



PEMSEA EC Meeting Report 18

# PROCEEDINGS OF THE EIGHTEENTH EXECUTIVE COMMITTEE MEETING

**Qingdao, PR China**

**7–8 December 2016**



**18<sup>th</sup> Executive Committee Meeting  
Qingdao, PR China  
7-8 December 2016**

**MEETING SUMMARY AND RECOMMENDATIONS**

**A. INTRODUCTION**

The 18<sup>th</sup> Executive Committee Meeting was held at the Intercontinental Hotel, Qingdao, PR China, on 7 to 8 December 2016. The meeting was hosted by the State Oceanic Administration of China. The meeting was attended by the EAS Partnership Council Chair, Dr. Antonio La Viña; Intergovernmental Session Chair, Dr. Zhang Haiwen; Technical Session Chair, Mr. Makoto Harunari; and Technical Session Co-Chair, Dr. Vu Thanh Ca.

Representatives from PR China, Japan, Philippines and RO Korea participated as observers. The PEMSEA Resource Facility (PRF) served as Secretariat for the meeting, with assistance from the China-PEMSEA Center.

The agenda for the meeting is attached as Annex 1. A full list of participants is attached as Annex 2.

**B. DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS**

Agenda Item	Discussion	Conclusion	Recommendation
<b>1.0 Opening of the Meeting</b>	<ul style="list-style-type: none"> <li data-bbox="440 1104 833 1503">• Dr. Antonio La Viña, Council Chair, opened the meeting and welcomed the members of the Executive Committee and observers from China, Japan, Philippines and RO Korea. Dr. La Viña emphasized the importance of the meeting given the focus on PEMSEA's sustainability.</li> <li data-bbox="440 1545 833 1871">• Mr. Stephen Adrian Ross, PEMSEA Executive Director welcomed all the delegates and expressed appreciation to the State Oceanic Administration (SOA) and the China-PEMSEA Center for their support in hosting and organizing the meeting.</li> </ul>		The 18 <sup>th</sup> EC Meeting adopted the agenda as presented.

Agenda Item	Discussion	Conclusion	Recommendation
	<p>Mr. Ross thanked the Executive Committee for giving utmost priority to building consensus and for providing direction to PRF with regard to PEMSEA's self-sustainability.</p> <ul style="list-style-type: none"> <li>• On behalf of SOA and the China-PEMSEA Center, Dr. Zhang Haiwen, Intergovernmental Session Chair, warmly welcomed the members of the Executive Committee and all the delegates to the meeting. Dr. Haiwen expressed confidence that with the support of all the Partners, PEMSEA would find a way to address the challenges and map out actions to ensure PEMSEA's self-sustainability.</li> <li>• Mr. Ross introduced the agenda for the meeting.</li> </ul>		
<p><b>2.0 Achieving a Self-Sustaining PEMSEA (EC/18/DOC/02)</b></p>	<ul style="list-style-type: none"> <li>• Mr. Ross recalled the various discussions that have been held during previous EAS Partnership Council and Executive Committee meetings since the signing of the Haikou Partnership Agreement in 2006, regarding PEMSEA's transformation into a self-sustained regional collaborative mechanism for the implementation of the Sustainable Development Strategy for the Seas of East Asia (SDS-SEA).</li> </ul>	<p>After extensive discussion of the meeting document entitled, Achieving a Self-Sustaining PEMSEA Resource Facility (EC/18/DOC/02), the Executive Committee reached the following conclusions:</p> <ul style="list-style-type: none"> <li>• the option to transform the PRF into a 100% project-based organization without</li> </ul>	<p>The Executive Committee recommended that the PRF Secretariat:</p> <ul style="list-style-type: none"> <li>• refine the options to be considered for a self-sustaining PRF, taking into consideration the various inputs from this meeting;</li> <li>• communicate these options and supporting data in advance</li> </ul>

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	<ul style="list-style-type: none"> <li>• The common desire and commitment of all PEMSEA Partners to a sustainable PEMSEA was evident in all the discussions and was further reaffirmed in the Da Nang Compact, signed in November 2015. Target 1 of the Da Nang Compact specifically focuses on the establishment of a self-sustaining PRF by 2017.</li> <li>• Following the decision of the 8<sup>th</sup> EAS Partnership Council in July 2016, the PRF proceeded to contract an external financial consultant (Mr. Michael Alimurung) to prepare working documents concerning PEMSEA's financial model and self-sustainability objective for the next EAS Partnership Council meeting in 2017. Mr. Alimurung was invited to present the initial results of his work to the Executive Committee for their feedback and recommendations.</li> <li>• Mr. Michael Alimurung presented meeting document EC/18/DOC/02 focusing on: <ul style="list-style-type: none"> <li>(a) the financial model for the PRF;</li> <li>(b) findings from secondary research on voluntary and mandatory contributions; and</li> <li>(c) implications and options for PEMSEA's future direction.</li> </ul> </li> </ul>	<p>government contributions is not in line with the basic characteristics that make PEMSEA valuable</p> <ul style="list-style-type: none"> <li>• in order for the PRF to continue to provide its current level of secretariat services, there is an annual budgetary requirement; as reported by the Secretariat this amount is approximately \$550K per year.</li> <li>• a mandatory contribution imposed on Country Partners is not consistent with the partnership arrangement of PEMSEA, which is based on voluntary contributions</li> <li>• ideally Country Partner contributions should fully support core operations of PEMSEA but, as a minimum, partial support is recognized as essential; 2016 voluntary contributions amounted to approximately \$263K as reported by the Secretariat, noting that Japan's contribution has not been included</li> </ul>	<p>to all member countries and request feedback;</p> <ul style="list-style-type: none"> <li>• consider the implications if a minimum contribution amount were set;</li> <li>• suggest that contributions be based on a formula that considers members' ability to pay and explore various methodologies based on comparables;</li> <li>• organize a meeting in April 2017 with all member countries present with the objective of finalizing working documents and coming to a decision on how to strengthen the PRF's financial sustainability for endorsement to the EAS Partnership Council.</li> </ul>

