SPREP
Secretariat of the Pacific Regional Environment Programme

PO Box 240, Apia, Samoa
E: sprep@sprep.org
T: +685 21929
F: +685 20231
W: www.sprep.org

Natural Solutions for Island Resilience

The Pacific environment, sustaining our livelihoods and natural heritage in harmony with our cultures.

Twenty Sixth SPREP Meeting

Apia, Samoa
22nd – 24th September 2015

Agenda Item 7.2: Membership Contributions (Report of the Friends' of the Chair)

Purpose

1. The Report of the Friends' of the Chair (FoC) on Membership Contributions aims to demonstrate to Members through analysis that the current level of core financing received by SPREP is not sustainable and to provide options for improving the financial situation of SPREP.

Background

2. The 2014 SPREP Meeting considered Agenda Items 7.1: Report on Members' Contributions and 7.2: SPREP Working Group on Memberships Contributions: Report of the Chair. The 2014 SPREP Meeting:

- directed the Secretariat to undertake further analysis with a view to rationalising direct services delivered to Members and report back no later than the 2015 SPREP Meeting;
- requested that the mandate of the Working Group for Membership Contributions be broadened to allow consideration of the different financial issues including unpaid membership contributions, management fees for projects, exchange rates, voluntary contributions; and
- requested the Working Group to provide analysis and recommendations to Members, no later than 31 March 2015.

3. The Friends' of the Chair (FoC) on Membership Contributions held two meetings on January 30 and July 10, 2015. The Friends of the Chair were represented by New Zealand as Chair, with Australia, France, New Caledonia, New Zealand, Republic of the Marshall Islands, Samoa, Tokelau and the United States, with support provided by the Secretariat.

Financial Terminology

4. The Financial Regulations (2012) states the working funds of the Secretariat is held in three principal funds which are:

a. The Core Fund; covering all Core Fund income and expenditure; and made up of members' contributions and miscellaneous income;
b. The Programme Fund; covering all work programme funding and expenditure; and are used only for the purposes specified by the donors; and
c. The Reserve Fund which may be used by the Director General in any emergency or unforeseen circumstances.

2015 SPREP Annual Budget

5. The annual budget of SPREP in 2015 is $20,072,378 which is less than the 2014 budget of $22,143,286. The decrease in budget is due to the completion of PACC and PIGGAREP which had a budget allocation of $3,997,030 in 2014 compared to $317,183 in 2015.

Graph 1: 2015 Types and Sources of Funding

6. The total annual membership contributions of $1,069,774 is the main source of income for the core budget and represents 5% of the total budget income for 2015. Other sources of income for the core budget are the programme management fees and bank interest on deposits, rent and miscellaneous which represent 11% of the total income. The programme funding includes the multiyear funding and partnership grants from Australia and New Zealand, are untied and have been prioritised by the Secretariat for 33 staffing positions including the divisional directors. Refer to Annex 1 for Graph 1: 2015 Types and Sources of Funding.

Core Fund Expenditure

7. The core budget for 2015 of $3,129,064 is primarily spent on the Executive Management & Corporate Support. Expenditure is mainly for personnel costs of 63% which is for the salaries of the Executive and Corporate Services and includes the sub-regional officers in the Republic of Marshall Islands and the Federated States of Micronesia. Refer to Annex 1 for Graph 2: 2015 2015 Core Fund Budget by Expenditure Category.

8. Most of the core operating costs of $670,394 for 2015 are general operating costs which includes electricity, maintenance of buildings, and French language translation and interpretation services; followed by Special Events which includes the SPREP Meeting of $212,000.

9. The core budget decreased from 2014 by $412,626 due to insufficient income revenue, caused largely by significant decreases in donor funding from the two major projects which finished in 2015, the PACC and PIGGAREP Projects, and the reduction of bank interest revenue by $100,000. This decrease has continued to widen the gap between the core income and expenditures. The current gap is around $500,000.

10. The FoC notes the membership fees increase being considered of 5% in 2016 would equate to $53,488.70 and in 2017 of an additional 5% for a total increase of $106,977.40. Increases in membership fees alone would not address the funding shortfall and a range of approaches need to be applied to address this core funding issue. Refer to Annex 1 Graph 3: 2015 Core Operating Costs by Expenditure Type.

