

**GLOBAL ENVIRONMENT FACILITY
UNITED NATIONS DEVELOPMENT PROGRAMME
SECRETARIAT OF THE PACIFIC REGIONAL ENVIRONMENT PROGRAMME**

**THE INTERNATIONAL WATERS PROJECT
IMPLEMENTING THE STRATEGIC ACTION PROGRAMME (SAP) FOR THE
INTERNATIONAL WATERS OF THE PACIFIC SMALL ISLAND DEVELOPING STATES**

FOURTH MULTIPARTITE REVIEW

11-12 August 2005

[Apia, Samoa]

Agenda Item 3

**Working Paper 3
Summary Financial Report**

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Introduction

1. The International Waters Project (IWP) to implement the Strategic Action Programme (SAP) for the International Waters of the Pacific Small Island Developing States received its final endorsement from the Global Environment Facility (GEF) on 18th January 2000. At the same time, UNDP (Apia) was delegated authority by GEF to sign the Project Document on behalf of UNDP. The Project officially commenced on 16th February 2000, the day the Project Document was signed by SPREP (the executing agency) and UNDP (the implementing agency).

2. Following the First Multipartite Review (MPR-1) at Majuro, Marshall Islands, 25th July 2002, and subsequent clarification of financial implications with participating countries in December 2002, UNDP approved an extension for both the Integrated Coastal Watershed Management (ICWM) and the Oceanic Fisheries Management (OFM) Components of the IWP. Phase I of the OFM Component executed by the Forum Fisheries Agency (FFA) conclude in December 2004. The Phase I of the OFM component executed by the Secretariat of the Pacific Community (SPC) will conclude in June 2005. The ICWM Component, executed by the Secretariat of the Pacific Regional Environment Programme (SPREP), will be completed in December 2006.

3. This paper presents the status of Project finances to June 2005. It is presented in two parts. The first deals with revisions based on the UNDP Project Input Budget – the format in which the Project budget was managed up until 2004. In 2004, UNDP introduced the Peoplesoft Atlas financial management system, which resulted in a new reporting format based on Project outputs. The second part of this paper presents the status of Project finances in an output-based format.

Input budget-based report

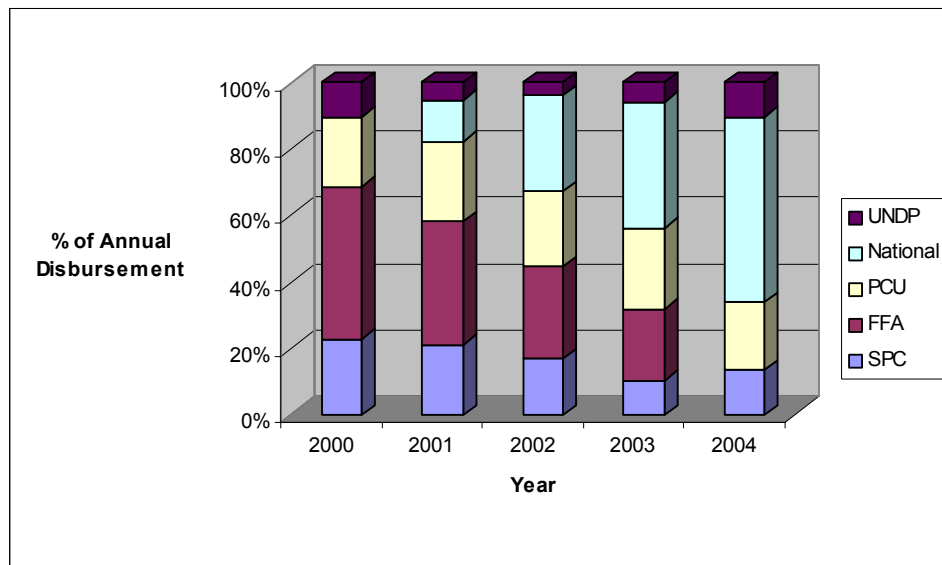
4. For the year 2000, **27%** of funds originally budgeted for the Project was disbursed. For the OFM Component, SPC reported expenditure amounting to **30%** of Budget while FFA, largely as a result of significant support to large regional meetings associated with the Multilateral High Level Conference process, disbursed **54%** of the Original Budget forecast. In contrast, SPREP utilized **9%** of funds identified for first year disbursement in the Original Budget.

