



“Accelerating actions for a resilient Blue Pacific”

7th, 8th, 9th September 2021, Virtual Platforms
12:00pm – 5:00pm Samoa Standard Time

Agenda item 6.5: Sustainable Financing

Purpose of paper

1. To provide an update on actions undertaken by SPREP to address core budget pressures for 2021 in light of the global wide impacts from COVID-19.
2. To seek guidance on options and actions to address sustainable financing for the long-term financial resilience of SPREP.

Background

3. While the Secretariat portfolio has doubled in size from US\$15 million in 2017 to over US\$36.864 million in the 2020/2021 biennial budget, this has primarily been attributed to the increase in project funding from the European Union, the Green Climate Fund and the Adaptation Fund.
4. With the exception of 2019, the budget of SPREP has shown good recovery, realising surpluses since 2017 resulting in the removal of the negative balance in reserves. The audited financials for 2020 note US\$ 389,377 net surplus for 2020 compared with (US\$ 81,977) deficit in 2019, US\$ \$ 447,140 total reserves for 2020 compared with US \$ 57,763 in 2019 and US\$ 92,226 foreign exchange gain for 2020 compared with (US\$ 46,144) loss in 2019.
5. While the challenge remains for the Secretariat to ensure sustainability of funding in the long term with a view to building reserve funds, the immediate and pressing concern at present is the need to remain financially stable and operational during these uncertain and difficult times of COVID-19.
6. It is critical that SPREP is able to maintain sufficient funding to ensure it continues to operate and deliver on its mandate to Members. As a consequence, the Secretariat seeks Members' support to plan for a level of funded operations that can sustain SPREP through this very difficult period, experienced by all Members and Partners.

Impact of COVID-19

7. COVID-19 has posed significant challenges for SPREP, unlike any other crisis weathered in the past. The prolonged uncertainty created by COVID-19 begs the question of the long-term financial resilience of SPREP. COVID-19 has exposed the vulnerability of SPREP and highlighted in particular the weakness of the Core Fund structure.
8. The immediate measures put in place by the Secretariat in response to COVID-19, which included regular review and adjustments of both project implementation plans and cash flow, are unlikely to be sufficient to see the organisation through the crisis, in the long term. For SPREP to be financially resilient, there needs to be a fundamental rethink of the funding structure, which will allow for a much stronger Core Funding to be in place.
9. Due to the impact of deferred project implementation SPREP was not able to earn as much revenue as anticipated in 2020. One example includes savings made from limited to no travel due to COVID-19, which has not correlated to income of the Secretariat as the majority of travel was related to project funding and not from the core. Hence if projects are unable to spend to implement projects, the Secretariat cannot earn revenue on programme management fees.

Breakdown of the 2020 Core Budget of US\$6 million

| | 2020 Budget | % of Budget | 2020 Actuals | % of Actual vs Budget Allocation |
|---------------------------|------------------|-------------|------------------|----------------------------------|
| Membership Contributions | 1,236,962 | 20.5% | 1,026,444 | 83% |
| Donor Funding - (Core) | 2,275,705 | 37.8% | 2,133,269 | 94% |
| Programme Management Fees | 2,202,497 | 36.6% | 1,033,668 | 47% |
| Other Income | 310,000 | 5.1% | 476,268 | 154% |
| | 6,025,164 | | 4,669,649 | |

10. As evident from the financial results of 2020, the portion of the budget (~36.6%) reliant on Programme Delivery work, which yields the majority of Programme Management Fees earned had the most significant impact on Core Funding during COVID 19. As noted above, the resulting impact was a variance of US\$1.2 million or 53 percent shortage of the budget allocation. This caused significant adverse spill-over effects on the overall funding to support the Core operations at US\$4.7 million, relative to the budget of US\$6 million.
11. The ideal structure for the Core should be one that positions the Secretariat in such a way that revenue for funding Core operations is adequately covered, even when project/programme implementation is halted or delayed for reasons outside of the Secretariat's control. While SPREP continues to enjoy the support and funding commitment of partners for SPREP's work, the Core funding only attracts a small percentage of that support. A strong Core can act as a leverage for SPREP to deliver on all of its Core mandated operations, irrespective of the risk of unforeseeable events.

Importance of Strong Core Support

12. Some CROP agencies such as SPC for example, receive much stronger Core fund support from Members compared with SPREP. The Core Budget for SPC in 2020 of US\$19.36 million had 83 percent or US\$16.13 million of its budget covered from Membership Contributions including Donor funding for the Core from DFAT, Australia and MFAT, New Zealand. Hence while SPC's project delivery were similarly impacted by COVID-19, in comparison with SPREP, the impact was absorbed by SPC due to its stronger Core funding support from its members. Hence SPC was in a reasonably stronger financial position to cover its overall Core expenditure budget (83%) compared with SPREP (58%).
13. The Secretariat explored an increase in membership contributions at the SPREP Meetings in 2015, 2017 and 2019. While there has been a commitment by some to increase, most Members have yet to formalise any additional pledges or intention to increase and hence membership contributions remain insufficient to render significant support for the Core Budget. As noted in the Final Audit of SPREP by KPMG in 2020, the current reserves of US\$ 447,000 reflects a still weak position of the Organisation's reserves, which critically needs to be strengthened if SPREP is to continue to be resilient.
14. To be financially resilient, it is critical that SPREP is able to maintain a strong Core funding base to ensure it continues to operate and deliver on its mandate to Members in the long term, particularly in this challenging environment.

