



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



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

Twenty Eighth SPREP Meeting

Apia, Samoa
19 – 21 September 2017

Agenda Item 9.2: Sustainable Financing

Purpose

1. To provide an update on actions undertaken by SPREP to date to address core budget pressures and thus ensure long-term sustainable financing for SPREP.
2. The 27th SPREP meeting directed the Secretariat to:
 - complete the policies on foreign exchange, reserves, and cost recovery by December 2016 and to report back to Members on any exemptions to these policies;
 - work with a Friends of the Chair (FoC) to further report to Members on options and actions that address the Secretariat's core budget pressures, by the end of March 2017, with the options developed to be considered and used by the Secretariat to inform preparation of the 2018 – 2019 budget where considered appropriate;
 - provide a brief quarterly update to the Troika and Members on performance against budget for core, programme, reserve and project funding

Background

3. The Secretariat completed and approved policies on foreign exchange and cost recovery in December 2016. These policies will be regularly reviewed. The next review will be on the Reserves Policy which is intended to be completed and approved by December 2017.
4. The FoC on Sustainable Financing held three meetings on January 31, July 06, and August 01 2017. The FoC were represented by New Zealand, Australia, Cook Islands, New Caledonia, and the United States.
5. The Secretariat up-dated the Troika in March on the implementation of the above policies as well as other key policies reviewed last year, followed up with a quarterly report to the Troika and Members in April 2017.

Update

Membership Contributions

6. As at 30 June 2017, the Secretariat had collected US\$790,179 of member contributions (**refer to Annex 1**). Based on Assessed contributions and projected 5% voluntary contributions totalling US\$1.1 million, the Secretariat collected 70% of budgeted membership contributions in the first 6 months of the financial year. Outstanding

contributions (inclusive of previous years' outstanding contributions) total US\$621,689. The Secretariat is grateful for the voluntary contributions made by Members.

7. Reminder notices were sent out to members in January, April, June, and again in August 2017. SPREP will continue to send out regular follow up notices every quarter to remind member countries of their commitment to pay membership fees, and to encourage payment of their voluntary contributions.
8. Annex 2 shows the nett balance of outstanding contributions as at 31st December 2016 was US\$288,612. At the same time the total for debit balances alone was US\$556,981. Outstanding contributions however are not reported in the financial statements due to the assumption of its voluntary nature, that is, not an obligatory commitment and thus not recognisable as revenue in the Statement of Financial Performance nor an asset in the Statement of Financial Position where it is receivable. Had these outstanding amounts been received from members, the Net Surplus results would have been more than US\$346,898 as reported in the Audited Financial Statements as at 31st December 2016, and there would not have been a negative balance in total reserves. That is, instead of the deficit balance of US\$468,160 in total reserves reported in the Statement of Financial Position as at 31 December 2016, it would have been a positive balance of US\$88,821.
9. As demonstrated above, it is critical for Members to commit to payment of their annual contributions, including outstanding payments, as this provides relief in the current negative balance in total reserves accumulated over the years. If outstanding contributions are fully recovered, it will eventually eliminate the negative balance and allow for rebuilding of the reserves funds again which is essential for covering for any unforeseen circumstances (e.g. liquidity shortfalls) in the future.
10. The FOC has explored various options for the collection of outstanding membership contributions including the option of punitive measures to 'encourage' payment. The Secretariat notes that the issue of punitive measures has been raised in the past by Members at previous SPREP Meetings without agreement. The Secretariat would reinforce with Members the principles of ownership and commitment, the considerable value-added that core funding through the membership contributions provides to support service delivery to Members', and the significant leveraging impact that core funds can deliver in terms of tangible benefits for Members.
11. Flexible payment plans have been proposed by the Secretariat for outstanding contributions, and this has assisted some Members, such as Nauru which effectively used a schedule of payments to pay its outstanding contributions in full over a period of time in 2014. The Secretariat would encourage Members, especially those with significant outstanding membership payments, to use similar arrangements to address outstanding balances.
12. Member Contributions make up about 8% of the total 2017 Budget Income for SPREP, however they provide 39% of the Core Income (**refer to Annex 3**). The core budget is the most challenging consideration for the long-term financial sustainability of SPREP. The core needs to be strengthened to provide key support services to Members. The on-going

weakness of core income underpins the current unsustainability of overall SPREP financing. This situation is not readily visible from standard financial reporting. As evident from the graphs in **Annex 3**, 15% of the Budget for the Core remains without any secured funding. To assist therefore in the future and ongoing sustainability of SPREP, Membership Contributions as one of the key component 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.