5. For the year 2001, **38%** of funds originally budgeted for the Project was disbursed. SPC expenditure amounted to **57%** of Budget while FFA disbursed **73%** of the Original Budget provided to support the OFM Component at FFA. SPREP utilized **27%** funds identified in the Original Budget for the ICWM Component for disbursement in 2001.

6. For 2002, as a result of all 14 countries formally engaging in the Programme, the disbursement of funds increased significantly. For the year 2002, **71%** of funds originally budgeted for the Project were disbursed. SPC expenditure amounted to **72%** of Budget while FFA disbursed **92%** of the Original Budget provided to support the OFM Component at FFA. SPREP utilized **85%** of funds identified in the Original Budget for disbursement in 2002 to support the ICWM Component.

7. The consolidated (FFA, SPC and SPREP) financial report for 2003, based on General Budget Revision “F” prepared by UNDP in September 2003, demonstrates **89%** of funds originally budgeted for the Project (US\$2.344 million) were disbursed – or **11%** less than budget. SPC expenditure amounted to **62%** of Budget while FFA exhausted all funds budgeted to support the FFA-executed elements of the OFM Component. For the ICWM Component SPREP utilized **93%** of funds identified in Revision “F” for disbursement in 2003.

Figure 1. Proportional draw down for Project Components 2000 - 2004



8. The consolidated (FFA, SPC and SPREP) financial report 2004, based on General Budget Revision “3” prepared by UNDP in November 2004, demonstrates **98%** of funds originally budgeted for the Project (US\$2.003 million) were disbursed – or **2%** less than budget. SPC expenditure amounted to **98%** of Budget while FFA exhausted all funds budgeted to support the FFA-executed elements of the OFM Component. For the ICWM Component SPREP utilized **98%** of funds identified in Revision “3” for disbursement in 2004.

9. Total Project expenditure to date is US\$9,419,367 (**to June 30, 2005**). The OFM component has drawn down 100% of available funding (US\$3.5 million). The ICWM Component has drawn down US\$5,674,847 or **69%** of available funds (US\$8.208 million). The annual distribution of funds draw down across the different components of the Project for the years 2000 to 2004 inclusive is presented at Figure 1.

10. The ICWM drew down US\$24,582 less than budget as a result of savings accrued to Budget Lines 15,16,32,34,45 and 52.

11. National components of the ICWM Component of the Project are supported from UNDP Input Budget Lines 17, 21 and 32 with initial IT equipment purchases paid from Budget Line 45. Disbursements to participating countries in respect of the ICWM Component as of June 2005 are presented at **Table 1**. In 2004 national allocations for the ICWM Component accounted for approximately **56%** of Project expenditure (US\$1,179,552).

12. In 2004 UNDP introduced a new budget process called Atlas. The Atlas budget format is based on Outputs. Working closely with UNDP, the IWP work programme was re-formatted to support 18 broad outputs. These formed the basis of the IWP Atlas Budget. In order to identify the inputs to achieve the 18 outputs agreed upon the PCU continues to manage both the Input and Output budget formats.

13. Approximately **60%** of funds (US\$4.8 million) to support national activities under Input Budget Lines 17, 21 and 32 have been drawn down by the 14 participating countries as of the end of 2004 (**Attachment A**). On average, as of mid-2005, approximately **US\$337,000** is available to each of the 14 countries participating in the Project. In the Atlas format Outputs 2 to 13 and 16 to 18 inclusive support these components of the Project. Outputs 14 and 15 relate to the OFM component (**Attachment D**).

Table 1. Disbursements to Participating Countries to June 2005.

