

ANNEX 6

Rules of Operation for the Regional Reallocation Pool for Unspent National IWRM Demonstration Project Funds in the GEF Pacific IWRM Projection

1. BACKGROUND

Goals and Objectives

The goal of the Global Environment Facility supported project entitled “*Implementing Sustainable Water Resources and Wastewater Management in Pacific Island Countries*” (GEF Pacific IWRM Project) is to:

“contribute to sustainable development in the Pacific Island Region through improvements in natural resource and environmental management”.

The overall objective of the project is to:

“To improve water resources management and water use efficiency in Pacific Island Countries in order to balance overuse and conflicting uses of scarce freshwater resources through policy and legislative reform and implementation of applicable and effective Integrated Water Resources Management (IWRM) and Water Use Efficiency (WUE) plans”

Component 1 of the project, “*Demonstration, Capture and Transfer of Best Practices in IWRM and WUE*”, is facilitating country-driven practical demonstrations of IWRM and WUE focused on removing barriers to implementation at the community/local level and targeted towards national and regional level learning and application. The expected outcome of this project component is that:

“Lessons learned from demonstrations of IWRM and water use efficiency approaches replicated and mainstreamed into existing cross-sectoral local, national and regional approaches to water management”

A total of US\$6,727,891 of GEF grant funding is available to the participating countries under Component 1, which is spread almost equally across 13 National IWRM Demonstration Projects. The original project timeline, as endorsed by the GEF Chief Executive Officer and as indicated in the UNDP Project Document, runs over 5 years or 60 months. This period started at the beginning of 2009 and runs through to the end of 2013, i.e., the project will be closed at the end of December 2013.

Consideration by the Regional Steering Committee of Project Expenditure Targets and Establishment of a Reallocation Pool

The Regional Steering Committee (RSC) identified during its second meeting convened in Palau (July 2010) that, there was a need to ensure the timely delivery of anticipated project results and associated expenditures. The discussions at that meeting were largely focused on the possibility of countries not being able to fully utilise their allocations before project closure, hence missing the opportunity to achieve greatest impact from the GEF and country-level investments in the project.

Following lengthy consideration of this issue, the RSC agreed that expenditure targets should be introduced and applied consistently across the national IWRM demonstration projects. It was agreed that projects failing to meet targets would be subject to a penalty whereby a certain percentage of underspend could possibly be lost to a reallocation pool for use by the projects that are meeting their delivery targets. This paper provides some background and guidance for consideration by the Regional Steering Committee in agreeing upon rules of operation for a project reallocation pool.

The expenditure targets agreed during the 2nd RSC meeting were: end Quarter 2 2010 (17 percent); end Quarter 2 2011 (55 percent); end Quarter 2 2012 (80 percent); and end Quarter 2 2013 (95 percent). It was further agreed that national projects which fall below agreed RSC established expenditure benchmarks should be required to justify their failure to the RSC. It was further agreed that if a given country falls 25 percent below the target, 50 percent of the underspent funds and a further discretionary 25 percent be resumed to a reallocation pool. These rules were tempered by

allowing for the RSC to waive all or part of the discretionary 25 percent after hearing an explanation from the responsible National Project Manager.

Issues Supporting the Need for Timely Delivery

It is acknowledged that discussion of expenditure targets and establishment of a reallocation pool by the RSC to date has largely focused on the participating countries acknowledging that if funds are not utilised by end 2013 they will very likely be forfeited. There are however, other circumstances which support the need for timely delivery.

Firstly, it is planned in other project components that, the outcomes and learnings from National Demonstration Project operation will be used to mainstream IWRM approaches into national water policy and legal reforms. It is also planned that the results of national projects will be used to facilitate the development of IWRM replication and upscaling plans. The latter are critical in terms of ensuring best use of future investments, and are important outputs by which the GEF Pacific IWRM will likely be evaluated as a whole.

Secondly, the significant cut to the overall budget, specifically the regional coordination elements, means that the current 5-strong Regional Project Coordinating Unit will be cut to 2 staff in mid-2012, leaving only the Regional Project Manager and the Administration Officer. The substantive professional officers, which currently provide work planning, budgeting, and technical support to the national project management units, will not be available thereafter. It is imperative that as high a level of project delivery capacity as possible be instilled in national teams by that time.

