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



Twenty Seventh SPREP Meeting

Alofi, Niue

19 – 21 September 2016

Agenda Item 7.2 : Sustainable Financing

Purpose

1. The Report provides an update for Members on actions undertaken by SPREP to date to achieve sustainable financing for the organisation.

SPREP Funding

2. The Financial Regulations (2012) directs the working funds of the Secretariat to be held in three principal funds:
 - 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 - used only for the purposes specified by the donors;
 - c. The Reserve Fund which may be used by the Director General in any emergency or to mitigate unforeseen circumstances.

Update

Membership Contributions

3. Membership contributions including additional contributions and contribution arrears of \$1,140,134 make up about 6% of the total budget income for 2016 and 36% of the core budget income. As at 31 August 2016, we still have outstanding contributions remaining unpaid of circa \$762,000. The Secretariat thus urges the cooperation and commitment by Members as unpaid contributions have a huge impact on the sustainability of core funding, and consequently the financing of key support services for SPREP.
4. We wish to acknowledge with thanks Members' commitment in allowing the increase of 5% of members' contributions since January this year as well as the additional voluntary contributions received from some Members which has provided some relief to the operation of the Core Fund.

Programme Management Fees and Project Cost Recovery

5. The Secretariat through its Project Review Monitoring Group (PRMG) has been actively working in reviewing and appraising project proposals to ensure that we include in the budget/forecast for projects an allowance to cater for the 10% and 12% project management fee(s) threshold. There are of course projects with exemptions due to some of the strict Donor Fund requirements.
6. In cases where there are exemptions to the above 10%-12% project management fee(s), PRMG review includes ensuring that there is alternative treatment to include any indirect costs (that may alternatively be covered by the management fee) into the project budget.
7. This year, SPREP has been working closely with the Nataij team mission to prepare SPREP for GEF Implementing Agency accreditation. This has involved reviewing existing policies, identifying new policies needed, and designing processes and tools to implement them. Much of this work will assist in achieving sustainable financing for the organisation. A cost recovery policy is included in this work. It involves clearly identifying the various categories of costs to SPREP and how to best allocate them. Key components are:
 - On-going dialogue and education
 - Consideration of management efficiencies from the concept stage of project and programme design
 - Estimation of actual project management costs using a standard costing methodology
 - Progressively introducing eligible direct cost recovery
 - Separating reporting of direct and indirect costs recovered
 - Customising management fees when justified
 - Progressively reviewing corporate budgets (indirect costs)
8. The Secretariat had managed to continually liaise and work with other CROP CEO Heads including SPC to share on sustainable financing strategies and cost methodologies with the aim of not only building on each other's experiences and proven processes but also getting a more harmonised approach to project costings and management fees across CROP agencies.

Foreign Exchange

9. SPREP continues to be adversely impacted by the effects of foreign exchange losses. The audited financial statements show foreign exchange losses of \$344,333 in 2015 and \$200,789 in 2014.
10. A Foreign Exchange Policy is now underway as part of the work done by the Nataij team mission under the GEF MSP Project to prepare SPREP for GEF accreditation. The review has identified foreign exchange transactions as one of the key areas needing resolution to address SPREP's financial sustainability planning in the long term. Management is already implementing some of the recommendations including closure of non-USD currency accounts not required for normal operations to reduce exposure to foreign exchange fluctuations. The MSP Project is intended to be finalised early 2017.

11. SPREP has begun discussions with financial institutions to address the exposure of the organisation to foreign exchange rate risks. Once the Foreign Exchange Policy is adopted, SPREP will work with the financial institutions to find ways to better manage transactions and related costs and improve the instruments used to manage foreign exchange transactions such as forward contracts.

Other Financial Sustainability Measures

12. Core Income is mainly comprised of membership contributions, bank interests, and donor funding. Program management services and unsecured income make up about 52% of total core income with a significant portion (48%) reliant on program management fees.
13. An increase in membership fees would not alone address SPREP's funding shortfall: a range of approaches is needed to address core funding issues.
14. SPREP continues to looking to non-traditional donors, and is currently in the final stages of negotiating USD2m grant from Sweden as core budget support and to contribute to Oceans work. Although currently a one-off opportunity, indications are that this could be the beginning of a longer term partnership with the Swedish Government.
15. SPREP's work with Nataij to meet GEF Implementing Agency accreditation standards is bringing greater rigour to SPREP's internal management systems, including financial management, corporate governance, and project management. This will make SPREP a stronger organisation: one more able and efficient in managing development activities with Members, and a more attractive investment proposition for donors. Once implemented, these measures will underpin greater financial sustainability. Targets for improved policies and procedures include:
 - fraud policy and manual
 - governance policy
 - Audit Committee charter
 - internal audit charter
 - internal control guidance,
 - risk management policy and manual,
 - improved project management information system
 - gender policy
 - child protection policy
16. Additionally, Management have already tightened up on cost control measures particularly with respect to travel, alternative meeting arrangements (e.g. Skype sessions, teleconferences etc) as the beginning of its efforts to not only secure additional income but also to minimise costs. Another key cost control measure which will have a significant impact on reducing costs is the Biennial SPREP meeting commencing from 2017.
17. SPREP Management is also putting in place measures to control costs including for travel, and using alternative meeting arrangements (e.g. Skype sessions, teleconferences). Moving to a biennial SPREP Meeting in Apia from 2017 will have a significant impact on reducing costs

Recommendation

18. The Meeting is invited to:

- **review** and **note** the above update report by SPREP on Sustainable Financing.

12 September, 2016