

CORE FUNDING STRUCTURE REVIEW - SPREP PARTNER AND DONOR INTERVIEWS

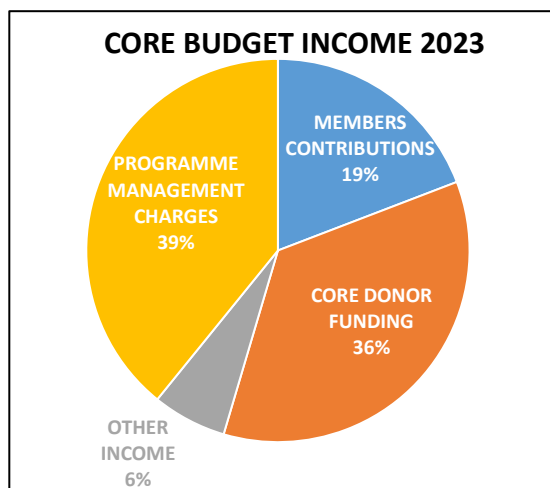
BACKGROUND

The 2017-2026 SPREP Strategic Plan identifies the need for a reliable and sustainable funding base to achieve environmental outcomes for the benefit of the Pacific Islands region¹.

SPREP's project portfolio and budget, in support of Pacific Island Member countries, has increased from USD\$19 million in 2013 to USD\$37 million in 2023 and is envisaged to continue growing. Core funded income however has remained relatively stagnant, meaning funding for critically important management and administrative services within SPREP has not kept pace with its growing project portfolio. Recent SPREP Audits have highlighted the need for the Core funding situation to be urgently addressed. Audits have particularly noted shortfalls in Core income from project implementation via programme management charges, and the critical need for an urgent restructure in the finance and resourcing structure for SPREP.

A breakdown of SPREP's Core Budget for 2023 is shown right. Issues associated with SPREP's Core funding are elaborated in the background paper below (Annex A).

Core funding is a critically important issue for SPREP's future viability. Papers for the upcoming SPREP meeting regarding the 2024-2025 budget highlight the gap of about US\$2.5m in the Core budget which SPREP was unable to include in the 2024 budget due to unsecured funding. However, this is critical to enable SPREP to fully deliver on its priorities for the 2024-2025 biennial period.



The 3rd SPREP Executive Board meeting in September 2022 endorsed and supported the review of Core funding to determine an appropriate Finance & Resource Sustainability Strategy for SPREP to provide long-term and stable funding sources for its effective operations and management. The Board requested that the strategy be designed, fitted to the context to deliver multiple benefits that suit and serve the interests of both SPREP and its members.

A consultant team² has been engaged by SPREP to review the Core funding structure of SPREP and develop a financing and resource strategy. A key input to this review will be data gathered from SPREP Members, Donors and Partners via interviews at the 31st SPREP Meeting in September 2023. A series of interview questions have been developed to assess SPREP Member views towards the Core funding structure of SPREP and identify approaches to increase Core funding to ensure sustainable financing for SPREP. The interview questions are outlined below.

¹ SPREP Organisational Goal 3

² David Sheppard, Andrew Wilson and Rhona Barr

INTERVIEW QUESTIONS FOR SPREP PARTNERS AND DONORS

General

- (1) What are your general views on the SPREP Budget and Core funding situation?
- (2) How important is Core funding for SPREP's future viability? What are the most important areas within the SPREP Secretariat that core funding should support?
- (3) At a broad level, what do you see as the main options for increasing SPREP's Core Funding?
- (4) What are the challenges and barriers to increasing levels of Core Funding for SPREP?

Programme Management Fees

Recent SPREP Audits have highlighted shortfalls in Core income from programme management fees associated with donor funded projects. SPREP has a policy for cost recovery through admin. fees (12% for Members and 15% for Non-Members) which is different to policies of key donors (for example, some donors only allow 7% for such charges).

- (5) How can this situation be best addressed and improved?