Participating Country	2000	2001	2002	2003	2004	2005*	Total
COI	0	0	24,421	48,358	82,145	23,354	178,277
FSM	0	0	48,787	6,412	126,586	7,600	189,385
FIJ	0	7,029	42,163	46,175	77,295	31,162	203,824
KIR	0	0	62,531	49,636	70,092	54,051	236,310
RMI	0	1,000	27,556	65,305	33,727	738	128,326
NAR	0	0	59,830	14,253	2,626	1,710	78,419
NIU	0	12,726	81,470	79,349	143,601	26,408	343,555
PAL	0	0	35,027	74,053	104,549	39,677	253,306
PNG	0	0	37,387	112,539	155,332	15,800	321,058
SAM	0	1,000	36,158	54,174	48,773	23,500	163,605
SOI	0	0	40,349	63,823	81,010	29,170	214,353
TON	0	2,245	43,019	47,877	99,121	36,937	229,199
TUV	0	0	34,610	55,778	58,461	47,545	196,394
VAN	0	0	32,448	80,820	62,209	18,300	193,777
TOTAL	0	24,001	605,757	798,551	1,145,527	355,951	2,929,787

* To June 21st 2005

14. Draw down of funds by the 14 national projects increased during 2004 with national activities attracting **33%** more funding during 2004 than in 2003. As all Phase I funds for the OFM Component have been disbursed to FFA and SPC. Available funds (approximate at June 30 2005) amount to **US\$2,580,633 (31% of the total ICWM Component budget)**.

15. A copy of the audit report for 2004 for SPREP managed project funds is appended at **Attachment C**.

16. A copy of the Project Budget, based on Revision 5 (the next revision), in the new Atlas format introduced by UNDP in 2004, is appended at **Attachment D**.

Input Budget Revision

17. Revision 4 of the budget took place in December 2004. The breakdown for expenditure for each component of the budget is presented at Figure 2 (based on the UNDP Input Budget - with projections based on the budget revisions proposed below for 2005 and 2006). Figure 3 and 4 provides information on Project disbursements (also based on the UNDP Input Budget and including 2005 and 2006 forecasts) demonstrating the significant level of national project activity in 2004.

Figure 2. ICWM Component Expenditure 2000 – 2006 (Actuals and Planned)

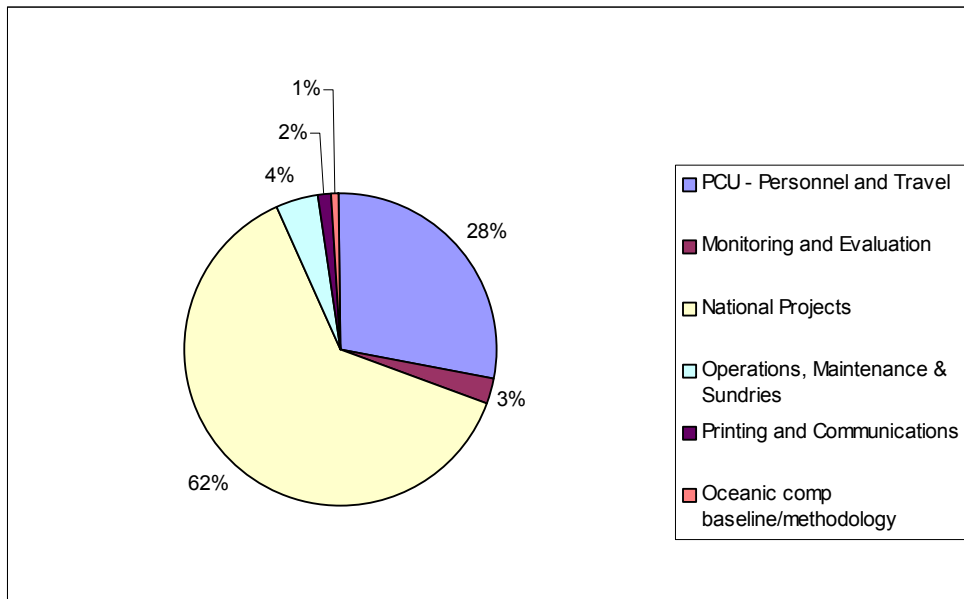


Figure 3. ICWM Component Expenditure 2000 – 2006 (Actuals and Planned)

