

Agenda Item 6.3 : Sustainable Financing

Purpose of paper

1. To provide an update on actions undertaken by SPREP to continue to address core budget pressures particularly for 2022 in light of continuing impacts of COVID-19.
2. To seek guidance on options and actions to address sustainable financing for the long-term financial resilience of SPREP.

Background

3. With the exception of 2019, the financial position of SPREP has shown good recovery realising surpluses since 2016 resulting in the removal of the negative balance in reserves in 2017 and the continued rebuild of reserves to date. The audited financials for 2021 notes a net surplus of US\$570,573 which is an increase compared to US\$ 389,376 for 2020 while for its total reserves, an increase to \$1.018 million as at 31st December 2021 compared to US\$ 447,139 total reserves for 2020 (Refer Trends Analysis in Annex 1).
4. While reserves have significantly improved, it is still not at an adequate level to safeguard against likely risks of emergency or unforeseen circumstances.
5. The challenge therefore remains for the Secretariat to ensure sustainability of funding in the long term with a view to continue to build reserve funds, with the immediate and pressing concern at present being the need to remain financially stable and operational especially during these uncertain and difficult times of COVID-19.
6. It is important that SPREP is able to maintain sufficient funding to ensure it continues to operate and deliver on its mandate to Members. The Secretariat thus 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. The direct impact of travel and border restrictions has seen a significant impact on project implementation to date with borders only just gradually reopening in the second half of 2022.
8. The financial impact last year on project implementation is evident in the following table:

	Budget 2021	% of Budget	2021	% of Actual vs Budget Allocation
Income	\$			
Members contributions	1,236,962	21.3%	1,183,955	96%
Programme management charges	1,753,969	30.3%	1,313,071	75%
Other donor fund income	2,456,539	42.4%	2,388,092	97%
Amortisation of deferred income	239,474	4.1%	239,474	100%
Other income	110,000	1.9%	197,823	180%
Total income	5,796,943		5,322,415	

9. As evident from the financial results of 2021, the portion of the budget (~30.3%) 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 25% below the budgeted income from Programme management charged which is equivalent to \$440,898. This caused significant adverse spill-over effects on the overall funding to support the Core operations at US\$5.3 million, relative to the budget for income of US\$5.8 million.
10. The immediate measures put in place by the Secretariat in response to COVID-19, particularly in the last 2 years given obvious shortfalls and uncertainty over income funding, included strict controls over core expenditure as well as the regular review and adjustments of both project implementation plans and cash flow.
11. 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. This has proven helpful in assisting with In Country activities although with limitations with available expertise to ensure full implementation of activities as intended and aimed in the workplan and budgets.
12. The above measures while have managed to address cashflow constraints in the last 2 years, are definitely not sustainable and thus not sufficient to see the organisation through the continuing COVID 19 crisis and any other similar crisis, in the long term.
13. For SPREP to be financially resilient, there needs to be a fundamental consideration of the funding structure, which will allow for a much stronger Core Funding to be in place. 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.

Review of Finance/ Resourcing Structure:

14. The shortage in Core Funded income particularly in light of shortfalls in income from project implementation via programme management charges as in the audited financial outcomes in the past 2 years highlights the critical need for a restructure in the finance/resourcing structure for SPREP post COVID-19.
15. As established in the 30th SPREP meeting, the ideal core funding structure is one that strengthens the core revenue of SPREP and enables the Secretariat to leverage additional funding sources. That is, it 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.
16. 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 and a negative or even weak reserves position. This is currently in progress as commenced early this year with ongoing discussions by the informal open ended working group established at the 30th SPREP meeting to discuss the outcomes of the report and the proposed recommendations.

17. 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.
18. To ensure the financial resilience of SPREP, the Secretariat proposes the core funding percentage of membership contributions and donor funds to be reconsidered based on the outcome of an independent consultancy to be undertaken to determine an appropriate Finance & Resource Sustainability Strategy for SPREP in its current operations with the view to be tabled and endorsed by members in the 31st SPREP meeting next year.

Recommendation

19. The Executive Board Meeting is invited to:
 - 1) **Note** the update report;
 - 2) **Agree** to await further update and guidance from the Working Group established in the 30th SPREP meeting to discuss the recommendations of the ICR/MTR and Remuneration review reports particularly those which relate to Financial Sustainability of SPREP; and
 - 3) **Commit** to considering and support the review of the core funding percentage of membership contributions and donor funds through an independent consultancy to be undertaken to determine an appropriate Finance & Resource Sustainability Strategy for SPREP to be tabled and endorsed by members in the 31st SPREP meeting in 2023.

23 June 2022