SPREP Secretariat

Audits and reviews of SPREP have emphasized the need for the Secretariat to be structured and managed as effectively as possible, including in relation to financial sustainability.

- (6) How can the SPREP Secretariat be best structured to ensure long term financial sustainability and how can any changes be implemented?

New and non-traditional sources of funding

The main budget sources for SPREP include bilateral, multilateral funding agencies and Member contributions. These have remained the same for many years.

- (7) Can the Core funding situation of SPREP be improved by accessing alternative and new sources of funding for SPREP?
- (8) If so, what sources and approaches would you recommend and how can SPREP best capitalize on these new funding opportunities?

Support from your agency/organization

- (9) Would your agency/organization consider providing Core Funding budget support to enable SPREP to deliver core services as part of its donor/partnership funding?
- (10) If your agency/organization provides support to SPREP, do you consider that this funding represents value for money?
- (11) Would your agency/organization consider increasing their levels of funding to SPREP in the future? If not, what are the challenges to increasing levels of funding? What would your agency/organization expect in return from SPREP, should funding be increased?

Other

In recent years SPREP has been accredited as an Implementation Agency with the Green Climate Fund and the UN Adaptation Fund. It is also an Executing Agency with the Global Environment Facility.

(12) Do you have any comments on the implications of these international funding instruments on the long term financial sustainability of SPREP?

(13) Do you have any other suggestions or comments relating to the SPREP budget and/or Core funding?

ANNEX A – BACKGROUND PAPER - SPREP CORE FUNDING STRUCTURE REVIEW

1. BACKGROUND

The Secretariat's Strategic Plan 2017-2026 outlines the future directions for the Secretariat to strengthen and realign its institutional capacities, competencies and systems to best support Members and partners by delivering more integrated, responsive, and cost-effective services to Members and partners. The need for sustainable funding continues to be a key challenge that requires immediate focus. SPREP will embrace new and bold approaches to other significant challenges including structural reorganisation, capability building and ongoing change management to capitalise on new opportunities and maximise available resources. Over the ten year period, SPREP continues adapt, respond and develop to ensure the trust and confidence of its Members, partners and stakeholders.

The SPREP Organisational Goal 3: SPREP has a reliable and sustainable funding base to achieve environmental outcomes for the benefit of the Pacific Islands region and manages its programmes and operations to stay within its budget.

The shortage in Core Funded income particularly in view of shortfalls in income from project implementation via programme management charges as in the audited financial outcomes in the past 2 years highlights the critical need for an urgent restructure in the finance and resourcing structure for SPREP post COVID-19.

As established in the 30th SPREP meeting, the ideal Core funding structure is one that strengthens the Core revenue of SPREP and enables the Secretariat to leverage additional funding sources. That is, it should be one that positions the Secretariat in such a way that revenue for funding Core operations is adequately covered even when project and programme implementation is halted or delayed and thus continue to serve its members.

The 3rd SPREP Executive Board meeting in September 2022 endorsed and supported the review of Core funding to determine an appropriate Finance & Resource Sustainability Strategy for SPREP which will provide long-term and stable funding sources for its effective operations and management and that the strategy should be designed, fitted to the context and will deliver multiple benefits that suits and serves the interests of both SPREP and its members.

2. PURPOSE

To carry out a comprehensive review of SPREP's Core Funding Structure and develop an appropriate Finance & Resource Sustainability Strategy to ensure the financial sustainability of SPREP in the long term through a reliable and sustainable funding base to help achieve environmental outcomes for the benefit of the Pacific Islands region and manage its programmes and operations to stay within its budget.