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	<ul style="list-style-type: none"> <li>• The following clarifications were made by Mr. Alimurung during the ensuing discussion: <ul style="list-style-type: none"> <li>○ The presentation of PRF's financials include actual receipts and expenses for 2015, and contractual commitments for 2016-2019. Voluntary contributions from countries, as well as new projects that are still in the pipeline, are not reflected in the financial model. This approach provides the baseline for assessing various scenarios/ options on PEMSEA's future direction and their impact on PEMSEA's self-sustainability.</li> <li>○ In the financial model, one full-time employee equivalent (FTE) is defined as work rendered for 8 hours per day, 244 days a year. Consultants are defined as individuals that are contracted for a short-term period of time and with specific outputs.</li> <li>○ Some PRF staff undertake both core and project functions. Only the expenses and services rendered for a project are charged against restricted project funds, while core functions/services</li> </ul> </li> </ul>	<p>in the figure.</p> <ul style="list-style-type: none"> <li>• as an indication of ownership of PEMSEA, all member countries may be encouraged to contribute financially towards supporting the PRF's core secretariat function, and a minimum level contribution, based on ability to pay, may be considered</li> </ul>	

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	<p>are charged to unrestricted funds.</p> <ul style="list-style-type: none"> <li>○ In the case of both UN and ASEAN programmes, there is significant reliance on government contributions. For ASEAN, dues are apportioned equally across all Member States. Based on 2012 figures, ASEAN's annual budget was \$15.763m, with 260 staff. This ASEAN budget translates to \$60,627 average per staff person. This amount is comparable with PEMSEA's core budget of \$550k for 9 FTEs.</li> <li>● The meeting discussion highlights included: <ul style="list-style-type: none"> <li>○ The working document is a crucial reference for all countries. Thus the document needs to specify the actual country contributions (whether direct to PEMSEA or via UNDP).</li> <li>○ Scenario 3 or resorting to becoming a consulting firm goes against PEMSEA's reason for existence. Under such option, PEMSEA would lose everything that the partnership has accomplished for the past two decades.</li> <li>○ Current country contributions are not long-term/fixed commitments, and are</li> </ul> </li> </ul>		

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	<p>therefore unpredictable</p> <ul style="list-style-type: none"> <li>○ Securing long-term and regular country commitments (both cash and in-kind) would necessitate further in-country discussions that would require not only input from the PEMSEA national focal agencies but also input from other key government agencies (i.e., Ministry of Foreign Affairs, Finance, etc.</li> <li>○ It would be useful for countries to have a cost analysis or other document that would facilitate in-country discussions on voluntary contributions to PEMSEA.</li> <li>○ The financial requirement for core operations is dependent on the level and quality of services provided to national governments and other Partners. To maintain the current level of secretariat services, it is integral to have a strong and highly competent Secretariat.</li> </ul> <ul style="list-style-type: none"> <li>● The representative from Japan advised that his government would not continue providing an annual contribution to the core operations of PEMSEA beyond 2019 should GEF/UNDP funding terminate. The Secretariat requested the representative to seek further clarification to determine if, on the other</li> </ul>		

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	<p>hand, the Japanese government would continue to support PEMSEA core operations should new funds/projects be developed and implemented with the support of GEF and UNDP.</p> <ul style="list-style-type: none"> <li>• Various new projects are expected to come on-line in 2017. While such figures were not yet incorporated into the financial model, the PRF continues to develop and promote new projects as part of its efforts to achieve a self-sustaining PEMSEA.</li> </ul>		
<p><b>3.0 Recruitment of new PEMSEA Executive Director</b></p>	<ul style="list-style-type: none"> <li>• Mr. Ross informed the meeting of the selection and recruitment process that was undertaken by the PRF with guidance from the Executive Committee. The three Chairs of the Executive Committee made up the Selection Panel during the interview process.</li> <li>• Out of 26 applicants, 14 were from the region, all from the Philippines. Following the shortlisting process, four candidates were identified. However, one candidate withdrew his application prior to the interview.</li> <li>• On 24 October 2016, the Selection Committee conducted the interview of three candidates based on an agreed set of questions and rating. Of</li> </ul>		<ul style="list-style-type: none"> <li>• The Executive Committee requested the PRF Secretariat to facilitate the request for references from the eligible candidate.</li> <li>• The Executive Committee Chair will conduct interviews with the referees and report back to the Selection Panel. The Selection Panel will make its recommendation to the 19<sup>th</sup> Executive Committee Meeting in April 2017.</li> </ul>



Agenda Item	Discussion	Conclusion	Recommendation
	<p>the three candidates, only one reached the passing average of 80 percent during the interview and was therefore considered to be eligible for further assessment by the Selection Committee.</p> <ul style="list-style-type: none"> <li>• The Selection Panel concurred that the new Executive Director must have the necessary experience, particularly in developing projects and fundraising, as well as a passion for PEMSEA. In this regard, the Selection Committee agreed to request further references from the candidate and to interview the referees.</li> <li>• Based on the results of the reference review, the Selection Committee will further deliberate and report on its recommendation, based on consensus, during the next Executive Committee meeting in April 2017.</li> </ul>		
<p><b>4.0 Hosting of EAS Congress 2018</b></p>	<ul style="list-style-type: none"> <li>• In accordance with the decision of the 8<sup>th</sup> EAS PC Meeting, the meeting was advised that the PRF has consulted with National Focal Agencies in Indonesia and Singapore, regarding hosting of the EAS Congress 2018.</li> <li>• Based on the consultations with Indonesia and Singapore,</li> </ul>		<p>The Executive Committee recommended:</p> <ul style="list-style-type: none"> <li>• the PRF to further consult with Singapore and Japan regarding the hosting of the EAS Congress 2018;</li> <li>• the PRF to report on the result of its</li> </ul>

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	<p>both countries have declined to host the EAS Congress 2018. Indonesia, in particular, is scheduled to host another international event in 2018 that would overlap with the EAS Congress. In the case of Singapore, no reason was provided for declining the invitation. The Executive Director will conduct further discussions with the National Focal Agency. The PRF Secretariat will also communicate with Japan on a possible meeting schedule in early 2017.</p> <ul style="list-style-type: none"> <li>The Executive Committee noted that all Country Partners have the opportunity to host the EAS Congress at least once every 30 years. While countries who have already hosted an EAS Congress may still bid to host the EAS Congress 2018, in the spirit of partnership it would be best to first secure the commitment from other countries who have not yet hosted the EAS Congress.</li> </ul>		<p>consultations with countries at the next Executive Committee meeting in April 2017.</p>
<b>5.0 Other Business</b>	<ul style="list-style-type: none"> <li>There were no other business raised during the meeting.</li> </ul>		
<b>6.0 Closing of the Meeting</b>	<ul style="list-style-type: none"> <li>Dr. La Viña expressed his appreciation to all the Executive Committee members and the country representatives for their</li> </ul>		

<b>Agenda Item</b>	<b>Discussion</b>	<b>Conclusion</b>	<b>Recommendation</b>
	<p>active participation during the discussion.</p> <ul style="list-style-type: none"><li data-bbox="440 331 826 426">• The Meeting was adjourned on 8 December 2016 at 12:00nn.</li></ul>		

**Annex 1**  
**MEETING AGENDA**

**December 7, 2016 (Wednesday)**

09:00 – 09:10      **1.0    Opening of the Meeting**

09:10 – 10:30      **2.0    Achieving a Self-Sustaining PEMSEA**

In accordance with the decision of the 8<sup>th</sup> EAS Partnership Council Meeting on achieving a self-sustaining PEMSEA, the Secretariat and a financial consultant will present a working document on initiatives toward a self-sustaining PEMSEA.