Thirdly, the issue of continuity is one that continues to plague development assistance in the Pacific. There are substantial opportunities associated with operating large, multi-lateral projects in the region. These opportunities, for example, may relate to greater cross-country sharing of lessons and expertise, or the establishment and development of communities of practitioners that are effective in lobbying Pacific leaders for greater support through regional Inter-governmental fora. The issue for the Pacific however, given its large number of countries, has long been how to ensure continuity in the delivery of development assistance programmes, e.g., a country that has built significant momentum and high levels of support from community to cabinet through one initiative may be hamstrung whilst it waits for several of its neighbouring countries to satisfy the expectations of one project or initiative before the region may qualify for follow-up support. This project has encouraged a “one in – all in” philosophy that has been well embraced to date.

2. THE CASE OF THE GEF SUPPORTED “IMPLEMENTATION OF THE STRATEGIC ACTION PROGRAMME FOR THE SMALL ISLAND DEVELOPING STATES” PROJECT

In reviewing the progress of implementation of National Demonstration Projects during the 2nd RSC meeting, concerns were raised as to the slow progress some countries were making. This situation was compared to the history of the GEF supported, SPREP executed “Implementation of the Strategic Action Programme for the Small Island Developing States” project (commonly referred as the International Waters Project or IWP), which ran for almost 8 years (2000-2007) and involved a lengthy extension. The first main comparison is that, as mentioned above, an extension to the GEF Pacific IWRM Project would not be feasible as a result of the large cuts to the regional component budget immediately prior to GEF CEO endorsement². Hence, there is currently very limited scope for SOPAC’s existing project management role to be extended beyond December 2013.

² Substantial funding, i.e., US\$1,446,354 was cut from the budget very late in the Project primarily from the Regional Components (refer to Table below).

	Planned Budget (USD)	Approved Budget (USD)		Planned Budget (USD)	Approved Budget (USD)
PDF A	25,000	25,000	Component 1	6,300,000	6,055,891
PDF B	697,950	697,950	Component 2	876,560	800,463
Pacific IWRM	10,700,000	9,025,688	Component 3	347,000	0
UNDP Agency Fee	747,715	727,354	Component 4	1,005,440	1,327,292
UNEP Agency Fee	394,580	247,460	Component 5	1,101,000	0
Total	12,565,245	10,723,452	Component Totals	9,630,000	8,183,646

This presents a very serious risk that, should full project implementation not be achieved within the allowed period, a substantial amount of unspent funds may be returned to GEF. The impacts of this would be twofold: firstly, the Pacific's reputation for poor project implementation would be confirmed and may weigh heavily on future funding decisions; secondly, the region forsakes much needed funding to improve its water and sanitation.

IWP Implementation Performance

The 2003 Mid-Term Review of IWP concluded that:

*“At the end of 2002, the third year of implementation, total expenditure was USD 1.83 million, just **22% overall of the Inception budget, compared to planned expenditure to that date of around 60%.** The pattern of expenditure reflects the initial emphasis on establishing project management and delivery arrangements, and the subsequent slow progress with getting pilot projects underway in the participating countries”³. **[our emphasis in bold]***

The IWP project budget and expenditure at end of year 3 is presented below (Table 1) and shows that for country pilot projects the expenditure was only 18%. Subsequently the project was extended until 2007. The total budget assigned to National Pilot activities was US\$4,700,000 of which US\$637,690 remained unspent in Pacific Island Countries. National Pilot activities comprised 56% of IWP funding, whereas in comparison, the overall funding for similar national demonstration activities of the GEF Pacific IWRM Project equates to 74% of the total project budget. It is obvious from this information that if rates of expenditure in the IWP project were repeated in the GEF Pacific IWRM Project, a much greater sum of GEF grant funds could possibly be lost.

Table 1 IWP Budget at Inception and Expenditure at end Year 3⁴

Budget Lines	Budget @ Inception	Expenditure 2000-2002	
Project Personnel Total	\$ 3,120,500	\$ 917,626	24%
Contracts (country pilot activities)	\$ 3,748,000	\$ 555,011	18%
Training	\$ 800,000	\$ 116,066	14%
Eqpt/ Miscellaneous	\$ 656,500	\$ 239,944	48%
	\$ 8,325,000	\$ 1,828,647	22%

A comparison of National Implementation between the two projects IWP (Yr3) IWRM (Yr1.5) reveals some similarities in the pattern of implementation, most notably the same countries performing poorly.

