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

Twenty Fourth SPREP Meeting of Officials

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Apia, Samoa

AGENDA ITEM 7.2: Increase in Membership Contributions

Purpose

1. The purpose of this paper is to seek approval of the SPREP Meeting for an increase in membership contributions.

Background

2. At the 2012 SPREP Meeting (SM) the Secretariat tabled a paper on raising the level of membership contributions. The Meeting requested more information on the issue to be provided to the 2013 SM and the Secretariat has prepared a paper in response covering the main issues regarding the current level of membership contributions at SPREP.

Introduction

3. There is a need for SPREP's Members to seriously consider the current level of membership contributions. Since 2003, the time of the previous increase, significant changes have occurred in SPREP's operating environment. This paper identifies these changes, and in specific terms provides Members with a summary of the practical impacts of the increased strain on SPREP's core budget.

4. In establishing a case for an increase in member contributions, a number of important justifications will be presented to Members for their consideration. These are discussed under the following headings:

I. The Function of Core Funding
II. The Relationship Between Core Funding and Programme Funding
III. Membership Contributions in a Regional Context
IV. SPREP's Role in Leveraging Finance: the Value for Members
V. Member Ownership in SPREP's Activities

5. The paper then concludes by proposing an increase of 22% across the board and demonstrates what this will mean in financial terms for SPREP Members.

I. The Function of Core Funding

6. SPREP's core funding comes largely from membership contributions. In the 2013 Work Programme and Budget, core funding covers the total budget for Executive Management and Corporate Services Divisions and totaled US$3 226 194**.** The core budget pays for operational costs involved in executing SPREP's projects, which include financial reporting, accounting, human resources, information technology, communications and costs for executive salaries and travel. As the level of programmatic funding increases so too do the resource demands associated with all of these activities.

7. Aside from this, it is also important to highlight that non-funded, extra-budgetary requests by Members, such as the work in Strengthening Regional Linkages, and unforeseen expenses such as medical evacuations are met from the core reserve, which in recent times has been decreasing significantly.

8. In order to avoid an increase in Membership contributions, the Secretariat has thus far put into place other measures aimed at maintaining the core budget. These include (i) improving efficiency and modernizing SPREP's business practices; (ii) reducing expenditure by deferring maintenance, particularly in the case of IT and capital infrastructure; (iii) maximizing additional sources of funding for the core budget, for example in taking advantage of currency fluctuations and in levying a 10% management fee across all SPREP executed projects. It is important to realize that although these measures have enabled SPREP to balance the budget thus far, in the short, medium and long term this is unsustainable. Added external pressures, such as inflation, naturally erode the value of the core in real terms- with the majority of the core being used to engage consultants, pay salaries and travel costs, this problem will almost certainly worsen as the effects of rising oil prices and increased competition for labor continue to have an impact.

9. Overall, SPREP has made significant efforts in all of these areas to conserve the existing core and to 'make-do' in order to avoid having to pass on the costs to members in the form of an increase in membership contributions. There are also significant benefits to Members in increasing core contributions which will be elaborated below, particularly in the areas of enabling SPREP to provide better leverage of donor finance and improved ownership in the organization.

II. The Relationship Between Core Funding and Programmatic Funding

10. As noted, the core budget of SPREP is largely comprised of membership contributions which comprised 17% of the SPREP Budget in 2013. Membership contributions, and thus the core budget, have remained at the same level since 2003. During the same period, however, the overall budget and funding for SPREP projects has increased significantly, particularly in the last 3 years. For example, during the period 2008 to 2013 – the budget increased 2.5 times from $7 million to $18 million. The 2014 budget, if approved, will see this increase 3.1 times to $22 million since 2008. The significant increases in services provided to Members over the last three years has placed considerable demands on Corporate Service's resource base with the level of project management and administration and meeting the variety of donor reporting requirements expanding significantly over a relatively short period. In this context, SPREP presently receives project funding from seventeen separate donors. Many of these donors impose their own reporting structures and timelines on the organization and this increases the staff time required to secure compliance. SPREP relies on its core budget to fund reporting activities which as well as being a legal requirement are fundamental to ensure donor confidence in SPREP's systems and capabilities.

11. The implications of a static core budget, due to Membership contributions remaining the same for the last 10 years, are that the core functions at SPREP are under stress and thus the level of services provided to Members cannot keep pace with the many and increasing demands placed on the Secretariat.