The Executive Committee and invited Country Partners will be requested to provide comments, suggestions and recommendations on the working document and for building consensus among Partners.

10:30 – 10:45      **Coffee Break**

10:45 – 12:00      **Continuation of Agenda item 2.0**

12:00 – 13:30      **Lunch Break**

13:30 – 15:30      **Continuation of Agenda item 2.0**

15:30 – 15:45      **Coffee Break**

15:45 – 16:45      **Continuation of Agenda item 2.0**

**Close of Day 1**

**December 8, 2016 (Thursday)**

- 09:00 – 10:30      **3.0      Recruitment of New PEMSEA Executive Director**
- The Secretariat will inform the meeting of the process undertaken on the recruitment of the new PEMSEA Executive Director.
- The Council Chair will inform the meeting of the results of the interviews of the shortlisted candidates for the Executive Director's post that were undertaken by the Selection Panel.
- The meeting will be requested to confirm the next steps in the recruitment process.
- 10:30 – 11:30      **4.0      Hosting of EAS Congress 2018**
- The Secretariat will inform the meeting of the results of consultations with countries regarding the hosting of the EAS Congress 2018.
- The meeting will be requested to provide guidance to the Secretariat on follow on actions.
- 11:30 – 11:45      **5.0      Other Business**
- The meeting will discuss other business, if any.
- 11:45 – 12:00      **6.0      Closing of the Meeting**
- 12:00 – 13:30      **Lunch**

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## Annex 2

### LIST OF PARTICIPANTS

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## Annex 3

### ACHIEVING A SELF-SUSTAINING PEMSEA RESOURCE FACILITY

#### 1.0 Background / Context

- 1.1 The 6<sup>th</sup> EAS Partnership Council (June 2014) adopted the Strategy and Implementation Plan for Achieving a Self-Sustaining PEMSEA and requested the PEMSEA Resource Facility (PRF) to proceed with its implementation.
- 1.2 Ministers and Senior Government Officials from 11 PEMSEA participating countries signed the Da Nang Compact during the 5<sup>th</sup> Ministerial Forum on 20 November 2015. The Da Nang Compact confirmed country commitments to the implementation of the SDS-SEA 2015, as well as four post-2015 Strategic Targets, which serve as key indicators of progress for the implementation of the SDS-SEA 2015 over the next 5 years.
- 1.3 Specifically **TARGET 1** states: By 2017, a self-sustaining PEMSEA Resource Facility managing and coordinating a suite of products, services and financing mechanisms for advancing SDS-SEA implementation at the regional, national and local levels.
- 1.4 To support PEMSEA's continuing efforts as it transforms into a fully self-sustaining international organization, the 8<sup>th</sup> EAS Partnership Council Meeting (July 2016) requested the development of working documents providing an assessment of progress to-date and recommendations on delivery of services, development of new business, mechanisms for financial sustainability and establishment of the PRF as a regional / global hub for coastal and ocean governance and blue economy development.
- 1.5 The challenge of oceans and coastal governance, human impacts on oceans and coasts, and the importance of preserving the environment continues to grow. The request of the EAS Partnership Council for working documents clearly signifies the continued desire and need for PEMSEA.
- 1.6 The objective of this document is to facilitate discussion and gather initial input on the development of these working documents for submission to the 9<sup>th</sup> EAS Partnership Council in 2017. This document consists of three (3) attachments, namely:  
Attachment A: PEMSEA Resource Facility Financial Requirements  
Attachment B: Summary of Findings of Secondary Research and Implications  
Attachment C: Options for PEMSEA's Future Direction
- 1.7 Attachment A refers primarily to PEMSEA's financial model, including an overview analysis of three potential scenarios. Attachment B contains a synthesis of research results concerning mandatory versus voluntary contributions as a means of financing international/UN organizations. Attachment C identifies three potential options or scenarios for PEMSEA's future development.

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## ATTACHMENT A

### PEMSEA RESOURCE FACILITY'S FINANCIAL REQUIREMENTS

- 1.0 Overview of the PRF's Current Financial Requirements** (Draft, subject to change based on further discussion and adjustments to PEMSEA's financial model)
- 1.1 Recasting the PRF's financials.** Based on feedback from key stakeholders, we have developed a robust financial model that recasts the PRF's financials to better highlight:
- The breakdown of revenue by source and expenses by category (Figure 1)
  - The primary services PEMSEA offers, their contribution to revenues and expenses, and their net contribution to income (Figure 2)
  - The breakdown of revenue and expenses as unrestricted versus restricted (Figure 3)
  - The allocation of PRF personnel and consultants to its services (Figure 4)

Using this model, we reexamine the PRF's 2015 audited financials and project the PRF's financial position for the years 2016-2019. We initially examine the state of PEMSEA if it operates primarily as a secretariat without new projects beyond those that it is currently completing. We then discuss other scenarios.

- 1.2 2015 Financials.** The 2015 financials presented here are based on the PRF financial statements report of independent auditor KPMG, adjusted to include all receipts and expenses. In 2015, the PRF's expenses totaled ~\$2.6M, of which ~\$537K were core, ~\$1.6M were projects, and ~\$471K were attributed to the EAS Congress. Due primarily to continued unrestricted voluntary cash and in-kind contributions from China, Japan, RO Korea, Singapore and the Philippines totaling ~\$538K as well as net-positive income contributions from projects, PEMSEA was profitable, with a net income of ~\$580K. This amount differs from the 2015 AFS primarily because accrual accounting was used in the 2015 AFS versus actual receipts and expenses. These are explained in the notes accompanying Figure 1. We note that the PRF's 2014 financials were audited using different accounting procedures and are therefore not directly comparable with 2015.
- 1.3 2016-2019 Financial Projections.** For 2016-2019, we include only concrete commitments (i.e., voluntary contributions received or forthcoming, and revenue from current projects). We project the PRF's expense budget to remain steady at ~\$2.67M with corresponding revenue decreasing to ~\$2.42M. We project the PEMSEA Fund balance to increase slightly in 2016 and then decrease gradually thereafter resulting from an annual net loss ranging from ~219K to ~251K. We note, however, that 2017-2019 projections are subject to change primarily based on variations in country contributions.
- Core unrestricted revenue coming from governments' voluntary contributions are shown to decline, current projects are completed, and the remaining GEF funds are used to support the organization from 2017 to 2019.
  - Core expenses remain steady from 2015 to 2019 as personnel needed to perform the secretariat function are retained. Slight increase is due to inflation (assumed at 3%).
  - Project-related expenses account for the vast majority of expenses, with the EAS Congress budgeted for 2018.
  - Core expenses from 2017 to 2019 and the EAS Congress in 2018 are partially supported by revenue generated from projects.