3. SPREP CORE FUNDS

CORE BUDGET

1. SPREP's project portfolio and thus its budget has doubled within the last 10 years as evident from circa USD\$19 million in 2013 to USD\$37 million in 2023 and is envisaged to continue growing. However, while budget allocation and thus funding for Programmes have increased in parallel to the budget growth, the Core budget allocation has basically remained stagnant with sluggish growth over the years due to constraints in funding support for the Core (**Ref Annex 1 – Graph 1**).
2. Referring to **Annex 2**, as evident from the financial results of 2022, the portion of the Core budget (36%) reliant on Programme Delivery work, which yields the majority of Programme Management Fees earned had the most significant impact on Core Funding due to continuing COVID 19 effects last year. The resulting impact was a variance of 20% below the budgeted income from Programme management charged which is equivalent to USD\$453,487 budget shortfall. This caused significant adverse spill-over effects on the overall funding to support the Core operations at US\$5.8 million, relative to the budget for Core income of US\$6.3 million and thus an overall Core funding shortfall of USD\$519,136. As evident in a recast of the budget assuming that Core Funding had reduced reliance on Programme Delivery work (20%), while with a greater allocation to all other Core funding sources (80%), total Core funding income would have resulted in surplus funding of US\$543k instead of a shortfall.
3. The immediate measures put in place by the Secretariat, particularly in the last 3 years given obvious shortfalls and uncertainty over income funding, included strict controls over core expenditure as well as the regular review and adjustments of both project implementation plans and cash flow. While it proved effective in past years to address the financial constraints in the short term, it is not sustainable in the long run and it certainly has put a lot of pressure on already very limited resources and existing staff. This in turn poses a great risk on the ability to adequately resource SPREP Core, restricting therefore relevant Core support services for its programmes and SPREP operations and to be ready proof for the increasing project portfolio.
4. Based on the current draft budget for 2024-2025 to be considered at the 31SM this year, the budget process highlighted the funding gap of about USD\$2.5 million in the Core budget which has unsecured funding but is needed to enable SPREP to fully deliver on

its priorities for the biennial period from 2024-2025. This funding gap/shortfall for Core budget allocation for the 2024 Budget is not reflected in the final proposed budget due to inadequate funding available at the time the budget was prepared. It is however disclosed in the budget submission for members' information.