13. As reported in the 2015 SPREP meeting, unlike SPREP, 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 2011.¹ For SPREP however, the level of assessed contributions has remained the same since 2004 (**refer to graph 1 in Annex 4**). SPREP is the only CROP agency which has not had a membership increase for the last 13 years, placing SPREP in an inequitable situation.
14. 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 \$17.8 million in 2016 – an increase of 91% (**refer to graph 2 in Annex 4**).
15. The 2015 SPREP meeting encouraged members to provide a voluntary 5% increase in membership contributions in 2016 whilst directing the Secretariat to work with Member countries with outstanding contributions to develop payment plans and to work on collecting these outstanding contributions. Since this meeting, the Government of Samoa had also been contributing voluntary host grants to SPREP of USD\$20,360 each for the last 2 years.
16. However, voluntary contributions have not been sufficient to close the gap in the core budget. The 2017 budget had an unsecured portion of US\$480,000. This directly reflects the state of the core budget and its inability to support the core activities of the Secretariat. As a consequence a range of options are detailed in **Annex 5(a)-5(c)** which propose different ways and levels of increases to contributions for consideration by Members. In summary:
17. A 10% increase would contribute an additional US\$106,977 to the core budget, a 20% increase an additional US\$213,955, and a 30% increase, an additional US\$320,932 (**refer to Annex 5(a)**). As suggested by the FoC **Annex 5(b)** presents the same set of increases for PICT Members only (ie excluding donors/metropolitan Members). This option would result in a 10% increase contributing an additional US\$29,527 to the core budget, a 20% increase an additional US\$59,055, and a 30% increase, an additional US\$88,582. A different approach is presented in **refer to Annex 5(c) which is to simply adjust fees for inflation annually at a fixed rate of 3% increase per annum**. This option has the benefit of avoiding the burden on Members of a one-off and larger, payment. This last option equates to an average increase per annum of US\$36,791.

¹ Source: PIFS FOC Sub-Committee Membership Contributions Discussion Paper 23rd September 2009.

18. Based on the series of options presented for consideration by members, the implications on the Core Budget using the 2018 Budget figures is demonstrated via graphs in **Annex 6(a)-6(c)**.

Programme Management Fees and Project Cost Recovery

19. Programme Management Charges collected by the end of June 2017 totalled US\$745,621 or 69% of the 2017 Budget (**refer to Annex 7**) for the first 6 months. This is a good result, although mainly due to programme management fees received from Australia and New Zealand governments' first & second quarter funding tranches. Adjusting for this still shows that overall collections are on target at circa US\$600,000 or 56% of the 2017 Budget.
20. Timely and accurate monthly reports on fees collected to date are provided to Project Managers and Divisions to help them monitor and manage the collection of programme management fees.
21. The Cost Recovery Policy was approved and in effect from January 2017. A series of training sessions have been carried out with staff to roll out the new policy. This has been particularly effective for the planning and development stages of new projects in the pipeline, as well as in charging out direct costs to projects and ease the pressure on commitments to be carried by Programme Management fees. Cost recovery however, cannot be fully implemented on existing projects given restrictions on current contracts/agreements' terms and conditions that apply, many of which already assume core or support services' costs to be already covered under the Programme Management charge, irrespective of their being either direct or indirect costs. Cost Recovery is now introduced from the project concept stage for all new projects.
22. SPREP's Approach to Cost Recovery and monitoring for its effectiveness includes but is not limited to:
 - Introduction of cost recovery approach from project concept stage by estimating actual project management costs, direct costs and indirect costs to ensure that these are properly assessed and factored into project forecasts and proposals;
 - Progressive introduction of eligible direct cost recovery;
 - Separation of reporting for direct and indirect cost recovered;
 - Standardised costing methodology;
 - On-going dialogue and education/training;
 - Customised management fees when justified;
 - Progressive review of Corporate Budgets (indirect costs).
23. The Secretariat continues to work as part of the CROP coordinated approach to Cost recovery. SPC for example is already implementing its cost recovery policy and discussions are ongoing to share on sustainable financing strategies and cost methodologies to build on each other's experiences and proven processes, and establishing a more harmonised approach to project costings and management fees across the CROP.