1.4 **Personnel.** From 2015-2019, personnel remain steady at ~27.0 full-time employee equivalents (FTEs). Core personnel consist primarily of personnel required to perform the PEMSEA secretariat function. In these financials, estimated percentages of various personnel's time are allocated to the Core versus Projects. As shown in Figure 4, ten staff are required for the Core function (9.65 FTEs shown in 2015 correspond to more than 9 people as individuals; e.g., could be 0.10 in the Core and 0.90 in Projects). Some could also be part-time. Key personnel functions in the Core include allocated time of the Executive Director, Planning and Partnerships Head, Finance and Administration, Secretariat Services Coordinator, IT Support and Executive Assistant.

## 2.0 Scenarios / Sensitivity Analysis

2.1 **Scenario 1: Core function only; operate primarily as a secretariat.** These are the financial projections being shown in Figures 1-4. In this scenario, PEMSEA intentionally eliminates non-core services. Only core staff and corresponding expenses are retained plus those needed to complete outstanding projects. Government contributions sufficient to fully cover the PRF's agreed upon budget are required as revenue-generating project activities are phased out or forgone. We note that this is also the scenario if proposed future projects do not pan out or other possible non-core services (e.g., Certification services, EAS Sustainable Business Network) do not generate sufficient revenue to cover their associated expenses. We also note that this scenario differs from what was adopted during the 6<sup>th</sup> EAS Partnership Council.

2.2 **Scenario 2: Core function plus some project work and earned-income from other non-core services.** This is the Strategy and Implementation Plan for Achieving a Self-Sustaining PEMSEA adopted during the 6<sup>th</sup> EAS Partnership Council. In this scenario, unrestricted government contributions, whether voluntary or mandatory, are required to partially support the PRF's core expenses. Shifts in net income contributions from projects and other non-core services will either increase or reduce the need for government support. Multi-year budget planning and a PEMSEA Fund can be used to smooth out variations.

2.3 **Scenario 3: Revenue from projects is sufficiently large; operate as an implementing agency and/or consulting firm.** In this scenario, PEMSEA generates sufficient unrestricted revenue from projects and other earned-income sources to fully cover core expenses. Government contributions can be phased out. However, in this scenario secretariat function will continue only if PEMSEA can fully transition into an implementing agency and/or consulting firm.

### 3.0 Assessment of the PRF's funding model

- 3.1 **Voluntary or mandatory government contributions will be needed to support core expenses/secretariat functions.** Revenue to support core expenses (i.e., expenses related to the performance of the PRF's institutional mandate) comes primarily from unrestricted government contributions plus some project administration fees and advisory and project services fees. However, current levels of unrestricted government contributions aren't nearly enough to fully support core expenses over time. From 2017 to 2019, ~\$250K annually will be needed. Assuming GEF funding ends in 2019, the revenue shortfall becomes ~\$565K beginning 2020. Without government contributions, PEMSEA will not be able to effectively perform its core function (unless Scenario 3 is pursued).
- 3.2 **Non-core services are to be pursued only if they are financially sustainable.** Almost all non-core services (i.e., Advisory and Project Services, Knowledge Services, ICM Certification Services, Port Certification Services, Blue Economy / Ocean Investment Fund) are expected to provide positive net contributions to income. Currently, these are all being run using project funds, and are incorporated in the projects total in the financials. The possible exception would be the EAS Congress which requires project funding to cover shortfalls in registration, coordination and booth fees, and the EAS Sustainable Business Network which has been unable to generate membership fees. As most, if not all, of non-core expenses are directly tied to their revenue, shortfalls in projected revenue would not result in losses from non-core services. However, they would impact the PRF's ability to support core services.
- 3.3 **Projects offer significant growth and potential to reduce the need for government contributions, provided project administration fees are obtained.** Among non-core services, projects may be able to generate sufficient unrestricted net income to cover core expenses provided reasonable project administration fees are obtained, advisory and project services personnel margin (i.e., the difference between personnel costs chargeable to projects and what PEMSEA pays personnel resulting from project management efficiencies) are maintained and revenue volume is sufficiently large. Given a 6% project administration fee and a 5% effective advisory and project services personnel margin, \$5.1M revenue from projects is needed to generate \$565K in net unrestricted income, which is equivalent to the core expenses projected for 2019. If government contributions are reduced or eliminated altogether, project volume would need to be larger than currently forecasted (which includes only the current GEF/UNDP project in this model).
- 3.4 **Existing and forecasted project revenue is highly dependent on GEF funding and may require diversification.** We note that a substantial portion of project revenue comes from GEF funding. To the extent that GEF funding continues via new projects, this offers PRF additional time to diversify project funding across other funders, an objective which it has already begun addressing.
- 3.5 **If revenue from projects is insufficient or eliminated, increased government contributions would be required to maintain a positive PEMSEA Fund balance.** While projects may potentially reduce or even eliminate the need for unrestricted government contributions, the corollary holds that a reduction in project revenue would necessitate additional government support to fully cover core expenses.

3.6 **Excess earned-income from other non-core services is unlikely to sustain the PRF.** We note that expected excess earned-income from other non-core services such as the EAS Congress, Certification Services and the EAS SBN is minimal. Similarly, revenue from Blue Economy / Ocean Investment Fund management is meaningful only if the fund is very large. Assuming an annual management fee of 1%, the Fund would need to have an outstanding balance of \$50M to generate \$500K in revenue.