12. A related problem, alluded to above, is that the core budget also holds funds in reserve in order to ensure emergencies and unforeseen expenses can be met quickly as they arise. A static core budget has meant a reduction in reserves as funding is allocated for other activities under the budget. For example, staff medical emergencies and associated evacuations have put further demands on the core budget. To put this in perspective, since 2008 SPREP has used up $1.18 million of reserves accumulated through savings and improved efficiency, to balance the annual core budgets. This position is unsustainable and is significant risk to the organisation.

13. The implications of the level of the core budget are not limited to organizational activities and human resources. The Secretariat has had historically low levels of support to fund capital improvements on the SPREP compound. Significant efforts have been made to address this through attracting donor funding, for example through the proposal to the Japanese Government (covered under Agenda Item 6.7), however a commitment from the core budget to fund adequate building maintenance and more efficient electrical systems is vital both for the Secretariat to reduce long-term overheads and to ensure that it is 'walking the talk' in operating in an environmentally sustainable manner.

14. In sum, the static core budget is having a variety of effects on SPREP's operations which, if not addressed, will have adverse effects on the organisation's ability to maintain the level of service given to members. These effects are a risk to the organisation both in ensuring that high levels of reporting and donor confidence remain and in ensuring that SPREP has the resources to invest sufficiently in its human and organizational capacity.

III. Membership Contributions in a Regional Context

15. An important reference point in this discussion is the regional institutional context- how has this problem been addressed in other CROP organisations? In recent years a number of CROP Agencies have received increases in Membership Contributions. SPREP's membership contributions were last increased in 2003 by 23%, however between that time and the present, SPC, PIFS and FFA have all had their membership contributions increased and in some cases on more than one occasion. For example, PIFS enjoyed a 15% increase in 2011, while in 2012 a fixed amount increase of $0.5million was approved for SPC. Similarly, FFA attained a 2.8% increase to take account of inflation and a qualified increase of 11% subject to due diligence. This demonstrates that SPREP is currently the sole CROP Agency not to have benefitted from a boost in member contributions. In regional terms, SPREP is the exception.

CROP Agency	Year	Increase
Pacific Islands Forum Secretariat	2011	15%
Secretariat of the Pacific Community	2012 2007	CPF0.5million 10%
Forum Fisheries Authority	2013 2012 2005	2.8% 11% 55%
SOPAC (pre-merger)	2001	12.6%

Table 1: *Summary of Membership Contribution Increases by CROP Agency*
Source: PIFS FOC Sub-Committee *Membership Contributions Discussion Paper* 23rd September 2009

IV. SPREP's Role in Leveraging Finance: the Value for Members

16. As the regional landscape for environmental finance changes, SPREP is playing an increasing role in accessing finance, particularly from multilateral sources such as the Global Environmental Facility and Kyoto Protocol Adaptation Fund (Agenda Items 6.2 & 6.3). Members will recall that SPREP has been engaged in a number of initiatives at their request to effectively access climate related finance on their behalf.

17. The Secretariat has responded and actively pursued these opportunities, however its experience (in both the Adaptation Fund and the GEF Application) thus far indicates that for SPREP to seriously perform these functions effectively, significant, long-term investment will be required. A sound, sufficiently resourced corporate services division will be the principal determinant of the organisation's ability to play this role. Developments in SPREP's institutional capacity and project management will be required if, for instance, it is to progress as an implementing agency under the GEF. For this to be seriously contemplated, more resources will have to be invested into SPREP's core budget.

V. Member Ownership in SPREP's Activities

18. The importance of core funding was identified in the 2008 Independent Corporate Review of SPREP which noted that ownership of the organization by Members was vital to fulfill its objectives. The ICR, *inter alia,* emphasized that in order for SPREP's programmes and activities to be 'owned' by its Members a greater level of funding for project activities had to come from the core budget to avoid the organization being excessively dependent on short term project funding. This is a particularly important consideration in the context of PACC and PIGGAREP, both of which expire in 2014. It is the Secretariat's view that this ICR recommendation needs to be seriously addressed by Members through a decision to raise membership fees.

A Proposed way forward

19. The above points make a clear case for an increase in SPREP Membership Fees. Based on, the proposed 2014 budget, SPREP requires $234,594 to balance its core budget activities and it is proposed that Membership Fees should be increased across the board by 22%. The implications of this for membership fees are shown in Annex I of this Paper.

Recommendations

20. The Meeting agreed to:

- ***affirm*** the importance of core funding for the continued viability of SPREP;
- ***affirm*** ownership of SPREP by Members through a renewed commitment to increase membership contributions for 2014; and
- ***approve*** a 22% increase in membership contributions effective 1st January 2014.