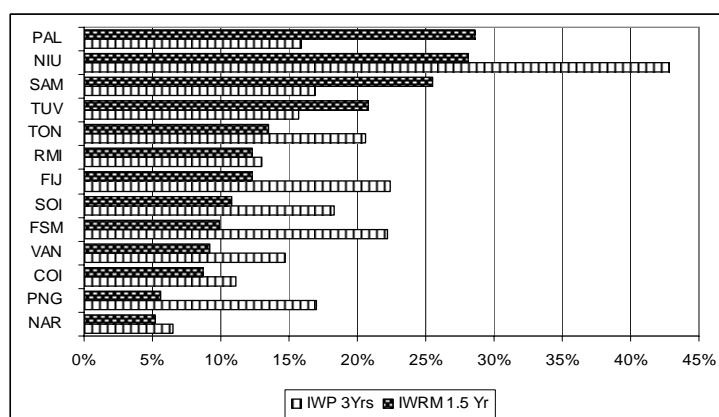


Figure 1 A comparison of expenditure rates of the Pacific International Water Projects (IWP) (at 3 yrs) and the GEF Pacific IWRM Project (at 1.5 yrs).

³ Mid-term evaluation report [International Waters Programme] by Peter Hunnam and Cedric Schuster, *IWP-Pacific Technical Report (International Waters Project) no. 3*

⁴ *Ibid.*

3. THE CASE OF THE GEF PROJECT “IMPLEMENTING SUSTAINABLE WATER RESOURCE AND WASTEWATER MANAGEMENT IN PACIFIC ISLAND COUNTRIES”

The planned duration of the GEF Pacific IWRM Project duration is 20 quarters. The first two quarters following GEF CEO endorsement were largely spent recruiting and establishing the Project Coordinating Unit, finalising contracts with the GEF Implementing Agencies (UNDP and UNEP), establishing Memoranda of Agreement (MoA) with National Lead Executing Agencies, and assisting with recruitment and establishment of National Project Management Units.

Most National Lead Agencies did not commence the recruitment of National Project Management Units until the end of June 2009. In several cases, most notable being the Fiji Islands, this process often involved several recruitment rounds before suitably qualified candidates were identified. In the best case scenario, it could there be said that, in actuality, the completion period for the national demonstration projects is indeed 18 quarters only, i.e., they did not begin until Quarter 3 2009 (or Financial Year '09/'10 Quarter 1). On a linear implementation basis, projects would need to spend about 5.5% per quarter to fully expend funds by the end of the project (Table 2).

Table 2 Percentage of annual expenditure required to complete projects by Project completion date.

Financial Year End 30 June	Equivalent Project Quarters	% Cumulative Expenditure
FY09/10 Q2'10	6	22%
FY10/11 Q2'11	10	44%
FY11/12 Q2'12	14	64%
FY12/13 Q2'13	18	86%

Although it is acknowledged that each project is different and there will be some differing schedules of implementation, the patterns should be similar (see Figure 2). The pattern anticipated for the GEF Pacific IWRM Project (and partly observed to date) is a delay period at inception whilst agreements are signed, staff recruited, office established, project governance frameworks put in place, and project design re-evaluated within a contemporary context with primary stakeholders. Expenditure during the inception phase will be slow but this should start to increase from Q3'09. All National Demonstration Projects (NDP) were provided with an establishment advance of US\$15,000, i.e., around 3% of total NDP budgets. In Project Quarters 6-10 and 10-14 NDPs will significantly increase implementation/expenditure in order to deliver on stakeholder expectations built during initial years and to ensure they achieve full implementation within the 18 quarters. Expenditure would be expected to slow during the last year of the NDPs as gains are consolidated and more management time is invested in achieving sustainability and the completion of NDP wind-up reporting (see Figure 2).