## TABLES AND CHARTS

**Figure 1: PEMSEA 2015 Actuals, 2016-2019 Financial Projections  
by Revenue Source and Expenses Category (in \$'000s)**

	2015	2016	2017	2018	2019	CAGR <sup>(11)</sup>
<b>Revenue</b>						
<b>Governments<sup>(1)</sup></b>	<b>817</b>	<b>476</b>	<b>45</b>	<b>46</b>	<b>47</b>	<b>-51%</b>
<i>UNDP Manila</i>	146	-	-	-	-	na
PR China	161	149	-	-	-	na
Japan	119	-	-	-	-	na
Philippines	43	43	45	46	47	2%
RO Korea	229	164	-	-	-	na
Singapore	20	20	-	-	-	na
Timor-Leste	100	100	-	-	-	na
<b>Multilaterals<sup>(2)</sup></b>	<b>2,148</b>	<b>1,898</b>	<b>2,365</b>	<b>2,365</b>	<b>2,365</b>	<b>2%</b>
<i>GEF/UNDP</i>	1,677	1,426	2,365	2,365	2,365	9%
GEF/World Bank	405	452	-	-	-	na
GEF/UNEP	66	20	-	-	-	na
<b>Private</b>	<b>22</b>	<b>51</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>na</b>
<b>EAS Congress<sup>(3)</sup></b>	<b>173</b>	<b>-</b>	<b>-</b>	<b>184</b>	<b>-</b>	<b>na</b>
<b>Other Earned-income</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>na</b>
<b>Interest</b>	<b>3</b>	<b>10</b>	<b>10</b>	<b>9</b>	<b>7</b>	<b>24%</b>
<b>Total Revenue<sup>(4)</sup></b>	<b>3,168</b>	<b>2,435</b>	<b>2,419</b>	<b>2,603</b>	<b>2,420</b>	<b>-7%</b>
<b>Expenses</b>						
<b>Personnel<sup>(5)</sup></b>	<b>1,268</b>	<b>1,191</b>	<b>1,291</b>	<b>1,330</b>	<b>1,369</b>	<b>2%</b>
<b>Consultancies</b>	<b>88</b>	<b>75</b>	<b>82</b>	<b>85</b>	<b>87</b>	<b>0%</b>
<b>Contract Services<sup>(6)</sup></b>	<b>468</b>	<b>633</b>	<b>896</b>	<b>624</b>	<b>822</b>	<b>15%</b>
<b>Other Direct<sup>(7)</sup></b>	<b>617</b>	<b>343</b>	<b>224</b>	<b>659</b>	<b>237</b>	<b>-21%</b>
<b>Overhead<sup>(8)</sup></b>	<b>148</b>	<b>173</b>	<b>146</b>	<b>157</b>	<b>154</b>	<b>1%</b>
<b>Total Expenses<sup>(9)</sup></b>	<b>2,588</b>	<b>2,416</b>	<b>2,638</b>	<b>2,855</b>	<b>2,671</b>	<b>1%</b>
<b>Net Income (Loss)</b>	<b>580</b>	<b>19</b>	<b>(219)</b>	<b>(251)</b>	<b>(251)</b>	<b>na</b>
<b>PEMSEA Fund BOY Balance<sup>(10)</sup></b>	<b>1,326</b>	<b>1,907</b>	<b>1,925</b>	<b>1,706</b>	<b>1,455</b>	<b>2%</b>
<b>PEMSEA Fund EOY Balance</b>	<b>1,907</b>	<b>1,925</b>	<b>1,706</b>	<b>1,455</b>	<b>1,204</b>	<b>-11%</b>

Note 1: Governments revenue consists primarily of unrestricted voluntary contributions, including funding coursed through UNDP plus some restricted project-related revenue. Only revenue received in 2015 (UNDP, Japan, China, ROK, Singapore, Timor-Leste, Philippines) and 2016 (China, ROK, Singapore, Timor-Leste, Philippines) is reflected. 2017 to 2019 only shows the in-kind value of the office space.

Note 2: Multilaterals revenue is all project-related. 2015 and 2016 consists primarily of GEF and World Bank funding. 2017 to 2019 consists of the remaining GEF funds as all other projects would have been completed.

Note 3: EAS Congress revenue consists of additional fees from registration, coordination, booths and other donors that are not already reflected in Governments or Multilaterals

Note 4: 2015 total revenue shown here differs from the 2015 audited financial statement (AFS) revenue of \$2,793K. The difference of \$375K is primarily due to the following reasons. UNDP and Japan amount of \$264K and Philippines in-kind office value of \$43K are not included in the AFS. Furthermore, the AFS uses accrual accounting for revenue while the amount shown here reflects when the revenue is received. Hence, revenue from China and ROK are higher than the AFS by \$81K and \$84K respectively while revenue from UNEP is lower by \$48K.

- Note 5: Personnel expenses correspond to PEMSEA personnel considered as staff, regardless of whether they are designated as international consultants, local consultants or on service contracts. 2017 to 2019 assumes personnel are maintained.
- Note 6: Contract services consist of all subcontractors and other contracted services, except those who are considered personnel. Includes meetings expenses.
- Note 7: Other direct consists of travel, media and printing and other direct expenses.
- Note 8: Overhead includes supplies, information technology and communications, equipment and furniture, rent, audit fees and miscellaneous expenses.
- Note 9: 2015 total expenses shown here differs from the 2015 AFS expenses of \$2,443K. The difference of \$145K is primarily due to the following reasons: UNDP and Japan expenses for travel and others amounting to \$97K and the Philippines in-kind office expense of \$43K are not included in the AFS.
- Note 10: The PEMSEA Fund Beginning of Year Balance for 2015 is taken from the 2015 AFS.
- Note 11: CAGR refers to compound annual growth rate.

