



## 2<sup>nd</sup> Executive Board Meeting

2 – 4 September 2020

### Agenda Item 10.2: Sustainable Financing

#### Purpose of paper

1. To provide an update on actions undertaken by SPREP to address core budget pressures for 2020 in light of the global wide impacts from COVID 19.
2. To seek the Executive Board's guidance on options and actions to address the impact of COVID-19.

#### Background

3. The Secretariat in the past 2 years saw its portfolio doubling in size from US\$15 million in 2017 to over US\$33 million in the 2018/2019 biennial budget. This growth is attributed to the increase of project funding from the European Union, the Green Climate Fund and the Adaptation Fund.
4. For the past 3 years SPREP's budget has shown good recovery, realising surpluses since 2017 resulting in the removal of negative balance in reserves. However, audited financials for 2019 noted a net deficit of USD\$81,977 compared to a net surplus in the previous year of USD\$154,273. While reserves still remain at a positive balance, the impact of the deficit is a reduction in overall reserves from USD\$139,740 in 2018 to USD\$57,763 by the end of 2019.
5. While the challenge still remains for the Secretariat to ensure sustainability of funding in the long term with a view to rebuilding reserve funds, the immediate and pressing concern at present for the Secretariat is the need to remain financially stable and operational during these uncertain and difficult times of COVID 19 which is already impacting the current financial year, and could potentially extend to 2021 and beyond.
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.

**(I) Update - COVID 19 IMPACT – FINANCIAL ISSUES TO CONSIDER:****Programme Delivery**

7. To date the extent of the impact of COVID-19 on project implementation and thus programme delivery has been significant with in-country interventions and travel, curtailed due to travel and border restrictions in place around the region. Remote delivery of services is now the current mode of service support to Members, one in which the Secretariat has invested significant time and resources.
8. As of 30<sup>th</sup> June 2020 (see financial report at Annex 1), the Secretariat forecasts a significant reduction in project implementation, or approximately 60% of the original budget. This equates to a reduction by USD\$12.5 million or 40% from an approved budget of USD\$30.8 million for project implementation.
9. 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.
10. The Secretariat is continuously monitoring and revising forecasts. In March our assessment of the likely impacts of COVID-19 SPREP forecast delivery was at 50% of the approved 2020 budget. As at early August revision of workplans and project implementation has provided a forecast of delivery at about 60%.
11. 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.

**Income Impact**

12. Funding for SPREP operations and staff salaries is very much dependent on direct expenditure derived from implementation of Project activities and programme fees. This income equates to 84% of the overall budget of SPREP. Reduced project implementation translates into reduced income from project Management Fees with flow-on to the overall financial position for the Secretariat.
13. The financials for the first 6 months (Jan-Jun 2020) including the updated forecasts of project implementation for the remaining 6 months, indicate that we will only be realising about USD\$23 million, or 62% of the overall budget of USD\$36.8 million. On this trajectory, the Secretariat envisage an overall deficit of USD\$340,496 by year end assuming no improvement in the COVID-19 situation.

14. Senior Management Team continues to closely monitor and review service delivery and financial performance and actively manage mitigation measures.
15. The Secretariat has also called together a Friends of the Chair group on Sustainable Financing to discuss the situation and advise on options for managing the way forwards. The FoC has met twice in the preparation of this paper.

### **Core Expenditure**

16. The core is a key component of the SPREP budget. The Secretariat has in place strict cash flow monitoring and reduction of supporting costs for Core Expenditure.
17. Temporary but unavoidable measures to counter the adverse impact of COVID 19 which have been implemented include the reduction of non-immediate and non-essential expenditure (e.g. travel, personnel costs such as learning and development, contractual scale movements etc), as well as the suspension of recruitment for any new core and redundant posts.. The exception only applies to existing contracts for key areas of operations such as Insurance, IT support, Administration contracts for building & maintenance.
18. Based on the financials for the first 6 months (Jan-Jun 2020) in Annex 1, the forecast has been revised for core expenditure and thus reduced from the approved budget of USD\$5.6 million to USD\$4.2 million.
19. COVID-19 has also impacted on any salary movement for staff. The 29<sup>th</sup> SPREP Meeting decision last year resolved for a Friends of the Chair to meet to consider the proposal from the Secretariat on the adoption of the salary movement up to USD\$300,000 for all staff subject to clear identification of specific funding. This is to be reported to the Executive Board in 2020 for a decision. It was noted by the FoC that the consideration of a SPREP wide salary increase of up to USD\$300,000 (which would be a recurrent cost) cannot be considered under current circumstances due to the impacts of COVID-19 on the SPREP Work Programme and Budget for 2020/2021.

### **Future & Beyond**

20. 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 2021 and beyond.
21. The Secretariat has revised its work plan activities for the 2021 Supplementary Budget to derive the best estimates possible in light of the COVID-19 situation, but as noted above given the evolving and continuing uncertain situation with COVID-19, we anticipate there will be an impact on actual project implementation and the overall work plan and budget forecasts next year.

**(II) OPTIONS/SOLUTIONS:****Programme Delivery (*Explore other ways to improve programme delivery during COVID-19*)**

22. To further discuss and explore with donors/partners possible flexible arrangements in terms of contracting modalities.
23. Engage with certain Members which may have capacity and relevant expertise at the national level, and to explore opportunities for in-country support through the engagement of national experts.
24. Continue to explore more effective and innovative ways to deliver in-country support.

**Bridging Funding Gap (*Either from additional core income support or through reduced core expenditure*)**

25. Request Members and key donor partners to consider providing critical core funding support to the Secretariat to bridge the funding gap for 2020 of between USD\$350,000-\$500,000.
26. Continuing to hold off on any new and additional core expenditure including recruitment, new core contracts, capital, travel by core staff etc, extending to 2021.
27. The Secretariat will consider reduction of working hours and staff levels as a last resort, should the situation deteriorate further.

**Recommendation**

28. The Executive Board Meeting is invited to:
    1. **consider** the report and **provide** guidance on options proposed to address the impact of COVID-19, on the Secretariat's financial position.
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7 August, 2020