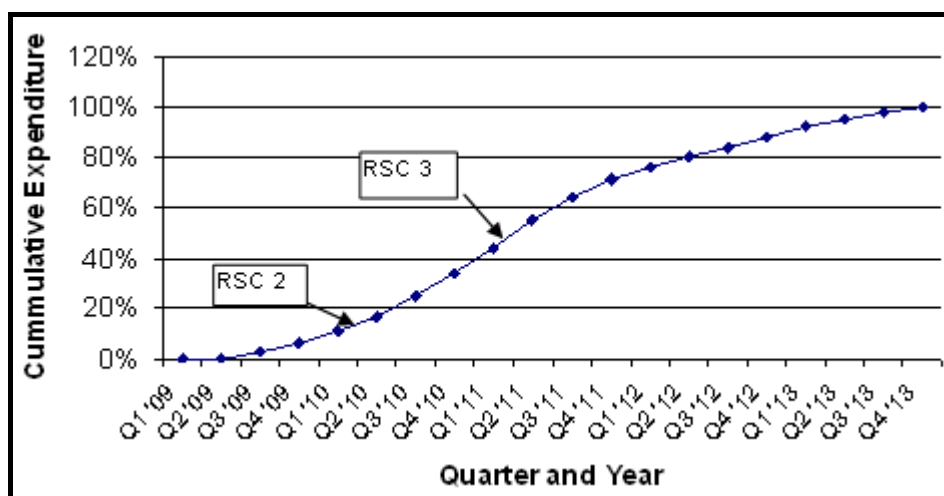


Figure 2 Projected cumulative National Demonstration Project expenditure over the 5 year Project Cycle.

NDPs should therefore have higher expenditure targets for Financial Years 3 and 4, i.e., Project Quarters 6-10 and 10-14. These higher targets also provide some buffer for the inevitable slippage that will occur in implementation due to circumstances outside the control of the NDPs. Therefore, a non-linear approach was proposed and adopted at the second annual meeting of the GEF Pacific IWRM Regional Steering Committee (RSC 2) and this is reflected in Table 3.

Table 3 Agreed percentage annual expenditure targets required to complete projects by Project completion Date

Financial Year End	Equivalent Project Quarter	% Cumulative Expenditure (linear)	% Cum Expenditure (agreed RSC2)	Lower Cut off ⁵ (25%)
Q2'10	6	22%	17%	12%
Q2'11	10	44%	55%	40%
Q2'12	14	64%	80%	60%
Q2'13	18	86%	95%	72%

Total National Demonstration Project expenditures as at 30 June 2010 are shown in Figure 4 as percentage of overall National Demonstration Project budgets for each country.

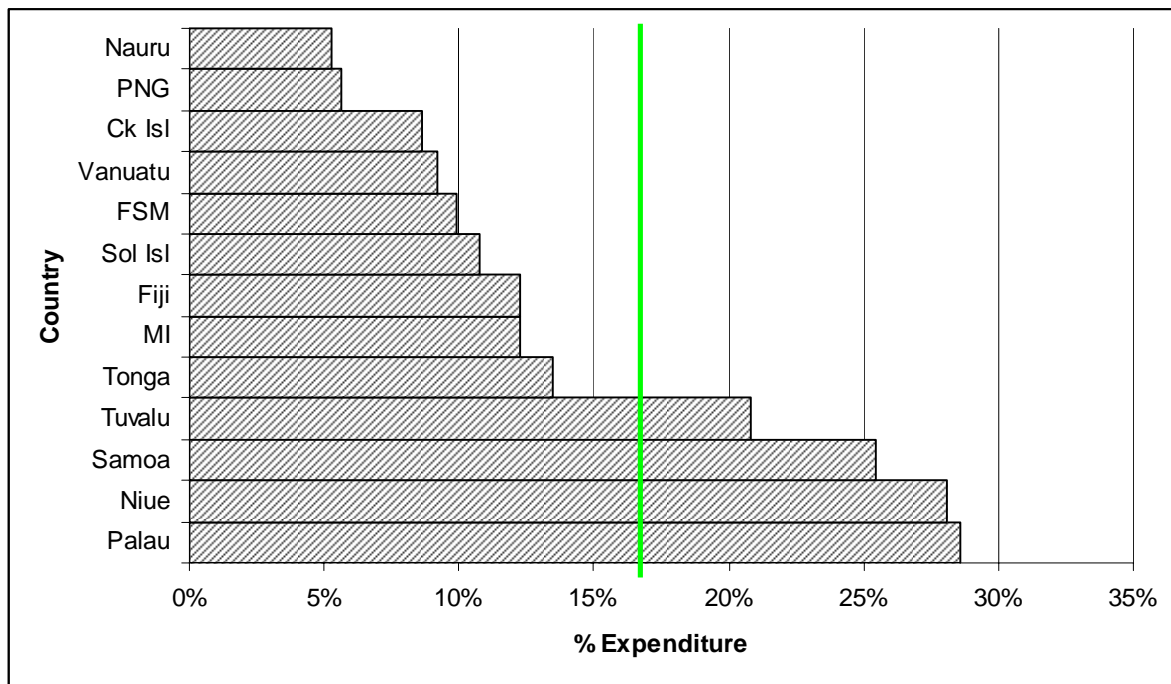


Figure 4 Percentage Expenditure of National Demonstration Project Budgets by country as at end June 2010