**Figure 2: PEMSEA 2015 Actuals, 2016-2019 Financial Projections  
by Service (in \$'000s)**

	2015	2016	2017	2018	2019	CAGR
<b>Revenue</b>						
Core <sup>(1)</sup>	538	263	54	54	55	-44%
Projects <sup>(2)</sup>	2,457	2,172	2,365	2,365	2,365	-1%
EAS Congress <sup>(3)</sup>	173	-	-	184	-	na
<b>Total Revenue</b>	<b>3,168</b>	<b>2,435</b>	<b>2,419</b>	<b>2,603</b>	<b>2,420</b>	<b>-7%</b>
<b>Expenses</b>						
Core <sup>(4)</sup>	537	516	533	549	566	1%
Projects <sup>(5)</sup>	1,580	1,901	2,105	1,806	2,105	7%
EAS Congress <sup>(6)</sup>	471	-	-	499	-	na
<b>Total Expenses</b>	<b>2,588</b>	<b>2,416</b>	<b>2,638</b>	<b>2,855</b>	<b>2,671</b>	<b>1%</b>
<b>Net Income (Loss)</b>	<b>580</b>	<b>19</b>	<b>(219)</b>	<b>(251)</b>	<b>(251)</b>	<b>na</b>
<b>Net Income Contribution</b>						
Core	1	(253)	(479)	(495)	(511)	na
Projects <sup>(7)</sup>	877	271	260	559	260	-26%
EAS Congress	(297)	-	-	(315)	-	na
<b>Net Income (Loss)</b>	<b>580</b>	<b>19</b>	<b>(219)</b>	<b>(251)</b>	<b>(251)</b>	<b>na</b>
<b>PEMSEA Fund BOY Balance</b>	<b>1,326</b>	<b>1,907</b>	<b>1,925</b>	<b>1,706</b>	<b>1,455</b>	<b>2%</b>
<b>PEMSEA Fund EOY Balance</b>	<b>1,907</b>	<b>1,925</b>	<b>1,706</b>	<b>1,455</b>	<b>1,204</b>	<b>-11%</b>

Note 1: Core revenue consists of unrestricted voluntary contributions from governments (Japan, China, ROK, Singapore), including funding coursed through UNDP and the in-kind value of the office space (Philippines).

Note 2: Projects revenue consists primarily of restricted funds including those from multilaterals and governments. 2015 and 2016 is primarily GEF, World Bank, ROK and Timor-Leste. 2017 to 2019 is the remaining GEF funds.

Note 3: EAS Congress revenue consists of additional fees from registration, coordination, booths and other donors that are not already reflected in Governments or Multilaterals.

Note 4: Core expenses consist primarily of personnel expenses and travel required to perform the PEMSEA secretariat function. In these financials, estimated percentages of various personnel's time are allocated to the Core.

Note 5: Projects expenses include personnel, consultancies, contracted services, travel and other direct expenses and overhead related to projects.

Note 6: EAS Congress expenses consist of all expenses required to hold the event. The Congress is conducted every three years. Hence, it is shown in 2015 and 2018.

Note 7: Net income contribution from projects consists primarily of restricted funds, including those used to support the EAS Congress. It also includes unrestricted project administration fees and advisory and project services personnel margin that are drawn from the project grants.

**Figure 3: PEMSEA 2015 Actuals, 2016-2019 Financial Projections  
by Unrestricted versus Restricted Revenue and Expenses (in \$'000s)**

	2015	2016	2017	2018	2019	CAGR
<b>Unrestricted Revenue</b>						
Core <sup>(1)</sup>	538	263	54	54	55	-44%
Projects <sup>(2)</sup>	197	239	260	260	260	7%
EAS Congress <sup>(3)</sup>	173	-	-	184	-	na
<b>Total Unrestricted Revenue</b>	<b>908</b>	<b>502</b>	<b>314</b>	<b>498</b>	<b>315</b>	<b>-23%</b>
<b>Unrestricted Expenses</b>						
Core <sup>(4)</sup>	537	516	533	549	566	1%
Projects	-	-	-	-	-	na
EAS Congress <sup>(5)</sup>	189	-	-	201	-	na
<b>Total Unrestricted Expenses</b>	<b>726</b>	<b>516</b>	<b>533</b>	<b>750</b>	<b>566</b>	<b>-6%</b>
<b>Net Unrestricted Income (Loss)</b>	<b>182</b>	<b>(14)</b>	<b>(219)</b>	<b>(251)</b>	<b>(251)</b>	<b>na</b>
<b>Restricted Revenue</b>						
Projects <sup>(6)</sup>	2,260	1,933	2,105	2,105	2,105	-2%
EAS Congress	-	-	-	-	-	na
<b>Total Restricted Revenue</b>	<b>2,260</b>	<b>1,933</b>	<b>2,105</b>	<b>2,105</b>	<b>2,105</b>	<b>-2%</b>
<b>Restricted Expenses</b>						
Projects <sup>(7)</sup>	1,580	1,901	2,105	1,806	2,105	7%
EAS Congress <sup>(8)</sup>	282	-	-	299	-	na
<b>Total Restricted Expenses</b>	<b>1,862</b>	<b>1,901</b>	<b>2,105</b>	<b>2,105</b>	<b>2,105</b>	<b>3%</b>
<b>Net Restricted Income (Loss)<sup>(9)</sup></b>	<b>398</b>	<b>32</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>na</b>

Note 1: Core unrestricted revenue consists of unrestricted voluntary contributions from governments (Japan, China, ROK, Singapore), including funding coursed through UNDP and the in-kind value of the office space (Philippines).

Note 2: Projects unrestricted revenue consists of project administration fees (estimated at 6% of project revenue beginning 2016) and advisory and project services personnel margin (estimated at 5% of project revenue) that are drawn from the project grants.

Note 3: EAS Congress unrestricted revenue consists of additional fees from registration, coordination, booths and other donors that are not already reflected in Governments or Multilaterals

Note 4: Core unrestricted expenses consist primarily of personnel expenses and travel required to perform the PEMSEA secretariat function. In these financials, estimated percentages of various personnel's time are allocated to the Core.

Note 5: EAS Congress unrestricted expenses consists of expenses that are not covered by project grants.

Note 6: Projects restricted revenue consists of project grants excluding funds indicated in note 2 as unrestricted.

Note 7: Projects restricted expenses include personnel, consultancies, contracted services, travel and other direct expenses and overhead related to projects.

Note 8: EAS Congress restricted expenses consists of expenses that are covered by project grants.

Note 9: In 2015 and 2016, a portion of the restricted revenue from projects is not spent during the year. Beginning 2017, we assume that all Projects restricted revenue is spent during the year.



**Figure 4: PEMSEA 2015 Actuals, 2016-2019 Personnel Projections**

<b>PEMSEA Personnel</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>CAGR</b>
<b>Core</b>	<b>9.65</b>	<b>8.01</b>	<b>8.05</b>	<b>8.05</b>	<b>8.05</b>	<b>-4%</b>
<b>Projects</b>	<b>19.02</b>	<b>18.24</b>	<b>18.95</b>	<b>18.95</b>	<b>18.95</b>	<b>0%</b>
<b>EAS Congress</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>na</b>
<b>Total Full-time Equivalent (FTE)</b>	<b>28.67</b>	<b>26.25</b>	<b>27.00</b>	<b>27.00</b>	<b>27.00</b>	<b>-1%</b>

Note 1: 1.0 Full-time Equivalent (FTE) corresponds to an average of 40 hours a week for 244 working days a year.