SPREP Reserves

11. SPREP has always maintained a balanced budget however, there have been gaps in the core budget accumulated over recent years. This has been due to the expenditure items listed under point 8 as well as the high costs of medical evacuations and the extremely high costs of reviews which have been requested by SPREP Members. The reviews have all been funded through the core budget and include: (i) more than US $700,000 spent in 2014 on the Independent Corporate Review/Mid-Term Review of the Strategic Plan; and (ii) significant amounts spent from the core budget on the Cost Benefit Analysis of the SPREP Sub Regional Presence in 2012 and 2013.

12. As a result of implementing directives of the SPREP Meeting without adequate resourcing, SPREP has drawn all of its reserves. The 2014 SPREP Audit Report notes a Core Fund deficit for the year ending 31 December 2014 of $769,488 which includes non-cash items of depreciation and foreign exchange loss. The year 2014 was an exceptional year as noted in point 11 with costs in excess of US $ 700,000. Hence at the end of 2014, SPREP had an accumulated deficit in Total Reserves of $ -492,631.

13. The Secretariat notes that the reserves have been fully depleted and if Members do not seriously consider a membership fees increase, or make additional voluntary contributions this will affect the cash flow for the servicing of the Secretariat and the services provided to Members. The Secretariat further notes that SPREP is the only CROP agency amongst PIFS, SPC and FFA which has not been allocated a membership increase over the 12 years and feels this is an unfair and inequitable situation.

Multiyear Funding and Voluntary Contributions

14. The Governments of Australia and New Zealand have multiyear funding and partnership agreements with SPREP of AU $10,550,000[1] and NZ $4,563,372[2] respectively. This has provided stability and predictability of funding and planning for work programmes in alignment with the SPREP Strategic Plan and the Paris Declaration on Aid Effectiveness.

15. In addition to the multiyear funding agreements from Australia and New Zealand, Papua New Guinea made a voluntary contribution to SPREP of 1 million kina[3]. As a result of the discussions of the FoC the Government of Samoa has agreed in principle to a voluntary contribution of US$ 30,000 which will form the basis of their host country grant and is in addition to their existing membership contributions.

[1] The Australian Multiyear Agreement is for the period 31 May 2013 to 30 June 2016
[2] The New Zealand Multiyear Agreement is for the Period 01 January 2013 to 31 December 2015
[3] One million kina at the time of receipt was approximately US$ 374,000.

16. In the discussions of the FoC both France and the US expressed their preference for voluntary contributions, rather than a prescribed increase in membership fees. It was noted that this has been the practice of both members which have consistently made voluntary contributions over and above their assessed membership contributions.

17. The Members of the FoC acknowledge the difference in views, with most Members' preference for a membership fees increase on an incremental basis.

18. The option of a membership contributions increase is quantified in Annex 1, and the option of an additional voluntary contribution to help balance the 2016 budget is quantified in Annex 2 as requested by some Members.

Programme Management Fees and Project Cost Recovery

19. The Programme Management Fees Policy (2012) states a 10% programme management fee to all members' projects and programmes; and a 12% fee charged to all non-member projects and has generated additional revenue for the core funds. The practical application of this policy is however dependent on donor policies and the project negotiation processes. The Secretariat has not always been able to attract the full fee for all projects due to the rigid approach adopted by some donors which has resulted in some projects being delivered at an overall financial cost to the organisation. The FoC discussed the need to ensure all costs associated with delivery of a project are covered and that the project is not delivered at a financial loss to SPREP. The Secretariat fully agrees and supports this policy but notes that it is harder to implement in practice due to the approach and policies of different donors.

20. Costs associated with delivery of a project can usefully be categorised as indirect and direct. Direct costs are typically covered in the project budget and include costs associated with a project manager, internet usage, office accommodation and equipment. Indirect costs are costs borne by SPREP in the delivery of the project including through non-project staff time to support the project (including executive management, finance processes and payroll; human resources; IT services; procurement; insurance; costs associated with audits; reporting costs, electricity and maintenance. SPREP's (10-12%) Programme management fee is designed to help cover these indirect costs.