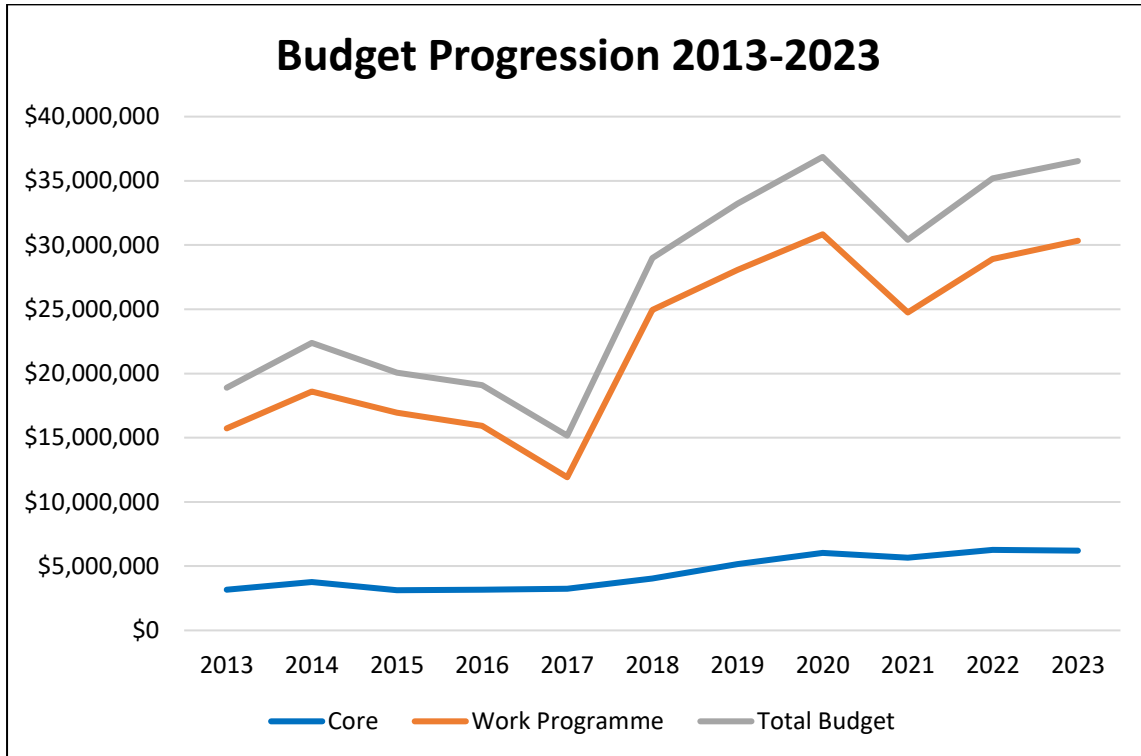
MEMBERSHIP CONTRIBUTIONS

5. Member Contributions make up about 3% of the total 2023 Budget Income for SPREP, however they provide 19% of the Core Income (**refer Annex 1 – Graphs 2 & 3**).
6. The ongoing weakness of Core income underpins the current unsustainability of overall SPREP financing. To assist in the future and ongoing sustainability of SPREP, Membership Contributions as one of the key components in sources of funds for the Core Budget requires the support of members for additional funds to relieve the budget pressures and allow for cash flow sustainability each year of the Secretariat's Core operations and activities.
7. The level of assessed contributions had remained the same since 2004³ (**refer Annex 1 - graph 4**) through to 2017.
8. The 28th SPREP Meeting approved and endorsed in principle a 20% increase in membership contributions subject to confirmation from Capitals/Governments.
9. To date, the only members that have formally pledged contribution increases include Australia (20%), French Polynesia (10%), New Caledonia (20%), New Zealand (20%), PNG (20%), Samoa (20%) and Tuvalu (20%) which also have been fulfilled in terms of contribution payments received.
10. France and USA noted difficulties in responding to this decision because of their particular budget processes but have since committed and paying allocations that their capitals had approved which to date is equivalent to France (5%) and USA (7%).
11. SPREP is the only CROP agency which has not had a fully effective membership increase for the last 19 years, placing SPREP in an inequitable situation.
12. A comparison of Member benefits to membership fees shows that SPREP has demonstrated value for money in its practical support to Pacific Island Members. The financial benefit to Members from SPREP programmes has increased from \$9.3 million in 2010 to circa \$27.2 million in 2022 – an increase of circa 192% (**refer to graph 5 in Annex 1**).

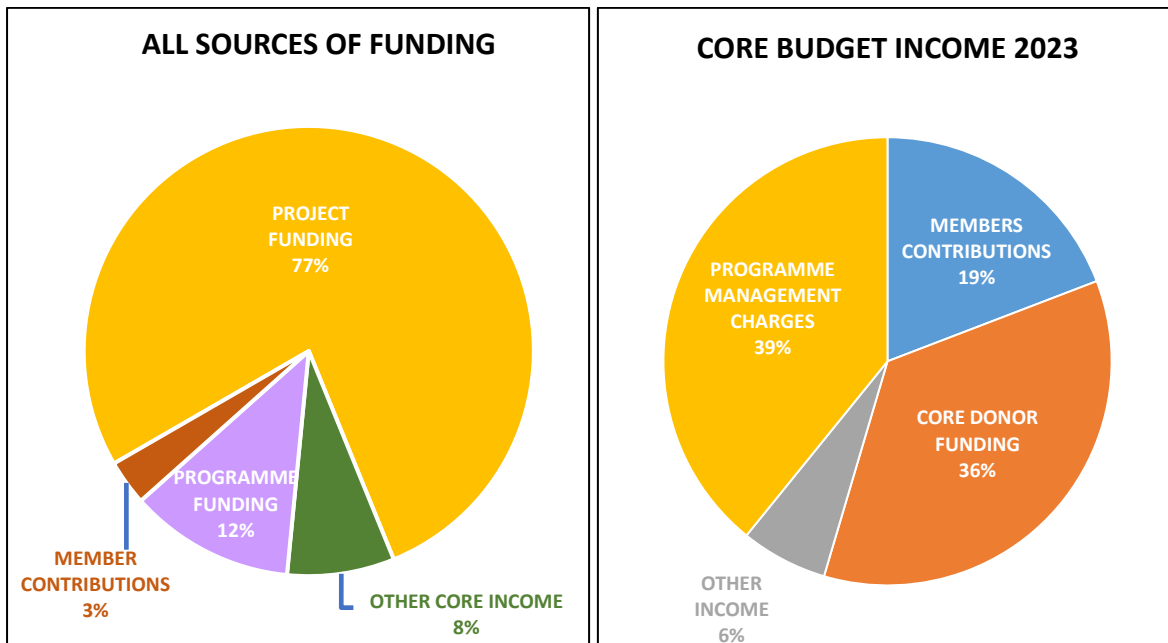
³ Slight increase in 2013 was only due to UK rejoining as SPREP member.

