payable	14,633,845	5,141,344
Accruals	1,426,989	6,963,664
	<u>16,060,834</u>	<u>12,125,008</u>

4 DEFERRED REVENUE

	2015 VT	2014 VT
FLNKS Unit fund	-	4,507,153
Def Rev - Lux ESDD	-	-
Def Rev - Timor Leste ESDD	-	15,079,142
Def Rev - CTA	2,233,260	2,559,770
Def Rev - A/WB MP Phase 3	463,333	2,659,746
Def Rev - PITAP	81,864,319	99,335,532
Def Rev - Others	443,482	938,839
	<u>85,004,364</u>	<u>126,080,182</u>

Deferred revenue represent donor funds for specific projects that remain unspent at year end. The funds will be recognised as donor fund income in future years when the related expenses are incurred.

MELANESIAN SPEARHEAD GROUP SECRETARIAT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

6	PROVISIONS	2015 VT	2014 VT
	Provision for Severance Pay	58,248,885	15,987,041
	Provision for Annual Leave	6,867,056	14,000,230
		<u>64,915,941</u>	<u>30,086,271</u>

In January 2015 the policy regarding the payment of severance pay was changed resulting in staff members who were not previously entitled to severance becoming entitled. The change required an additional provision for severance of approximately VT20,000,000 to be made in January 2015.

6	TERM LIABILITIES	2015 VT	2014 VT
	Secured Loans	30,066,844	30,908,405
	<i>Plus Current Portion</i>		
	Term Loans	4,267,044	4,267,044
	<i>Loan for the purchase of Director General's Official Residence</i>		
	Interest Rate: 10.7%		
	Term: 20 years		
	Security: First mortgage over Director General's Official Residence at Bellevue Estates Port Vila		

7	OTHER CURRENT ASSETS	2015 VT	2014 VT
	Deposits	375,320	375,320
	VAT Refund Due	3,302,732	21,433,841
	Provision VAT Refund	(3,302,732)	(21,433,841)
	Prepayments	591,280	2,987,669
		<u>966,600</u>	<u>3,382,989</u>

8	ACCOUNTS RECEIVABLE	2015 VT	2014 VT
	Contributions - Fiji	28,750,000	7,229,995
	Contributions - FLNKS (New Caledonia)	58,029,776	1,080,747
	Contributions - Papua New Guinea	28,750,000	5,425,681
	Contributions - Solomon Islands	28,750,100	5,762,069
	Contributions - Vanuatu	28,750,000	11,640,107
	Other Receivables	10,534,395	6,452,679
	Provisions for Doubtful Debt - FLNKS	(58,029,776)	-
		<u>125,534,495</u>	<u>37,591,159</u>

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MELANESIAN SPEARHEAD GROUP SECRETARIAT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

9 PROPERTY, PLANT AND EQUIPMENT SUMMARY

2015	Cost	Accum Depn	Book Value
Head Office Land and Building	272,000,000	10,305,352	261,694,648
Leasehold Land	9,185,000	686,188	8,498,812
Buildings - at Cost	45,259,394	13,073,965	32,185,429
Motor Vehicles - at Cost	10,608,000	7,061,163	3,546,837
Office Furniture & Equipment - at Cost	15,217,388	12,423,644	2,793,744
Computer Software & Equipment	25,589,905	15,379,933	10,210,072
Reference Books	326,498	224,812	101,686
	<u>378,198,185</u>	<u>59,145,167</u>	<u>319,021,018</u>
2014			
Head Office Land and Building	272,000,000	7,661,972	264,338,028
Leasehold Land	9,185,000	600,352	8,584,648
Buildings - at Cost	44,683,785	11,368,842	33,294,943
Motor Vehicles - at Cost	10,608,000	6,343,086	4,264,914
Office Furniture & Equipment - at Cost	15,078,068	11,743,508	3,334,560
Computer Software & Equipment	24,713,531	13,169,603	11,553,928
Reference Books	326,498	169,388	127,109
	<u>376,594,882</u>	<u>51,066,753</u>	<u>325,498,129</u>

The market value of the the leasehold land and buildings recorded in the accounts at a written down cost price of VT40,523,966 was independently determined in 2011 to be VT61,000,000.

The Head Office Building is held under a special lease from the Vanuatu Government

FIXED ASSET RECONCILIATION

	2015 VT	2014 VT
Fixed Assets at Start of period	325,498,129	333,494,666
Disposals	-	-
Additions	1,571,303	5,847,995
Depreciation	(8,048,414)	(13,844,532)
Fixed Assets at End of period	<u>319,021,018</u>	<u>325,498,129</u>

10 CONTINGENT LIABILITIES

There are no contingent liabilities at 31 December 2015 (31 December 2014: VT Nil).

11 CAPITAL COMMITMENTS

There are no capital commitments at 31 December 2015 (31 December 2014: VT Nil).

12 ONE-OFF MEMBER CONTRIBUTION

The Melanesian Spearhead Group Secretariat Governing Body, in its meeting in October 2015, considered the serious financial deficit of the Secretariat as a result of accumulated non-payment of annual assessed contributions by one member and approved a one-off package of 115,800,000 VT to relieve the Secretariat of its past commitment and obligations. The additional income is reported under Contributions in the Statement of Financial Performance and is also reflected within Accounts Receivable as at 31 December 2015.

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MELANESIAN SPEARHEAD GROUP SECRETARIAT

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015**

13 GOING CONCERN

The financial statements of the Melanesian Spearhead Group Secretariat have been prepared on a going concern basis, which assumes continuity of normal business activities and the settlement of liabilities in the ordinary course of business. The Director General considers the going concern principle to be applicable in the preparation of these financial statements given the ongoing financial support provided by the member countries.

14 RECONCILIATION OF NET PROFIT with Cashflows from Operating Activities	2015 VT	2014 VT
Reported Surplus	31,947,764	(82,653,641)
Add Non-Cash items:		
Depreciation	7,931,188	13,844,532
Provision for Doubtful Debts	58,028,776	-
	<u>97,908,728</u>	<u>(78,809,109)</u>
Add (less) Movements in Other Working Capital Items:		
Accounts Receivable	(145,873,112)	63,627,368
Prepayments	2,398,388	8,241,452
Provisions	34,829,670	11,109,730
Accounts Payable	3,935,826	8,897,175
Deferred Revenue	(40,075,798)	62,052,275
Deposits	-	295,800
Inventory	1,101,785	1,231,919
Net Cash Inflow (Outflow) From Operating Activities	<u>(45,875,512)</u>	<u>75,645,644</u>

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MSG Secretariat
Secretariat du GFLM

Melanesian Spearhead Group | Le Groupe Fer de Lance Mélanésien



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