21. The FoC recognised that it is not always possible to charge the full 10-12% fees, because of donor requirements, where SPREP was given the option of "take it or leave it". For example key SPREP projects funded by the GEF through UNDP such as the PACC paid 6%, PIGGAREP paid a flat fee and the EU PacWaste Project 7%, which for the EU is the standard management fee. If SPREP has insisted on the application of the 2012 Programme Management Fees Policy then there would have been a very real risk that these projects would not have proceeded and Pacific island members of SPREP would not have benefitted from these important projects.

22. Analysis of two SPREP projects (PIGGAREP and PACMAS) indicate that the 10-12% management fee does represent an adequate proxy of the indirect cost associated with project delivery.

a. In summary a 12% fee for PIGGAREP would have attracted $998,400. The actual calculated/modelled indirect costs for PIGGAREP were $961,144. In reality, because the management fee was not applied in full, SPREP collected just $120,867 to help cover indirect costs. This represents a loss of $877,533 to SPREP for delivery of PIGGAREP.
b. For PACMAS a 10% fee was charged and attracted a total of $16,529 to help cover indirect costs associated with SPREPs delivery of the project. The actual (calculated / modelled) indirect costs associated with PACMAS was $16,847. In this instance the 10% fee that was applied did adequately ensure the project was not delivered at (significant) loss to SPREP.

23. Noting the challenges regarding consistently applying set fees, the FoC discussed a CROP harmonised approach to project management fees, as a means to strengthen the ability of CROPs to consistently apply an established and adequate management fee. The CROP Heads mechanism was viewed favourably for a CROP harmonised approach on project management fees. The FoC also discussed a 'cost recovery' model as a complementary or alternative model to ensure direct costs are covered and SPREP does not deliver projects at a loss. The Secretariat agrees with this approach while noting that decisions on this matter are up to individual donors.

24. For example a flat (10-12%) management fee, a cost recovery model aims to ensure indirect costs associated with delivery of a project are covered. An alternative cost recovery approach would involve monitoring (or modelling) of these indirect costs, before determining the amount to be recovered from the project budget / donor.

25. It should be noted that a cost recovery model may require additional time and resources, to ensure the accuracy of calculations and development of models.

26. A compromised approach may see application of the management fee as a first preference, with cost recovery calculations undertaken where it is considered the agreed management fee is too low to cover indirect costs.

27. The FoC noted that SPC has commissioned work to analyse these issues in the SPC context and those findings and recommendations from this analysis could be applicable for SPREP. SPREP will seek detail of the analysis from SPC and provide this to the FoC for consideration. It is also noted that technical assistance may be available through the Regional Advisory Services (RAS)[4] to assist SPREP, and CROP agencies more broadly, address this issue.

[4] The Regional Advisory Services (RAS) provides independent technical advice to CROP Agencies and is funded by the Government of Australia. SPREP has developed a work plan of prioritized areas with the RAS.

Regional Comparison of Membership Fees and Host Countries

28. Peer CROP agencies have received approved increases from its members ranging from 2.8% for the Pacific Islands Forum Fisheries Agency (FFA) in 2013; CPF 0.5 million increase for SPC in 2012; to 15% for the Pacific Islands Forum in 2011.[5] As noted above the SPREP Secretariat believes the fact that SPREP is the only CROP agency which has not been allocated a membership increase over the 12 years is an unfair and inequitable situation.

29. Exploring the regional comparison of membership fees, SPREP has demonstrated value for money in the practical support to Pacific island Members, which has increased significantly from $9.3 million in 2010 to $21 million in 2014.

30. SPC also has an arrangement with host countries for an agreed annual host country grant to the total of $ 167,738 in 2015 for Fiji ($ 39,468), New Caledonia ($ 59,202) and the Solomon Islands ($ 49,335).

31. SPREP does not have an existing arrangement for host country grants under the sub-regional presence for RMI and FSM and will discuss this on a bilateral basis through the SPREP Executive.[6] As noted in point 18 the Government of Samoa has agreed in principle to a voluntary host country grant of $30,000 to be paid in addition to their membership contributions.