Update COVID-19 Impact – Financial Issues to Consider: Programme Delivery

15. SPREP Programmes and teams continue to work with partners and donors to revise their timelines and work plans and develop realistic scenarios for delivering activities in the current circumstances. This work includes collaboration with Members to assess the level of in-country capacity to undertake work on the ground where possible as well as exploring other modes of delivering Secretariat services remotely.
16. At the early stages of COVID-19, the Secretariat reached out to key Partners and donors to gauge their views on the impact of COVID-19 and more specifically on the need for revised timelines and expectations for project delivery. From the discussions to date, no Partners or donors have signalled any intention to discontinue or reduce funding support to SPREP.

Programme Management Fees and Cost Recovery

17. On programme management fees the existing SPREP policy is generic with 10 percent for members and 15 percent for non-members. Due to the inflexibility of some external partners which form the majority of donor funding support for its programmes and projects, SPREP earns 7 percent from the EU while for the Adaptation Fund and GCF, 8 - 9 percent. It should also be noted that some donors such as GCF have defined conditions of what can be covered under programme management fees and thus a constraint for this income source.

18. The Secretariat uses cost recovery which is incorporated into the project budget from the outset, this however remains minimal.
19. Furthermore, the transaction costs of doing business in the Pacific, are often underestimated or unknown by the donor community, regarding geography and economies of scale and not always factored in the guidelines of agency programme management fees.

Multiyear Core Funding Support

20. SPREP signed a new Partnership Arrangement 2021-2031 and multiyear grant arrangement from 2021 to 2024 valued at AU\$ 17.2 million in June 2021. This was a demonstration of the commitment of Australia to SPREP and valued investment in the environmental work of SPREP for the Pacific.
21. In June 2020 New Zealand signed the multiyear grant funding arrangement from 2020-2025 to the value of NZ\$ 9,168,215, which was an increase of 35 percent from the previous arrangement.
22. SPREP will be engaging with France in respect of the Final declaration of the 5th France-Oceania Summit held on 19 July 2021, which committed to explore a multi-year partnership framework between France and SPREP similar to the one signed with the Pacific Community (SPC) in January 2021.

Review of Finance/ Resourcing Structure

23. The shortage in Core Funded income particularly in light of shortfalls in income from project implementation via programme management charges highlights the critical need for a restructure in the finance/resourcing structure for SPREP post COVID-19.
24. The ideal structure should be one that positions the Secretariat in such a way that revenue for funding Core operations is adequately covered even when project/programme implementation is halted or delayed. One of the outcomes of the Third Independent Corporate Review of SPREP and Mid-term Review of SPREP Strategic Plan 2017-2026 includes the issue of sustainable financing for SPREP to help address and alleviate any further recurrence of deficit positions in the future.
25. The Secretariat views the services it provides for Members as return on investment for the protection of the Pacific environment aligned to the strategic priorities of SPREP on Climate Change Resilience; Ecosystem and Biodiversity Protection; Waste Management and Pollution Control; and Environmental Governance. To ensure the financial resilience of SPREP, the Secretariat proposes the core funding percentage of membership contributions and donor funds be enhanced, from the current level of 58 percent to 80 percent. This also aligns with the current practice of SPC which was able to withstand the impacts of COVID-19.

Future & Beyond

26. The uncertainties of COVID-19 note the impact on the work of SPREP is likely to continue for the immediate, medium and possibly long term. This means that a very possible scenario, is to expect further decline in Secretariat activities in support of Members' priorities. Such a scenario, if it eventuates, will translate into both reduced expenditure and income, which could potentially extend to 2022 and beyond.
27. The Secretariat has revised its work plan activities for the 2022/2023 Biennial Budget to derive the best estimates possible in light of the COVID-19 situation, but as noted above given the evolving and continuing uncertainties of COVID-19, we anticipate there will be an impact on actual project implementation and the overall work plan and budget forecasts for the foreseeable future.

Recommendations

28. The Meeting is invited to:
 - 1) **establish** an ideal core funding structure that strengthens the core revenue of SPREP and enables the Secretariat to leverage additional funding sources;
 - 2) **consider** a structure similar to the core funding structure of SPC, which is an increase of the SPREP support to the core from 58 percent to 80 percent which enables SPREP to be financially resilient to current and future unforeseeable events;
 - 3) **encourage** SPREP Members and Partners to consider entering multiyear core funding partnership arrangements similar to Australia and New Zealand; and
 - 4) **provide** guidance to address sustainable financing for the long-term financial resilience of SPREP.
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