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Extended Meeting of the Bureau of the Contracting Parties to the
Convention for the Protection of the Marine Environment
and the Coastal Region of the Mediterranean and its Protocols

Athens, Greece, 3-5 October 2011

MEDITERRANEAN TRUST FUND DEFICIT RECOVERY

UNEP/MAP
Athens, 2011

1. Introduction

The purpose of this paper is twofold: to inform the Bureau members on the actions that have already been taken to address the MTF deficit; and to present scenarios on the possible ways to overcome the remaining of the MTF deficit, with a view to facilitate discussions among the Bureau members.

2. Background

Following the 2008 OIOS recommendation, a review of MAP's accounting procedures identified a number of inconsistencies and also revealed a deficit situation in the Mediterranean Trust Fund (MTF). According to the 2009 official audited UNEP accounts, the MTF had a deficit of 4.5m USD as at 31/12/2009. Preliminary scenarios for reversing the MTF fund balance decline were presented to the last Bureau meeting held Zagreb in November 2010 (UNEP/BUR/71/Inf.3).

As requested by the Bureau, UNEP commissioned the Office of Internal Oversight Services (OIOS) to undertake an independent audit of the financial performance of UNEP/MAP in accordance with the ToRs agreed at the Bureau meeting (UNEP/BUR/71/Decisions - Annex). The audit report is presented to the Bureau as document UNEP/BUR/72/Inf.3.

3. Measures taken

As soon as the deficit situation became apparent, UNEP under the authority of the Executive Director took a number of measures to address the situation:

a) <u>Correction of over-budgeting</u>

Consistent with the last Bureau meeting recommendation to follow a cautious approach (UNEP/BUR/71/Decisions), UNEP/MAP Secretariat reduced the MTF level of expenditures among all its Components (Coordinating Unit, MEDPOL and the RACs) by approximately 14% as compared to the CoP approved budget (i.e. from 13,645,985 EUR to 11,791,904 EUR). This measure has ensured the deficit stabilization during the current biennium, despite the over-estimation of income. Efforts concentrated on reducing administrative costs to the maximum possible extent, and on deferring less essential activities of the PoW, should the former be insufficient. RAC Directors decided how the reduction would be made within their budgets, provided that the 14% reduction was respected and that the activities contributing to key strategic priorities were preserved.

b) <u>Collection of arrears</u>

- The Secretariat together with UNEP HQ has been in close contact through official letters and face-to-face meetings with the governments of the countries that have unpaid pledges from previous biennia. As a result, all unpaid pledges from previous biennia except one (Libya) have been collected. The amount of unpaid contributions from previous years that has been collected this year is 410,353 EUR (570,727 USD*).

  *: using the last 12 months average rate of 0.719

c) Reduction of deficit

- The risk of wrong charges between the MTF and the QML Fund has been assessed by OIOS as low. Reallocation of charges among programmatic activities from 2004 to 2009 jointly funded by MTF and EU voluntary contribution, which was already referred to in the attachment to the Bureau President's communication to MAP Focal Points (UNEP/BUR/71/Inf.3/Corr.1), will reduce both the QML surplus and the MTF deficit. A re-assignment of expenditures that were charged to the MTF and which could have been charged to QML for approximately 0.9m USD is thus being performed.

- UNEP Executive Director immediately supplied 1m USD from the Special Account from Programme Support Costs to be used for the deficit reduction. This represents 28% of the adjusted deficit after the re-assignment of expenditures to QML.

d) Cost-cutting measures

- UNEP has carried out a functional review to improve the alignment of UNEP/MAP Office in Athens with its mandated functions as per the guidance received from the Contracting Parties, inter alia in the Governance Paper (UNEP(DEPI)/MED IG.17/5) and the Mandate Papers (UNEP(DEPI)/MED IG.19/5), as well as in previous audit reports. The functional review report is presented to this Bureau as document UNEP/BUR/72/Inf.4. Implementation of its recommendations is expected to generate savings on the personnel cost of UNEP/MAP (Coordinating Unit and MEDPOL), through either complete abolishment, downgrading or merging the functions of a number of posts. The estimated amount of future net savings will be approximately 180,000 EUR per year, taking into account that there would be some additional costs involved (IT outsourcing, greater need for temporary assistance due to less staff present).