ANNEX 1 – BACKGROUND INFORMATION GRAPHS

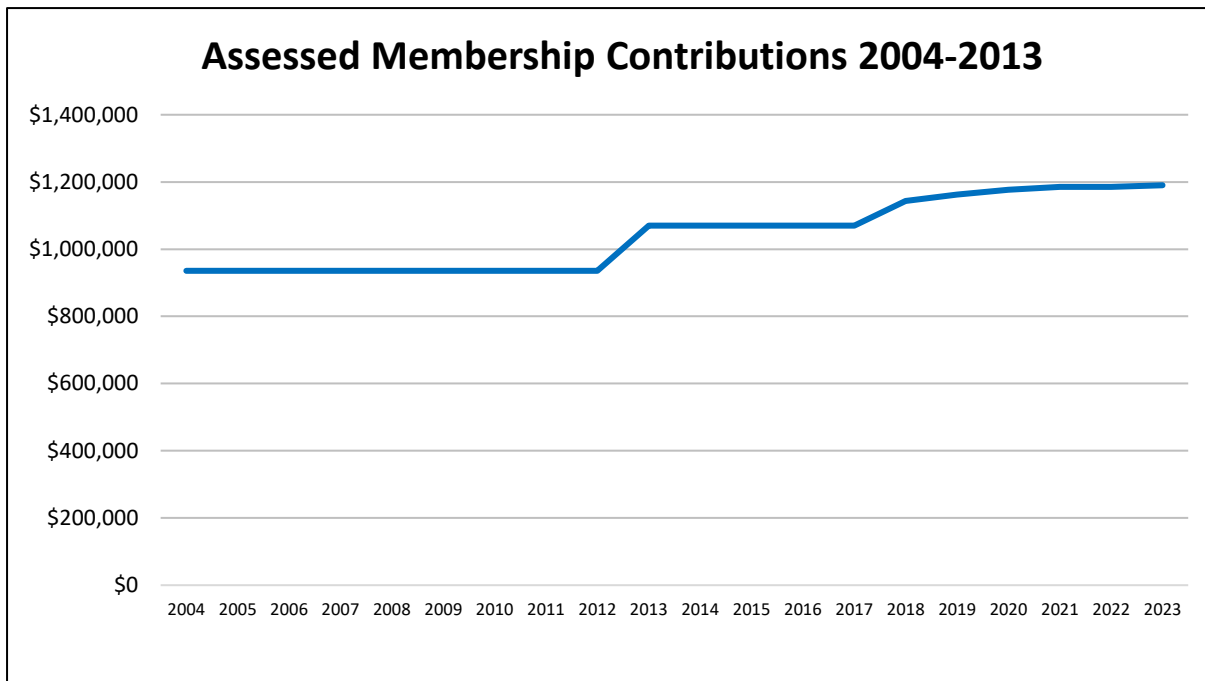
Graph 1: SPREP Budget Progression 2013-2023