Papua New Guinea, Nauru, Cook Islands, Vanuatu, Federated States of Micronesia, and Fiji Islands failed to meet the minimum cut-off expenditure target for end June 2010, whilst Tuvalu, Samoa, Niue and Palau exceeded the target. The Second RSC Meeting agreed to the adoption of the Project Implementation Benchmarks as per Table 3 with implementation for Financial Year ending June 2011.

⁵ To allow for country specific implementation difficulties and differing implementation schedules a 25% buffer established to determine minimum expenditure target for NDPs

4. BENCHMARKS AND PROPOSED RULES OF OPERATION FOR THE REALLOCATION POOL

4.1 National Demonstration Project Benchmark Expenditures

Expenditure benchmarks for each NDP for the remainder of the Project Cycle are provided below in Table 4. Countries that successfully apply for an allocation from the Reallocation Fund will have their budgets increased by the amount of the allocation and new Benchmark Expenditures will be determined.

Table 4 National Demonstration Project Benchmark Expenditures for the GEF Pacific IWRM Project

Country	Budget	FQ2'11		FQ2'12		FQ2'13	
		55%	40.00%	80%	60%	95%	72.00%
Palau	\$586,900	\$322,795	\$234,760	\$469,520	\$352,140	\$557,555	\$422,568
Sol Isl	\$515,000	\$283,250	\$206,000	\$412,000	\$309,000	\$489,250	\$370,800
FSM	\$500,000	\$275,000	\$200,000	\$400,000	\$300,000	\$475,000	\$360,000
Ck Isl	\$501,163	\$275,640	\$200,465	\$400,930	\$300,698	\$476,105	\$360,837
Tuvalu	\$564,000	\$310,200	\$225,600	\$451,200	\$338,400	\$535,800	\$406,080
Samoa	\$525,500	\$289,025	\$210,200	\$420,400	\$315,300	\$499,225	\$378,360
Tonga	\$519,000	\$285,450	\$207,600	\$415,200	\$311,400	\$493,050	\$373,680
MI	\$500,000	\$275,000	\$200,000	\$400,000	\$300,000	\$475,000	\$360,000
Fiji	\$500,000	\$275,000	\$200,000	\$400,000	\$300,000	\$475,000	\$360,000
Nauru	\$500,000	\$275,000	\$200,000	\$400,000	\$300,000	\$475,000	\$360,000
Niue	\$500,000	\$275,000	\$200,000	\$400,000	\$300,000	\$475,000	\$360,000
Vanuatu	\$516,328	\$283,980	\$206,531	\$413,062	\$309,797	\$490,512	\$371,756
PNG	\$500,000	\$275,000	\$200,000	\$400,000	\$300,000	\$475,000	\$360,000

4.2 Performance Incentives and Penalties

According to the decision of the 2nd Regional Steering Committee meeting, countries not meeting the minimum performance benchmarks at the end of each financial year will forfeit a portion of their Project Budget to the Reallocation Pool. Conversely, countries achieving expenditure within 10% of the benchmark will be eligible to apply for an additional allocation of funds from the Reallocation Pool.

4.3 Funds Forfeiture Provisions

Countries failing to meet the minimum expenditure benchmark for the end of the Financial Year in question will have their underspend determined and 75% of this will be forfeited to the Reallocation Pool (RSC 2). A NDP Project Manager may request that the RSC consider special circumstances and, if accepted by the RSC, 25% of the forfeiture may be waived, i.e., the amount forfeited to the Reallocation Pool is reduced to 50% of the underspend. An example of the calculation is provided using Papua New Guinea for the end of June 2010 (Table 5). In this case, PNG would forfeit US\$23,801 to the Reallocation Pool and, if PNG presented a case based on special circumstances and this was accepted by RSC, then this would be reduced by US\$7,934 and PNG would forfeit US\$15,867 to the Reallocation Pool. PNG's Project Budget would be reduced by the amount of the forfeiture, i.e., \$500,000 - \$15,867 = US\$484,133. These provisions were adopted by RSC 2.

