

First Executive Board Meeting

Apia, Samoa
10-11 September 2018

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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 enable long-term sustainable financing for SPREP.
 - Audited Financials for 2017 showed significant improvement with continued surpluses in financial performance (2 years in a row now) and more importantly, negative reserves accumulated since 2002 now removed, producing a positive balance of US\$5,123.
 - Despite the great improvement in the past 2 years, the challenge remains for the Secretariat to maintain the positive performance and sustainability of funding to rebuild reserve funds and avoid any future deficit.
 - Maintaining positive financial performance is particularly important as SPREP's portfolio continues to grow. The 2018/19 budget (approximately US\$ 30m) has doubled since 2017 (US\$15m).

Policies

2. The Secretariat completed and approved most policies on Financial Procedures including Procurement, Foreign Exchange and Cost Recovery in December 2016. The Reserves Policy, outstanding at that time was completed and approved in December 2017.
3. Implementation of Secretariat's suite of financial policies has resulted in significant improvement in SPREP's financial position with surpluses in the past 2 years enabling the removal of the deficit and the slow but gradual building up of our reserves. All financial policies will be regularly reviewed.

Membership Contributions

4. As emphasised at the 28SM, membership contributions play a significant role in the overall budget, comprising about 8% of the 2017 Budget but 39% of the Core Income.

5. Outstanding payments on membership contributions has been one of the contributing factors to the accumulated deficit and thus negative reserves over the years. For example, in 2016 outstanding contributions totalled US\$556,981 yet the negative reserves as at 31/12/16 was US\$443,762. Had all the outstanding contributions been collected, reserves would not have been negative - instead the reserves would have had a positive balance of US\$113,219.
6. The commitment of Members to paying their annual contributions, including outstanding payments, is critical to maintaining a balanced budget and rebuilding reserves. Core funding through membership fees underpins service delivery to Members, and leverages significant tangible benefits for Members.
7. **Flexible payment plans** is an alternative means for some Members to pay outstanding contributions in full over a period of time. The Secretariat encourages Members with significant outstanding membership payments, to use such arrangements to address outstanding balances.
8. **Regular Reminder/Follow up** notices continue to be sent out to Members quarterly to remind Member countries of their commitment to pay membership fees, and to encourage payment of their voluntary contributions.
9. A proposal to **increase membership fees** was submitted at the 28SM last year under various options to which a 20% increase was approved and supported in principle by the majority but subject to confirmation from Capitals/Governments.
10. Only Australia (20%), French Polynesia (10%), New Caledonia (20%) and Tuvalu (20%) had responded as at 18/6/18 to formally pledge contribution increases. France and USA noted difficulties in responding to this decision because of their particular budget processes.

Programme Management Fees and Project Cost Recovery

11. **Programme Management Charges** collected by the end of Dec 2017 totalled US\$1,227,455 or 29% more than 2016. Program management charges are expected to increase significantly as SPREP's project portfolio of approved pipeline projects continues to grow. The doubling of the biennial budget for 2018/2019 is projected to increase fee collection to \$1.654m in 2018 and \$1.796m in 2019, however, the timeliness of fee recovery is largely dependent on the efficiency with which project activities are implemented.
12. **Timely and accurate monthly reports** on fees collected to date continue to be provided to Project Managers and Programmes to help them monitor and manage the collection of programme management fees.
13. 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 costs recovered;

- Standardised costing methodology;
- On-going dialogue and education/training;
- Customised management fees when justified;
- Progressive review of Corporate Budgets (indirect costs).

14. **Cost Recovery** is reflective of good control over costs. In 2017 while operating costs for Executive Management and Corporate Support were budgeted at US\$1.384m, cost savings reduced expenditure to \$858,194, a savings to the core budget of US\$526,000 with around US\$ 93,943 of that resulting from direct costs recovery.

Foreign Exchange

15. Historically SPREP has been adversely impacted by the effects of foreign exchange losses, variable from year to year. Audited financial statements show that forex losses amounted to US\$200,789 in 2014, and US\$344,333 in 2015. With early implementation of the Foreign Exchange Policy in September 2016 that year saw a reduced forex loss of only US\$98,258. This has been further reduced in 2017 to US\$15,000, demonstrating the effectiveness of measures undertaken by the Secretariat since 2016 to minimise the risk of foreign exchange exposure.

16. On-going measures undertaken by the Secretariat to combat of foreign exchange exposure risks include:

- Close monitoring and regular revision of forecasted expenditure and income,
- Holding major cash accounts only 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/negotiations with banks to address issues relating to foreign exchange exposure, and using s tools for managing foreign exchange transactions such as forward contracts, terms of foreign currency accounts etc.

Non Traditional Donors

17. The Executive is continuing discussions with non-traditional donors for support such as the Government of Sweden.

18. The 2018/19 PIP prioritises the development of a Resource Mobilisation and Partner Engagement Strategy beginning in 2018.

Cost Control

19. Management continues to tighten cost control measures. In 2017, while overall expenditure increased by 12% to US\$3.724m, from US\$3.314m in 2016, cost control enabled savings of US\$212,000 against budget of 3.936m.

20. 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.

21. Implementation of the new biennial SM decision, with the 2017 SM being the first of all subsequent SMs being held in Samoa resulted in expected cost savings. The 2017 SM cost US\$95,000 compared to those held out of Apia in preceding years of US\$347,000 in 2014; US\$175,000 in 2015; and US\$ \$220,000 in 2016. The cost implications for the Executive Board Meeting this year as well as the Biennial SPREP meeting in 2019 will provide further cost implications in this area and any required decision relative to future SPREP Meetings and Executive Board Meetings.

Recommendations:

22. The Executive Board is invited to:

- **consider** and **note** the above report on Sustainable Financing measures by the Secretariat; and
 - **provide** comments/views on any further action to be undertaken by the Secretariat.
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16 August, 2018