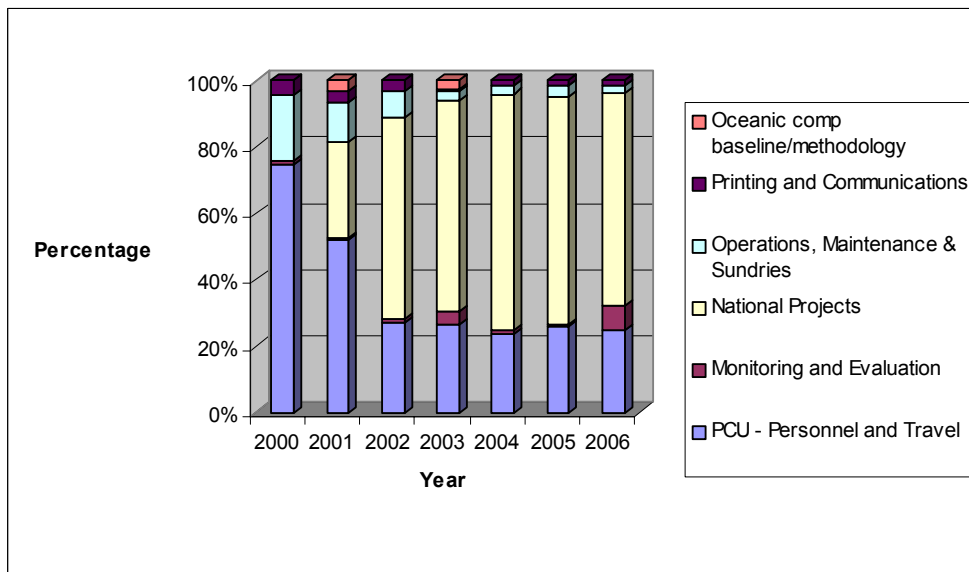
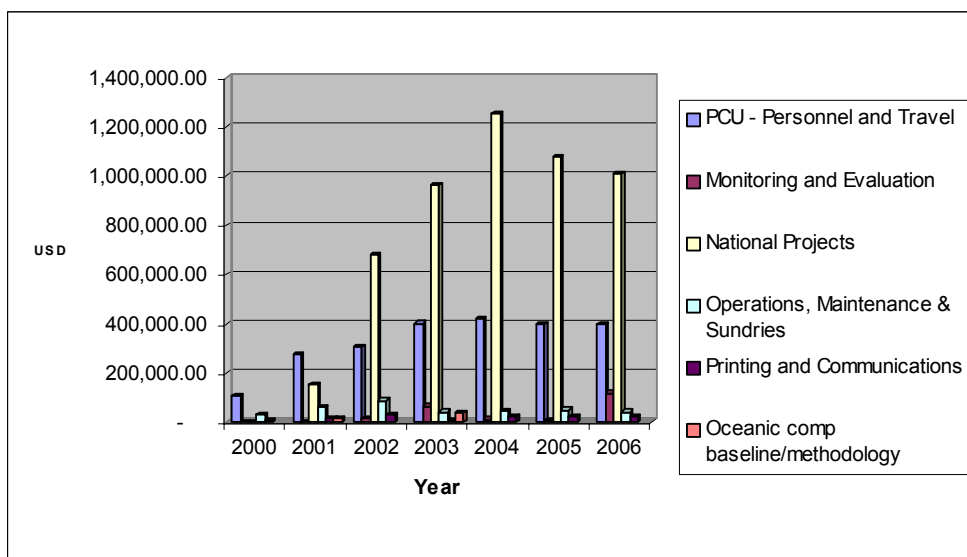


Figure 4. ICWM Component Expenditure 2000 – 2006 in USD (Actuals and Planned)



18. In addition to re-programming funds carried forward from 2004 (US\$29,203), Revision 5 presented here for the ICWM Component includes the following revisions:

Input Budget Line 11

19. In November 2004 SPREP Management advised that staff terms and conditions were to be revised to take into account the harmonized terms and conditions for employment in CROP agencies as approved by CROP Governing Councils. The adoption of the new CROP harmonized staff terms and conditions at SPREP has led to an adjustment in PCU staff salaries. To support this in 2005, Input Budget Line 11 and 13 for the ICWM Component has been increased by US\$22,600 or **7%**. Similarly, in 2006, Input Budget Lines 11 and 13 have been increased by US\$11,600 or **4%** to accommodate this adjustment.

