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REVIEW OF OPTIONS FOR A MORE SUSTAINABLE BASIS FOR THE COMMISSION BUDGET

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Purpose

1. The purpose of this paper is to table for FAC's consideration a range of issues and options that may be pursued in the discourse for providing a more sustainable basis for the Commission budget.

Background

2. At WCPFC11, the Commission accepted the recommendation by FAC8 to task the Executive Director to 'undertake a review which would present options for a more sustainable budget in the longer term including cost savings and identifying other sources/methods of revenue'.

3. The funding sources for the Commission are stipulated in regulation 5.1 of the Financial Regulations to include assessed membership contributions; voluntary contributions; the special requirement fund under article 30(3) of the WCPFC Convention; and other funds that may accrue to the Commission. In the 11 years of the Commission the work of the Commission has been funded predominantly from assessed contribution. The assessed membership contribution is calculated according to the formula in regulation 5.2 of the Financial Regulations that accounts for three components including an equal distribution, national wealth and fish production.

4. In the last 2 years there has been a significant increase in voluntary contributions supporting the work of the Commission. The treatment of voluntary contributions is discussed in working paper WCPFC12-15-FAC6-12.

Sustainability of the Commission budget

5. In considering the sustainability of the Commission budget, it is useful to be clear as to what constitute the core business of the Commission and how those core business should be sustainably funded. Though the WCPFC Convention prescribes the functions of the Commission in article 10 which are quite broad ranging, there is

little strategic guidance on what are the operational core business for the Commission. A strategic plan or a corporate business plan will usually provide such strategic guidance, but as discussed in working paper WCPFC12-2015-25, the current Commission strategic plan lacks that strategic direction setting.

6. So it is difficult to contemplate options to provide a sustainable basis for the Commission budget in the absence of clearly defined parameters as to the core business of the Commission. It is, therefore, respectfully submitted that a conversation on the core business of the Commission should precede any discussions on how to sustainably fund the core business of the Commission. This conversation, again is respectfully submitted should rightly take place in the context of the development of the new Strategic Plan and Corporate Plan as anticipated by working paper WCPFC12-2015-25 if supported by WCPFC12.

Other funding sources for the Commission budget

7. Despite the absence of a definitive prescription of the core business of the Commission, there are potential funding sources that merit exploring to leverage additional funding support for the Commission budget.

Increased voluntary contributions

8. As evident in the last two years there has been a significant increase in the volume of voluntary contributions provided to support the work of the Commission. These contributions are made not only by members but increasingly by multilateral intergovernmental organisations like the GEF, UN and the FAO and also by non-government organisations like ISSF, WWF and PEW. The potential to leverage more funding from these sources is significant but the Commission must be clear and strategic in organising its corporate affairs.

9. The funding organisations / mechanisms mentioned above demand clear long term strategic objectives and directions for the Commission and a demonstrated capacity to sustain efforts towards achieving those strategic objectives. For the Commission to project that image, it should invest resources in structuring its corporate affairs to attract interest and instil confidence in these international funding organisations / mechanisms to invest long term in the work of the Commission.

10. The work that is anticipated for the review of the Commission planning framework and the development of a new strategic plan and corporate plan under working paper WCPFC12-2015-25 provide the firm footing that the Commission can use to leverage more funding from the Partner member countries and international funding mechanisms both intergovernmental and non-government.

Project Management Fees

11. With the large increase in the volume of voluntary contribution in recent years, mainly to fund projects, the higher the transaction cost incurred by the Secretariat to manage and monitor the projects. As is the standard practice, the project fund must pay for the transaction costs. This gives rise to the necessity for the Commission as a standing policy to charge a project management fee to all the

projects the Commission is entrusted to manage and monitor their implementation. For example, a 12.5% could be assessed on all voluntary contributions in order to recover the cost to the Secretariat for implementing the projects. In the current fiscal year, it is estimated that USD1.5 million was spent implementing voluntary projects such as the WPEA Fund, the FOA's ABNJ Fund and other projects funded from voluntary contributions. A fee of 12.5% if imposed on those projects would have generated USD$187,500 in revenue that could be available to the General Fund.

Cost recovery principle

12. The Commission should also seriously consider adopting smarter and business-like practices in delivering its mandated services. Those that benefits from the services the Commission provide must pay for the services in order to recoup the cost of providing the services. This is the essence of instituting the full cost recovery principle into the service delivery functionalities of the Commission. This approach is not a new one and a review of the Commission services that potentially may attract service fees was done in 2012 and a paper WCPFC8-2011-13 entitled "cost recovery and the optimisation of Commission service costs" was tabled at WCPFC8. The objectives of the study were to identify costs that would be appropriate and practical to recover, and to explore cost recovery as a means of optimising the costs of Commission services. The Commission services assessed in the report included the VMS, the ROP, the RFV, CNMs, observers at meetings, and carriers and bunkers. WCPFC8 was not in a position to progress the discussion and determination of what services would be appropriate and practical to recover costs. The review undertaken in 2012 is a good basis to progress this work should FAC now consider this work merits reviving.

Increased return from investment

13. There is a potential to invest the funds, like those held in the Working Capital Fund, to generate a return on investment. In order to maximize the return on investment the Commission would have to accept a level of risk. For example, the Commission could invest in an index fund of the Standard & Poor's 500 (S&P 500). On average, over the last 20 years the average return on investment for the S&P 500 has been around 6.54%. If USD1 million in the Working Capital Fund were to be invested in an index fund of the S&P 500, the return, based on the 20 year average would be USD65,400. There are risks in this approach as the market does not always provide a return on investment. In 2008, during the financial crises, the S&P 500 fell by 38.5%. This was the largest fall in the S&P 500's history and would have resulted in a loss, if USD1 million were invested, of USD385,000. There are lower risk options for the investment of funds but the FAC would need to provide additional guidance on the level of risk the Commission would be willing to accept.

Discussion

14. It appears that the task to review and present options for a more sustainable basis for the Commission budget is a little premature because of the limited guidance available on the parameters of the Commission budget that must be sustainably funded. At the core of this discourse is a clear prescription of what are the core

business of the Commission, which should set the parameters of the Commission work programme that should be sustainably funded.

15. The current Commission planning framework and the inactive Strategic Plan do not provide any strategic guidance on what are the core business of the Commission nor do they project any long term strategic directions for the Commission. It is, therefore, respectfully submitted that the discussion on funding options for a more sustainable basis for the Commission budget will be more effectively pursued once there is a clear articulation of the core business of the Commission. This will, hopefully be achieved through the work being proposed under working paper WCPFC12-2015-25 if supported by WCPFC12.

16. In any event, should FAC considers warranted to initiate the discussions on some of those funding options, then this paper has identified some of them. The most promising option is to leverage maximum funding or voluntary contributions from well-endowed member countries and international multilateral funding mechanisms and from large international non-government organisations and trust foundations. This option again demand clear articulation of the core business of the Commission and the Commission long terms strategic objectives and directions as a prerequisite for the international funding mechanisms to have confidence to invest long term in the work of the Commission.

Recommendation

17. The Committee is invited to consider the paper and to provide guidance on how to pursue the discussion on a more sustainable basis for the Commission budget.