French Translation Costs

32. The FoC discussed options for the reduction in translation and interpretation costs. Outsourcing costs for French language services is more than $200,000 annually. This does not include the significant translation and interpretation costs associated with the SPREP Annual Meeting which in 2014 cost $300,000 primarily due to its location in Majuro and the SPREP Reviews. The Friends of the Chair unanimously noted their support for SPREP retaining its English and French language status and encouraged the Secretariat to be more innovative with addressing costs. The Secretariat notes it has been addressing this issue and has changed its service provider for interpretation/translation in 2015 to reduce costs. The Secretariat further notes this is a major challenge for the core budget of SPREP and that, while it is exploring innovative solutions, additional resources are required. Support from the Government of France and Francophone countries in addressing this issue would be appreciated.

33. The SPREP Executive discussed with France and New Caledonia options for reducing costs which included translating the executive summary of each SPREP Meeting paper and the Annual Work Programme and Budget to be fully translated into French. Other options are also being explored for direct assistance with interpretation and translation. An additional option would be to establish an annual translation budget cap. Within this allocation French speaking Members could decide on which products and services it is applied to. This would provide the Secretariat and all Members with certainty on costs and French speaking Members with some control on how the allocation is most effectively spent.

---

[5] Source: PIFS FOC Sub-Committee Membership Contributions Discussion Paper 23rd September 2009.

[6] The Secretariat had intended to discuss the matter with the authorities of FSM and RMI, but was deferred due to the recent natural disasters experienced in both countries.

Develop and Explore Other Revenue Streams

34. The FoC notes SPREP is now an accredited RIE for the Green Climate Fund. The accreditation enables proposals up to the ceiling of USD$ 50 million and up to 4 projects are currently active in the project pipeline for consideration of the GCF and Adaptation Board in 2015. There is potential income and costs associated with being an RIE. The Secretariat advises that SPREP has the potential to earn 10% on project management fees for the multimillion dollar projects, which will cover indirect costs and a project management component in the direct costs, which are included in the budget of the respective proposals.

35. To support climate finance initiatives SPREP envisages long term a project management unit to support the RIE function and growing project management role. The growth of this unit will be based on the existing Climate Finance position and staff working at SPREP on the area of climate finance, including the SPREP Monitoring and Evaluation Adviser. The growth of this unit would be commensurate with the growth in the project portfolio.

36. While the income associated with these potential projects is to cover cost of the projects, it provides overall growth in income to support core operational costs and service delivery. SPREP is also exploring philanthropic foundations and strategic partnerships including a new agreement with the Pew Charitable Trusts. The partnership will enable a Shark and Ray Conservation Officer to be based at SPREP funded by the Pew Trusts.

Penalties for Members with Outstanding Contributions

37. The FoC discussed penalties for outstanding contributions using the example of the Cartagena Convention. Parties in arrears (over two years) to the Convention do not receive financial support to participate in meetings and projects, unless a written commitment and/or payment is made. Another penalty suggested for outstanding contributions, was ineligibility to Chair the SPREP Meeting.

38. The Secretariat noted flexible payment plans have been used when requested, such as for Nauru which has paid its contributions in full, which is acknowledged with appreciation. Northern Marianas and Guam have been contacted by the Secretariat for payment and the process is on-going. The FoC did not reach a consensus on the issue of penalties.

Foreign Exchange

39. The FoC noted the Secretariat requires a mechanism with donors and members for fixed dates for payment of funds and the preferred currency (where possible) to be issued. This can provide a more favourable advantage for SPREP with the hedging of funds at an agreed to rate and duration. When there is less predictability on in-flows of payment from donors and members, there is less leverage for SPREP to maximise the best rates. It has been suggested that SPREP engage with financial institutions to develop partnerships to help cushion exchange rates.

Hosting of SPREP Meetings Biennially

40. The FoC expressed concern on the cost of the Annual SPREP Meeting and it was viewed as important that Members have the opportunity to consider the feasibility of meeting every two years rather than annually. The FoC noted the history of biennial SPREP Meetings, based on earlier decisions of Members which had not endorsed the concept and requested continuation of annual meetings. The FoC however is of the view that Members' be given the opportunity to consider the cost savings to SPREP on hosting the SPREP Meeting every two years, which has a potential cost saving of more than US $300,000.

41. The FoC recognize that if the Members endorse the concept that the Secretariat would have to enact a reporting mechanism inter-sessionally and be provided with greater support from the SPREP Troika including in areas of financial governance. Such a decision could also be accommodated in the development of the next Strategic Plan, and associated monitoring and reporting requirements that it would set out.