20. This will result in an increase of **1%** in the PCU proportion (including travel) of the ICWM Component of the Project budget – from **27%** to **28%** (see Figure 2). As a percentage of the total Project Budget the PCU percentage (including travel) increases from **18.8%** to **19.3%**.

21. The Original Input Budget presented in the Project Document apportioned **7%** of Input Budget Line 11 and 13 costs to the OFM Component and **11.1%** to the ICWM Component. The cumulative effect of the **14** budget revisions to date for the ICWM Component is that the proportion changes to **15.7%** for the PCU. These increases have effectively supported an additional 24 months for the ICWM Component beyond the initial 5 years planned Project life (as approved at the MPR in Majuro in July 2002).

Input Budget Line 15

22. No change has been proposed for the 2005 PCU travel budget. However, in 2006, budgeted funds for PCU travel at the last Revision was US\$25,643, or approximately US\$35,000 less than the average amount budgeted to support PCU travel in each of the last four years. Given the anticipated demand on PCU support to assist national projects document the results of their projects and lessons learned, the proposed budget revisions provides for the same amount of travel that has been supported in previous years (providing there is no significant increase in travel costs due to

rising oil costs or other reasons). The proposed increase is US\$34,357 or **134%** more than previously budgeted.

23. Travel accounted for **2%** of the Original Project Input Budget. Both the OFM and the ICWM Component of the Project have argued through successive revisions of Project budgets that a large regional project such as the IWP cannot be effectively supported without adequate provision for travel to participating countries. The revised budget will result in travel accounting for **5.3%** of the total Project budget or a **3.3%** increase in the original allocation for this Input Budget Line as presented in the 2000 Project Document. This reflects the relatively low initial budget allocation to this item, considering the extensive travel required to support the Project.

Input Budget Line 16

24. No revision proposed. The main expenditure item to provide for under this Budget Line is the Terminal Evaluation scheduled for mid-2006.

Input Budget Line 17

25. As forecast in the Financial Summary Report presented to last year's MPR, the budget to support National Coordinators requires review in 2005. The **17%** increase in the budget provision to support National Coordinators proposed is based on the actual requirement for funds (approximately US\$270,000 annually) against this Budget Line in each of the past three years. The proposed **10%** reduction in 2006 maintains the level of funding that has been required in the past three years and reflects the accumulation of funds within this budget line since the commencement of the Project. The accumulated surplus (US\$30,500), has been re-programmed against other budget lines that demonstrate a need for a top up in the final two years of the Project (for example, travel).

26. The budget supporting National Short Term consultants remains unchanged at US\$50,000 for each of 2005 and 2006.

26. Input Budget Line 17 accounted for **16.2%** of the budget approved for the ICWM Component at the last revision (Revision "4"- December 2004). The proposed budget for Revision 5 will increase this by **.08%** to **17%**. As a proportion of the total Project budget the change is from **11.2%** to **11.8%**.

Input Budget Line 19 Project Personnel Total

27. Input Budget Lines 11 to 17 inclusive are consolidated under Input Budget Line 19 to provide an amount for total Project personnel costs. The Original value for Input Budget Line 19 was \$4.39 million or **36%** of the Total Project Budget. The **14** revisions to the budget, inclusive of this Revision 5, have resulted in a **30%** increase to Budget Line 19 (US\$5.71mil). The majority of this change is explained by the 2-year extension approved for the Project following the Majuro MPR in July 2002.