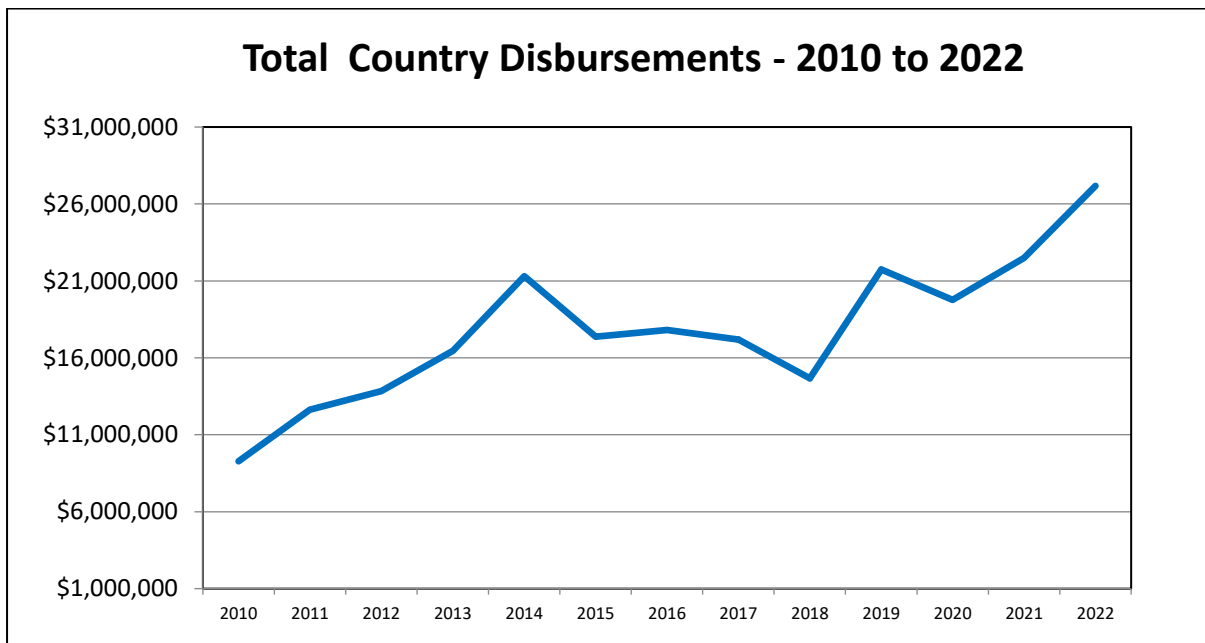
Graphs 2&3: All sources of funding and deep dive on Core budget 2023



Graph 4: Assessed Member Contributions 2004 - 2023



Graph 5: Total Country Disbursements 2010 - 2022



ANNEX 2 – BREAKDOWN OF SPREP CORE BUDGET AND RECAST IF OTHER CORE INCOME WERE TO MAKE UP AN INCREASED CONTRIBUTION (80% INSTEAD OF 64%).

	Budget 2022	% of Budget	Actuals 2022	Variance	% Var/Budget
Income	\$				
Members contributions	1,184,845	19%	1,190,195	5,350	0%
Programme management charges	2,251,118	36%	1,797,631	(453,487)	-20%
Other donor fund income	2,484,110	40%	2,294,333	(189,777)	-8%
Amortisation of deferred income	239,474	4%	239,474	0	0%
Other income	110,000	2%	228,777	118,777	108%
Total income	6,269,547		5,750,410	(519,136)	Budget Shortfall
(MC OFI, OI Total)	3,778,955		3,713,306		
BUDGET RECAST - 80% Other Core; 20% Programme Management Charges					
	Budget 2022	% of Budget	Recast - 2022	Variance	% Var/Budget
Income	\$				
MC, ODFI, OI	5,015,637	80.0%	5,015,637	-	0%
Programme management charges	1,253,909	20.0%	1,797,631	543,721	43%
				-	
Total income	6,269,547		6,813,268	543,721	Budget Excess