42. The Secretariat notes that issues such as the frequency of SPREP meetings is a matter for decision and direction from members but notes that the high cost of annual SPREP Meetings have a major impact on the annual SPREP core budget. The Secretariat also notes that reviews (in 2012, 3, 4) and strategic planning (in 2010) requested by members have had significant impacts on the core budget and suggests in the paper on the SPREP Strategic Plan (refer 2015 SM Paper 6.6) that this exercise be deferred by one year to enable the situation with the core budget to improve.

Management Arrangements

43. SPREP has in place internal governance arrangements through the SPREP Troika and the Audit and Risk Committee[7], which includes representatives of the SPREP membership. The issue of reserves, foreign exchange policy, financing gaps and cost savings are being monitored by the Executive and reported through the Audit and Risk Committee. The long term goal of the Executive is to ensure there is adequate resourcing for the direct services provided to Members and servicing of the Secretariat.

44. The Project Review and Management Group (PRMG) is an internal SPREP committee which: appraises project design and processes; provides the Senior Management Team with strategic advice relating to project pipeline development; and ongoing advice for the project implementation process. It is an internal peer review process to guide SPREP projects and the quality of services directly provided to Members and complements the RIE role of SPREP. The work on rationalization of services will be carried out by the PRMG as part of its on-going work-plan.

[7] The Audit and Risk Committee also includes membership of the SPREP Troika.

Conclusion

45. As noted by the FoC there is a broader and critical issue of sustainable financing to support the core operations of the Secretariat and its services to Members and the quality, depth and breadth of Secretariat services may be impacted if left unresolved. While an increase in Membership fees, whether prescribed or voluntary is considered a simple and overdue solution, it represents just part of the overall challenge on sustainable financing for SPREP. The FoC on Membership Contributions urges Members to consider the issues in order to map out a longer term and sustainable solution.

Recommendation(s)

46. The Meeting is invited to:

1. **Membership Contribution**
   - 1.1 - Approve a total of 10% increase in membership contributions as per Annex 2
     - 5% increase in Year 1 commencing 2016
     - 5% increase in Year 2 commencing 2017
   - 1.2 - Approve an additional voluntary contribution over and above the Secretariat assessed membership contributions, as per Annex 3 which shall be pledged at the Annual SPREP Meeting and paid the following calendar year to balance the 2016 budget.
   - 1.3 - Commend the intent of the government of Samoa for the voluntary host country grant to SPREP of US $30,000.
   - 1.4 - Encourage SPREP members to commit to making membership contributions payments in a timely manner.
   - 1.5 - Direct the Secretariat to work with member countries with outstanding contributions to develop payment plans and to work on collecting these outstanding contributions.

2. **Programme Management Fees and Project Cost Recovery**
   - 2.1 - direct the Secretariat through the Project Review Monitoring Group (PRMG) to include an appraisal criteria that projects meet a 10% and 12% project management fee(s) threshold, and that.
     - Exemptions require detailed justification, as part of the documentation process and reporting to members.
     - Exemptions may be based on the fact that indirect costs (that may alternatively be covered by the management fee) are factored into the project budget.
   - 2.2 - direct the Secretariat that in addition to the project management fees all identified 'direct' project costs such as salaries should be directly charged to the respective projects.
   - 2.3 - direct the Secretariat to liaise with SPC on project cost recovery and build upon the SPC findings for an appropriate cost recovery model for SPREP.
   - 2.4 - direct the Secretariat to work through the CROP CEO Heads for support on a harmonized approach to project management fees across CROP agencies.

3. Other options to improve efficiencies

- 3.1 - Direct the Secretariat to incorporate a workable mechanism with donors and members for fixed dates for payment of funds and the preferred currency for payment to be made.
- 3.2 - Direct the Secretariat to look at options of engaging with financial institutions in a partnership that could provide more cushioned foreign exchange rates.
- 3.3 - Approve the SPREP Meeting convening every two years.
- 3.4 - Approve additional intercessional governance and reporting arrangements through the SPREP Troika, which may include additional members as per the SPREP Troika Terms of Reference.
- 3.5 - Consider deferring the Strategic Plan exercise from 2016 to 2017, in view of the high costs involved

18 August 2015