Input Budget Line 21

28. This budget revision proposes an increase of **US\$79,258** for Input Budget Line 21 in 2005 and an increase of **US\$112,825** in 2006. The total funding proposed to support pilot activities in 2005 and 2006 respectively is **US\$671,258** and **US\$583,683**. Averaged across 13¹ national

¹ Assumes that Nauru no longer participates in the Project.

projects, the approximate budget to support national level activities in 2005 and 2006 will be **US\$51,635** and **US\$44,899** (in addition to personnel and national task force meeting costs). A representation of the proportional expenditure by national projects relative to the total Project Budget is presented at Figure 2, 3 and 4. By comparison, average total annual expenditure for national projects against this budget line for the period 2002-2004 was US\$635,793. As all field work and baseline research should be completed by mid-2005 at the latest, and as projects turn their attention to monitoring and reporting, this provision should be sufficient.

Input Budget Line 32

29. Significant funding has accumulated in Input Budget Line 32 since the inception of the Project in 2000. This budget revision is proposing re-allocation of surplus funds to cover anticipated shortfalls in other budget lines.

30. Average demands for funds to support Regional Task Force (RTF) Meetings (Input Budget Line 32.01) has been US\$45,000 annually since the start of the Project. This was the amount budgeted for 2005. The 2006 budget for this line item was supporting significant savings carried forward from previous years. As a result, the proposed budget for 2006 has been reduced by **47%** to provide a budget of US\$65,000 in 2006 to support broad participation in the final MPR.

31. Average demand for funds to support National Task Force (NTF) Meetings (Input Budget Line 32.02) has been US\$10,000 annually since the start of the Project. The proposed budget for 2005 and 2006 has been reduced to this amount – a reduction of approximately **94%**.

32. Input Budget Line 32.03 has been increased by **30%** (US\$7,516) for 2006 (no change to the proposed budget of US\$32,500 for 2005). The additional funds for 2006 provide a similar level of funding as provided for the Communication Strategy in 2005 (US\$29,700 in 2004). It will support the significant level of effort required for Project communications in 2006, particularly in relation to disseminating information on lessons learned.

Input Budget Line 45

33. No change is proposed in the budget for any of the three budget items within Input Budget Line 45 in 2005. A slight decrease of US\$557 is proposed for Budget Line 45.01 (Non-expendable Equipment) in 2006. A **4%** increase (US\$1,015) is proposed for Budget Line 45.72 (Operations and Maintenance (Office) for 2006.

34. The overall impact on the Project Budget is a **1%** increase (\$458) for Input Budget Line 45 in 2006 with this component of the budget being reduced from **4.4%** to **4.3%** of the total ICWM Budget (refer to Figures 2 and 3).

Input Budget Line 52

35. There is no change to the three components of Budget Line 52 proposed for 2005. For 2006, the revision proposes a reduction of **46%** to the audit budget line reflecting audit charges to the Project over the last three years. An increase of **900%** (from US\$1,000 to US\$9,000) is proposed to support printing and reporting in 2006 (Budget Line 52.01). As is the case in 2005, the majority of these funds will be applied to the publication of reports generated by national projects.

Input Budget Line 53

36. The total allocation for this Budget Line has been increased by **20%** for 2005 (from US\$1,000 to US\$1,200) and by **9%** in 2006 (from US\$1,102 to US\$1,200). It is recalled that the budget provided for Sundries in 2006 was reduced by 62% in a 2004 budget revision on the basis of actual expenditure for the Project to that time.

37. These revisions have been incorporated into the Output based Atlas format annexed at **Attachment D**.

Output budget-based report

38. The transition to the new Atlas format took time to implement. Three refinements were completed before a final revision was agreed with UNDP for budget and activity estimates for the period 2004-2006. Budget Revision 4 provided for 39 activities in 2004 supported by an anticipated budget of US\$2,073,993 (**Attachment E**). Actual expenditure for 2004 amounted to US\$2,044,790. The balance of funds (US\$29,203) was carried forward to 2005.