Note 2: Core personnel consist primarily of personnel required to perform the PEMSEA secretariat function. In these financials, estimated percentages of various personnel's time are allocated to the Core versus Projects. 9.65 FTEs shown in 2015 correspond to more than 9 people as individuals could be 0.10 in the Core and 0.90 in Projects. Some could also be part-time. Key personnel functions in the Core include the Executive Director, Planning and Partnerships Head, Finance and Administration, Secretariat Services Coordinator, IT Support and Executive Assistant.

Note 3: Projects personnel consist of personnel time allocated to Projects. 19.02 FTEs shown in 2015 corresponds to more than 19 people as individuals could be 0.90 in Projects and 0.10 in the Core.

Note 4: No FTEs were allocated to EAS Congress. Personnel time spent on the EAS Congress are reflected in Projects as the EAS Congress is considered a project.

## ATTACHMENT B

### SUMMARY OF FINDINGS FROM SECONDARY RESEARCH AND IMPLICATIONS

#### 1.0 Financing of International Organizations

- 1.1 **International organizations rely significantly on government contributions which, in many cases, come via voluntary contributions.** Based on a study of the UN and its various programmes, funds and agencies, most programmes of the UN Secretariat are partially funded by voluntary contributions, while funds, programmes and other bodies established by the General Assembly are entirely or almost entirely funded in this way. Even institutions long-associated with mandatory funding systems rely substantially on voluntary contributions to supplement mandatory funds. Research likewise suggests that private funding remains low for many UN system organizations
- a. The UN has mandatory assessments of appropriate level of contribution for its regular budget, as well as peacekeeping operations, with minimum and maximum amounts. In 2005, the UN had a budget of almost \$20 billion per year, of which assessed contributions to the regular budget and peacekeeping operations were ~\$1.8 (\$2.7 billion in 2015) billion and ~\$5 billion (\$8.2 billion in 2015) respectively.
  - b. Specialized agencies (e.g., WHO, UNESCO, IMF, World Bank Group) have mandatory and voluntary contributions.
  - c. All funds (e.g., Environment Fund at UNEP) and programmes (e.g., UNDP, UNICEF, UNFPA, WFP) rely entirely on voluntary contributions.
- 1.2 **Assessed or mandatory contributions and unrestricted voluntary contributions are used to fund expenses fundamental to an organization and its institutional mandate.** Contributions received by UN system organizations are commonly classified into regular budget/core resources or extra-budgetary/non-core resources. Organizations that derive a large part of their income from assessed (i.e., mandatory) contributions of members (e.g., specialized agencies) have traditionally used these to fund their regular budgets (i.e., administrative infrastructure and core, normative work). Organizations that rely on voluntary contributions utilize unrestricted funds for this purpose.
- 1.3 **In most cases, expenses of the approved budget are apportioned among member states on the basis of a scale determined by the governing body.** The UN's mandatory assessment is based on a formula that considers gross national income, debt burden, and per capita income, among others. Dues are calculated according to a scale of assessment agreed upon every three years. Formulas like these help ensure funding equitability.
- 1.4 **Most voluntary funding comes from a limited number of donor countries; similarly, a small number of countries provide the majority of the regular budget of those organizations receiving assessed contributions.** Research suggests that voluntary funding of UN system international organizations comes from a limited number of donor countries, sometimes fewer than ten. Similarly, majority of the regular budget of organizations receiving assessed contributions comes from a few countries as contributions are related to per capita income.

- a. Among PEMSEA member countries, we note that only four – Singapore (#11), Japan (#28), RO Korea (#32) and China (#41) – are considered states with high Gross National Income (GNI per capita)<sup>1</sup>.
  - b. In terms of Gross Domestic Product (GDP), China (#2), Japan (#3), RO Korea (#11) Indonesia (#16), Philippines (#36), and Singapore (#40) all rank within the top 40<sup>2</sup>.
  - c. Examining the total UN assessment contributions of Seas of East Asia countries, both PEMSEA members and non-members (i.e., Brunei, Malaysia, Thailand and Myanmar), we note that Japan (45.1%), China (36.9%), RO Korea (9.5%) account for over 90% of the total<sup>3</sup>.
- 1.5 **Over time, funds have increasingly shifted towards voluntary contributions; steep rise in restricted funding is likewise observed.** Over the past twenty-five years, member states have altered the way they finance international organizations. Voluntary contributions have increased while mandatory funding to the UN and other organizations stagnates.
- 1.6 **The lack of predictability associated with voluntary funding, and the absence of mechanisms to encourage payment of pledges can undermine planning and delivery of programmes and projects.** Programme delivery depends on the flow of funds. A system based on assessed or mandatory contributions carries some certainty about the level of funding that an organization can expect to receive. Since voluntary contributions need to be confirmed by national parliaments afterwards and bear the risk of exchange rate shifts, there is always a discrepancy between pledged and received contributions.
- 1.7 **Late and incomplete payments can likewise impact programmatic work.** Research shows that the UN is sometimes stifled by late payments. It has been noted that the UN Secretary-General often must cross-borrow money from peacekeeping operations, which has a cascading effect.
- 1.8 **International organizations have adopted various funding strategies to improve predictability and strengthen financial sustainability.** Faced with static or declining core resources, organizations have adopted strategies such as:
- a. Biennial programming cycles (undertake two-year budgeting)
  - b. Target setting within multi-year funding frameworks (establish targets for contributions across multiple years or secure multi-year awards; UNICEF, UNDP, and UNFPA use this approach)
  - c. Voluntary indicative scales of contributions (provide indicative amounts of how much each country would need to contribute via voluntary contributions)
  - d. Thematic funding and/or pooled funding initiatives (shift restricted funding to broader themes to allow more flexibility; UNICEF, UNDP, and UNFPA use this approach)
  - e. Spending caps (establish spending limits for certain activities)
- 1.9 **The management of extra-budgetary/non-core resources requires substantial administrative support.** While restricted voluntary contributions enable organizations to

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<sup>1</sup> World Bank estimates (2015)

<sup>2</sup> International Monetary Fund estimates (2016)

<sup>3</sup> Assessment of Member States' contributions to the United Nations regular budget for the year 2015

undertake programmes, the management of these resources requires additional resources as well, which need to be incorporated into the project budgets