- Additionally, the Secretariat has been trying to generate additional savings from the implementation of cost reduction measures in all categories of administrative costs (travel, communication, postage, etc.). The savings achieved relate partly to MTF and partly to the CAL Fund of the Host Country Contribution.

4. Possible ways to overcome remaining deficit

Given OIOS's recommendation number 4 in its audit report on the financial performance of the UNEP/Mediterranean Action Plan (UNEP/BUR/72/Inf.3) to "request Contracting Parties to reimburse funds spent on project activities approved by the Parties but not funded", UNEP's position is to focus on solutions that allow full recovery of the deficit in the shortest possible period of time without disrupting significantly MAP's delivery capacity. In this context, the Secretariat has developed two scenarios for consideration by the Bureau with regards to MTF's deficit recovery.

The measures that UNEP and the Secretariat have already taken have stabilized the deficit for the current biennium and also reduced it significantly. More specifically, the 1m USD that the Executive Director of UNEP provided to UNEP/MAP from the Special Account in order to support the deficit recovery, the expenditure re-assignment from MTF to QML for 0.9m USD and a reduced budget implementation rate due to post vacancies, are expected to reduce the MTF deficit from 4.5m USD as at 31/12/2009 to between 2m and 2.2m USD as at 31/12/2011, depending on the final delivery rate of 2010-2011 activities, as well as the EUR/USD exchange rate fluctuations.

Three principles are proposed to guide the recovery process:

- Firstly, the principle of solidarity, where there must be a minimum share of the burden among all the Contracting Parties. Under this principle, a 2.5% increase in current MTF pledges is necessary to avoid the erosion of the services that UNEP/MAP is providing caused by inflation, and this has already been approved in principle during the Contracting Parties meeting held in November 2009 (UNEP(DEPI)/MED IG.19/6). This increase will be proportionately shared among all countries based on their current assessment rates. For the apportionment of this 2.5% inflation adjustment among the countries, please refer to Annex I.

- Secondly, maximum consideration must be given to avoiding the disruption of the delivery capacity of UNEP/MAP, especially in the context of the 20% reduction in MTF's budget already being planned for the next biennium.

- Thirdly, the borrowed amounts from other UNEP administered funds must be repaid within a reasonable timeframe, so that MTF's financial health is restored and its interfund borrowing position balances as soon as possible.

Two scenarios have been developed for consideration by the Bureau, under which the Contracting Parties could balance the status of the MTF within the next one or two biennia:

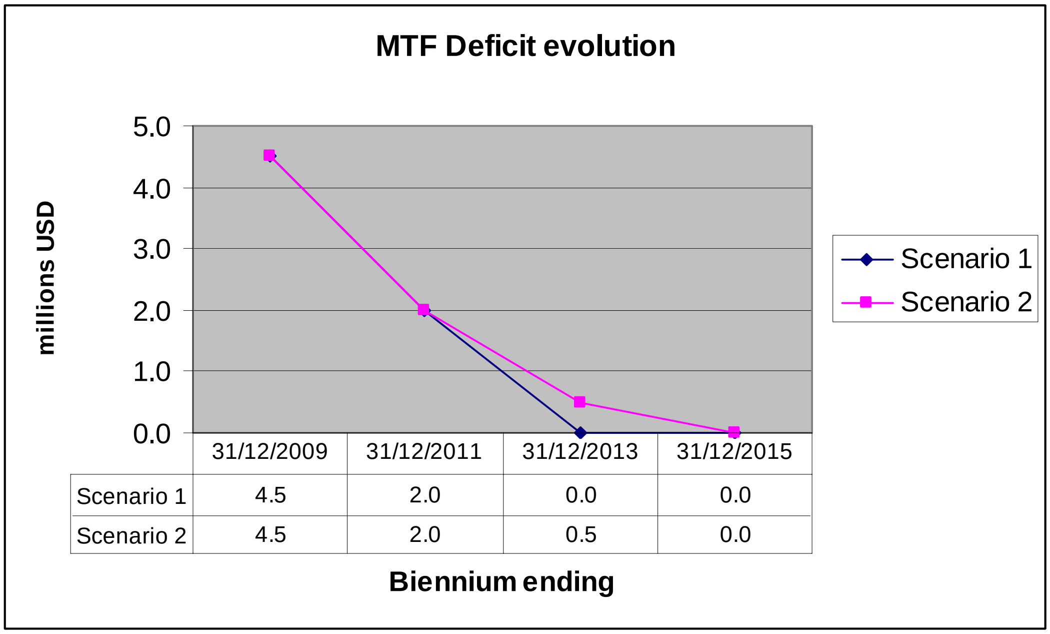
<u>Scenario 1:</u>

Consistent with the audit recommendation number 4, the Contracting Parties would pay as a one-off extraordinary contribution the remaining deficit. The amount of the additional resources required is between **1.4m** and **1.6m EUR** (2m and 2.2m USD).

<u>Scenario 2:</u>

Recovery through a combination of additional cost savings from the Secretariat over a period of two biennia and a one-off extraordinary contribution by the Contracting Parties. The estimated cost savings of 180,000 EUR (250,000 USD) from the implementation of the Functional Review recommendations could be directed towards offsetting the deficit instead of increasing the programmable resources for activities. Thus, the cumulative deficit reduction over the next four years would be 720,000 EUR (1m USD) and the one-off extraordinary contribution to be made by the Contracting Parties would be reduced to between **0.72m and 0.86m EUR** (1m and 1.2m USD).

The projected evolution of the MTF deficit according to each of the two scenarios can be depicted as follows:



While the average UN operational exchange rate between USD and EUR of the last 12 months (0.719) has been used throughout the paper, the actual amount in EUR of a potential one-off extraordinary contribution by the Contracting Parties will be determined by using UN operational exchange rate as at December 2011.

5. Distribution of the one-off extraordinary contribution

With regards to how the extraordinary contribution could be shared among the Contracting Parties, two main options could be considered:

1. Parties pledge on a completely voluntary basis, according to their actual capacity.

2. Current assessment rates of annual pledges are used.

With a view to supporting Contracting Parties in exploring all possible alternatives to restore the Fund's position, some other innovative options could be considered. For example, a lower limit in the basic assessment method, below which no individual country's share can fall. The amount of the limit could be set at 10,000 EUR or a different figure, subject to further discussion.

6. Recommendations

The Bureau is invited to consider the two scenarios proposed by UNEP with a view to address the MTF deficit as effectively and efficiently as possible, while at the same time trying to minimize the burden imposed on the Contracting Parties.

The Bureau is also invited to consider the possible methods to distribute the one-off extraordinary contribution needed to recover from the MTF deficit.

ANNEX I

Apportionment of 2.5% inflation adjustment in annual pledges (using current assessment rates)

Country	Pledges for 2011	Pledges with 2.5% increase	Increase
	EUR	EUR	EUR
Albania	3.877	3.974	97
Algeria	58.163	59.617	1.454
Bosnia & Herzegovina	16.619	17.034	415
Croatia	53.730	55.073	1.343
Cyprus	7.755	7.949	194
Egypt	27.143	27.822	679
European Union	138.483	141.945	3.462
France	2.103.262	2.155.844	52.582
Greece	155.653	159.544	3.891
Israel	81.427	83.463	2.036
Italy	1.737.670	1.781.112	43.442
Lebanon	3.877	3.974	97
Libyan Arab Jamahiriya	109.124	111.852	2.728
Malta	3.877	3.974	97
Monaco	3.877	3.974	97
Montenegro	1.294	1.326	32
Morocco	15.511	15.899	388
Slovenia	37.113	38.041	928
Spain	830.337	851.095	20.758
Syrian Arab Republic	15.511	15.899	388
Tunisia	11.632	11.923	291
Turkey	124.634	127.750	3.116
T O T A L	**5.540.569**	**5.679.083**	**138.514**