39. Refinement of the budget and output format has resulted further evolution of the reporting format – with removal of “activity-based” reporting and the establishment of financial reporting based on 18 outputs (**Attachment D**). This will be further reduced during 2005 when the two activities associated with the OFM Component of the Project are completed.

Table 2. The budget following Revision 5 (which incorporates the changes to the Input Budget described in the preceding section) with variations relative to Revision 4.

Objective	Input budget source	% of input budget	Revision 5 (July 2005) 2004 - 2006	Revision 4 (December 2004) 2004 - 2006	Variance	% Variance
1	11.01, 02, 03, 08, 13	100%	1,028,457	988,398	40,060	4%
2	15.01, 45, 52, 53, 17.02, 17.03	100%	1,378,588	1,296,648	81,940	6%
3	16.01, 32.01	50%	217,980	287,588	(69,608)	-24%
4	34.01, 32.01	50%	81,740	137,883	(56,143)	-41%
5	completed					
6	completed					
7	32.03	100%	94,728	89,984	4,744	5%
8	21.01, 02, 03, 04, 32.02	5%	91,246	92,046	(800)	-1%
9	21.01, 02, 03, 04, 32.02	5%	91,246	92,046	(800)	-1%
10	21.01, 02, 03, 04, 32.02	30%	547,478	552,276	(4,798)	-1%
11	21.01, 02, 03, 04, 32.02	30%	547,478	552,276	(4,798)	-1%
12	21.01, 02, 03, 04, 32.02	10%	455,493	457,092	(1,599)	-1%
13	21.04		20,000	20,000		
14	11.07,17.01,04,15.02(33%), (50%)31,45,52,53		264,919	257,588	7,330	3%
15	11.05,06,15.02(67%), (50%)31,45,52,53		210,319	202,649	7,670	4%
16	21.01, 02, 03, 04, 32.02	7.5%	136,870	138,069	(1,199)	-1%
17	21.01, 02, 03, 04, 32.02	10%	182,493	184,092	(1,599)	-1%
18	21.01, 02, 03, 04, 32.02	2.5%	45,623	46,023	(400)	-1%
Total			5,394,658	5,394,658	0	

40. Budget Revision 5, which utilizes the actual figures for 2004, provides a budget for 2005 of US\$1,753,803 (**Attachment D**). This is a **7%** increase in the provisional budget estimate provided for in Revision 4 for 2005. The additional funds have been sourced from savings accrued in 2004 (US\$29,203) and draw down of US\$82,476 from the 2006 provisional budget.

41. The 2005 budget estimate is **14%** (US\$290,986) less than actual expenditure in 2004. Most of this reduction is attributable to the completion of the OFM Component of the Project in 2005 although some reduction in national level activity is also anticipated as activities associated with financially demanding baseline assessments ease in 2005.

42. The provisional budget for the ICWM Component of the Project in 2006 is US\$1,596,065 or **5%** less than was provided for in Budget Revision 4. In terms of implications for the national components of the Project, and on the basis that Nauru is no longer participating in the Project, Budget Revision 5 provides for a slight increase (**9%**) in national budgets – from an averaged estimated national project budget for the duration of the Project of US\$336,784 to an estimate of US\$366,542 (**See Table 3**).

Table 3. Revision 5 national budget movements

National budget lines	Revision 5	Revision 4	Variance	% Change
17.02	1,161,067	1,115,725	45,343	4%
17.03	249,394	228,680	20,713	9%
21.01	496,708	674,039	(177,331)	-26%
21.02	384,073	361,688	22,385	6%
21.03	891,969	824,373	67,596	8%
21.04	1,499,327	1,188,476	310,851	26%
32.02	82,507	322,000	(239,493)	-74%
Total	4,765,044	4,714,980	50,063	1%
Increase in per country national budget allocation				
Revision 4 total divided by 14		336,784		
Revision 5 total divided by 13		366,542	Increase by 9%	

Recommendation

43. The MPR is invited to:
- discuss and approve the proposed revisions to the Project Budget for 2005 and 2006;
 - note the Financial Report for the Project; and
 - note the report for the 2004 audit.