## **2.0 Analysis of Mandatory vs. Voluntary Contributions**

- 2.1 Both mandatory and voluntary contribution funding models can work, provided that contributions appear obligatory and predictable.** As can be gleaned from how international organizations are financed, both funding models can work, provided that contributions feel obligatory.
- 2.2 Different funding methods offer donors different degrees of control.** Restricted voluntary contributions provide donors with the highest level of control. Donors determine the contribution size and the use of their contributions. Unrestricted voluntary contributions offer donors more limited control. Amount is determined by the donor but funds are distributed according to governing body priorities (i.e., control on how funds are used is delegated to the governing body). Mandatory contributions provide donors with the least control as contribution size and policy are determined by the governing body.
- 2.3 Organizational alignment with member preferences influences funding methods.** Research suggests that donors are more likely to provide mandatory contributions when their preferences are consistent with the governing coalition. Donors are more likely to provide voluntary contributions when their preferences over the affordability (i.e., budget size or relative share) and policy of organizational activity (i.e., use of funds) differ from those of the governing coalition. When disagreements involve affordability, they are likely to provide unrestricted funds. When disagreements involve policy, they are likely to provide restricted funds.
- 2.4 Compliance with obligations varies for international organizations requiring mandatory contributions.** Requiring mandatory funding does not guarantee that donors will pay on time. In 2015, 180 UN member states paid mandatory dues on time but 13 failed to do so. In 2006, only 40 member states paid their dues entirely and on time. Such may be the case when there are differences regarding affordability and/or policy, or when the donors' financial capacity is constrained. It is likewise noted that obligations to international organizations are often recommendations or resolutions which must be converted or transposed to national legislation.
- 2.5 Non-state actors are rarely subjected to mandatory contributions.** For international organizations, expectations of funding from non-state actors are primarily voluntary in nature.
- 2.6 Cause or issue area matters.** Research suggests that cause or issue area matters in terms of funding as reflected in data of charitable giving by cause and allocations in national budgets. For example, unrestricted resources exceed restricted contributions at UNESCO and the UN Population Fund but the reverse holds true at the UNDP and WHO.
- 2.7 Capacity to pay has a significant effect in contributions.** Unsurprisingly, lower income groups are less willing to pay compared to higher income groups. As noted in

1.4 above, for PEMSEA, only four country members can be considered as developed or high-income states – China, Japan, Singapore, and RO Korea.

### **3.0 Implications for the PRF's Funding Model**

- 3.1 Unrestricted government contributions will be needed to support PEMSEA's core functions and institutional mandate while other funding can be used to support additional programs and services.
- 3.2 While both mandatory and voluntary funding systems can work, the trend is towards voluntary contributions; however, a sense of obligation and ownership among PEMSEA's partners for supporting operation of the PRF will be required should non-core service income not reach a minimum size.
- 3.3 PEMSEA needs to implement mechanisms that increase funding equitability (e.g., indicative assessment scales that indicate recommended contributions as a percentage of the PRF's budget) and predictability (e.g., multi-year funding frameworks that indicate planned contributions over multiple years).
- 3.4 Ensuring PEMSEA's alignment with Country Partner preferences for affordability and policy is critical. This entails members' agreement with PEMSEA's direction, budget size and how funds will be used.

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## ATTACHMENT C

### OPTIONS FOR PEMSEA'S FUTURE DIRECTION

#### 1.0 Options for PEMSEA's Future Direction

1.1 **Continue along the current path outlined during the 6<sup>th</sup> EAS Partnership Council, which adopted the Strategy and Implementation Plan for Achieving a Self-Sustaining PEMSEA.** Revenue will come from a combination of unrestricted government contributions, projects, and other earned-income sources. We consider two variations with the previously adopted strategy and implementation plan stemming from the difficulty previously identified with establishing an endowment fund (we assume that one is not created) and generating positive net contributions from an EAS Sustainable Business Network (we assume that no revenue is received from this). This is the "middle ground" wherein member countries agree to partially support the PRF and trust that the PRF will be able to generate sufficient additional revenue (not unlike consulting firms do today).

1.2 **Operate solely as a secretariat.** This is the approach currently modeled in the financial projections. Member countries agree to fully fund the PRF's core operations for a specified period of time. Only core staff and corresponding expenses are retained. All other operations are eliminated, after current projects are completed. Annual budgets can be agreed upon in multi-year cycles (e.g., a two-year budgeting process). Contributions can either be mandatory or voluntary. We note, however, that this scenario makes PEMSEA more similar to the UNEP-housed Coordinating Body on the Seas of East Asia (COBSEA), which itself was initially project-based and then became a secretariat. Such a scenario raises the question of whether both agencies should be merged. We can likewise explore if there are other international organizations for which a merger would be appropriate.

1.3 **Operate fully as a project implementing agency and/or consulting firm.** Member countries agree to fully phase out government funding as a requirement for supporting core expenses, although voluntary contributions may still be provided. Funding to support secretariat functions will come primarily from excess revenue from projects. Secretariat functions will be dependent on the availability of funds. The PRF will need to compete with other implementing agencies and/or consulting firms operating in the same field for funding. The governing body accepts that PEMSEA's future will be dependent on its ability to generate project revenue. We note that this makes PEMSEA more similar to organizations such as WorldFish which is an international, nonprofit research organization that receives funding from various donors. Such a scenario raises the question of whether there is need for an organization that is primarily an implementing agency, consulting firm and/or research organization.

#### 2.0 Options for How Support from Member Countries Can Be Structured

2.1 **Mandatory contributions.** Require mandatory contributions, which are paid as an obligation of membership. Under mandatory funding systems, individual member donors defer to intergovernmental bodies, like the UN General Assembly or the World Bank Executive Board to determine the size of the budget, the level of financial responsibility

(i.e., assessment sale), and the budgetary priorities. For PEMSEA, the governing body is the EAS Partnership Council. A mandatory scheme spreads the cost across members. However, it requires funding to be incorporated into national legislation. A mandatory scheme empowers the international organization.

- 2.2 **Voluntary contributions.** Continue with voluntary contributions. The size of the contribution is determined by the donor, informed by the organization's budgetary requirements. Funding is provided so long as donors approve of the work that the international organization does.
- a. **Unrestricted or core funds** are distributed according to the priorities set by the governing bodies, as informed by management, and are often used to support operations.
  - b. **Restricted or non-core funds** allow donors to restrict which programs or recipients are eligible to receive their funds.
  - c. Voluntary contributions can be made more predictable and obligatory using **multi-year funding frameworks, indicative assessments and thematic and/or pooled funding** as described previously.
- 2.3 **Combination of mandatory and voluntary contributions.** Require mandatory contributions to support a portion of core expenses. Voluntary contributions can be used to support shortfalls in core revenue, additional programs and non-core services.

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