Foreign Exchange

24. Historically SPREP has been adversely impacted by the effects of foreign exchange losses, variable from year to year. Audited financial statements show that in 2015 Forex losses amounted to US\$344,333, and in 2014 US\$200,789.
25. The audited financials for the year ended 31 December 2016 noted a reduction in foreign exchange loss to US\$98,258 (**refer to Annex 8**). The result is a significant improvement from past years' results and indicative of the effectiveness of measures undertaken by the Secretariat in 2016 to minimise the risk of foreign exchange exposure.
26. On-going measures undertaken by the Secretariat to combat the adverse impact of foreign exchange exposure include:
 - Minimising exposure risk by holding predominantly all accounts or the major cash accounts in the reporting currency (USD).
 - Closure of Non-USD currency accounts that are not required for normal operations particularly the foreign currency Term Deposits last year.
 - Regular discussions with Banks to address issues concerning foreign exchange exposure particularly with respect to negotiations as well as tools for managing foreign exchange transactions such as Forward Contracts, Terms of Foreign Currency Accounts etc.

Non Traditional Donors

27. As highlighted in Organisational Goal 3.5 of the new Strategic Plan 2017-2026, SPREP shall endeavour to seek additional sources and forms of sustainable financial support, including exploring engagement of non-traditional donors such as the support from the Government of Sweden last year which resulted in one off funding support of circa US\$2.175 million for Ocean's Activities and Core Budget support. SPREP will continue to engage with the Government of Sweden with a view towards establishing a long term partnership agreement that focusses on addressing the priorities of Members through a predictable funding mechanism. There have also been discussions with targeted philanthropic entities for similar partnership arrangements.
28. To facilitate this, SPREP shall seek to develop within the next 2 years a Donor Engagement/Partnership Framework Strategy.

Cost Control

29. Management continues to tighten up on cost control measures as part of its efforts to not only secure additional income but also minimise costs. The 2016 Audited financials notes a decrease from \$3.9 million in overall expenditure for Executive management & corporate support in 2015 to \$3 million in 2016 (**refer to Annex 8**). While in part this was due to a slight decrease in personnel costs for vacant positions, much of the decrease in expenditure resulted from the reduction in overall operating expenditure from \$1.7 million in 2015 to less than \$1 million in 2016. For the first 6 months of 2017 (**refer to Annex 7**), Executive management & corporate support costs have reduced by circa US\$180,000 compared to the budget. Given the limited core income forecast, core budget costs continue to be strictly

monitored and controlled within a \$245,000 monthly expenditure target until additional funding sources are secured.

30. Monthly financial reports continue to be provided for management, as a key tool for monthly Senior Management Team Meetings to monitor and assess agency performance.
31. This year being the final annual SPREP meeting followed by biennial meetings thereafter, it is expected that this will result in further cost reduction for the Secretariat given the significant costs involved for annual SPREP meetings in past years (US\$347,348 in 2014; US\$175k in 2015; \$220,357 in 2016).

Recommendation

32. Members are invited to:
 - **consider** the options for membership fee increases presented in **Annex 5(a)-5(c)**:
 - 5(a) - Implications of the options for a 10% or 20% or 30% increases in Membership Contributions
 - 5(b) - Implications of the options for a 10% or 20% or 30% increases in Membership Contributions excluding Metropolitan Members
 - 5(c) - Increase in Membership Contribution annually to take into account inflation (3%)
 - **approve** adoption of the **members' preferred option** for the Secretariat to implement from 2018;
 - **note** the attribution of outstanding contributions from Members to the negative reserves balance accumulated over past years (refer to Annex 2);
 - **direct** the Secretariat to continue to work with Member countries with outstanding contributions including development of payments plans;
 - **encourage** Members to commit to making membership contributions payments in a timely manner;
 - **note** the implementation of the cost recovery policy and programme fee;
 - **note** efforts by the Secretariat to improve the financial position of SPREP including the reduction of the overall deficit, reduction in foreign exchange losses in 2016, and cost reduction measures (refer to Annex 7 and Annex 8);
 - **note** the efforts of the Secretariat to engage non-traditional donors/partners; and
 - **note** the efforts of the Secretariat to complete the review of the Reserves Policy by December 2017.