Table 5 The Determination of the Forfeiture Penalty amount for not meeting the Minimum Benchmark - PNG Example

Country	Total Budget (\$)	Actual Spent (\$)	% Spent	Benchmark 17% (\$)	Minimum Benchmark 12% (\$)	Under Minimum Target (\$)	75% Forfeiture (\$)	25% RSC Discretionary Reinstatement (\$)
PNG	500,000	28,265	6%	85,000	60,000	31,735	23,801	7,934

4.4 Confirmation of Project Expenditure and Funds Forfeiture Determination

SOPAC will produce a Statement of Expenditure Report for each country, which will be based on the cash acquittals provided by the NDPs and expenditures made on behalf of NDPs by SOPAC. The PCU will provide a preliminary assessment to the RSC following the end of each financial year and detail the NDPs' expenditures and NDPs that are at risk of not meeting the benchmarks. The PCU will make a preliminary determination of the forfeiture penalty for consideration by the RSC. National Project Managers can determine if they wish to make an appeal to the RSC based on special circumstances. Only the certified cash position will be used for the final determination of the forfeiture penalty and these will be based on the end of Financial Year NDP Audits and the Auditors' certification of the NDPs' cash expenditure.

If end of year audit certification has not been received by the time the Annual RSC Meeting is being held, the final determination will be done by RSC out of session. The PCU will make a determination for each National Demonstration Project based on the certified expenditure and submit this to the RSC for final agreement. Countries will then be formally advised by the Regional Project Manager of the RSC's decision and the countries revised Project Funding. The Project MoAs will be modified via a letter from SOPAC to the Lead Agency informing them of the RSC's decision and the new Total Project Funding.

4.5 Reallocation Pool

Type 1 Application: Individual Country Applications

Funds forfeited will be assigned to a Reallocation Pool. Compliant countries with a certified expenditure within 10% or greater than the agreed Financial Year cumulative percentage target (Table 3) are eligible to apply to the PCU for additional funding of up to a maximum of US\$75,000. The applications must be in the format prescribed by the RSC. The PCU will forward the application and its assessment to the RTAG, which will make one of four assessments:

1. Agreed and Recommend Full Funding Requested
2. Agreed and Recommend Partial Funding Requested as Described
3. Has Merit but Application Requires Further Work in the Areas Described
4. Not Agreed and do not Recommend Funding

The RTAG Recommendations will then be forwarded to RSC for Out-of-Session approval. RSC may offer funding at a level different to that sought. Successful applicants will be informed and subsequently SOPAC will forward a letter, as required by the Project MOA, advising of the Change in Total Project Funding.

Applications will be submitted using an RSC prescribed template and must be received by the end of August each year.

Type 2 Application: Multiple Country Applications

Multiple country applications are encouraged either on a regional basis or for countries who share water and sanitation areas of common interest within the GEF Pacific IWRM project. In a multiple country application at least two of the applicant countries must have certified expenditure within 10% or greater than the agreed Financial Year cumulative percentage target (Table 3). The maximum funding for multiple country applications is US\$150,000. Multiple Country Projects will be administered by the PCU on the behalf of the Participating Countries. Applications will be submitted using an RSC prescribed multiple country template and must be received by the end of August each year.

Type 3: Regional Applications

The PCU is entitled to apply for funds to provide additional support to countries and or regional initiatives that relate to the Project's Objectives and Regional and National Outputs. The maximum funding for PCU applications is US\$250,000 and applications will be forwarded directly to the Chair of the RTAG for assessment by non PCU members and referral to RSC for consideration. Applications must be submitted by the end of August each year.

4.6 PCU Assessment of Compliant Countries

Countries applying for funds from the Reallocation Pool will have to be assessed as compliant in five out of the following 6 best IWRM demonstration project governance standards:

1. Minimum of Quarterly Meetings for the National Demonstration Project Steering Committee for at least the preceding four quarters;
2. Be able to demonstrate National Project Steering Committee involvement in project budgeting and annual and quarterly workplan endorsement for the National Demonstration Project;
3. Be able to demonstrate the National Project Steering Committee participation in the compilation of the National Demonstration Project's Annual PIR and its endorsement by the National Steering Committee;
4. Demonstrable participation and reporting by the National Project Steering Committee in the National Water Apex Committee (or equivalent national coordinating body);
5. Be able to demonstrate continuing community engagement;
6. Complete project reporting of satisfactory quality made within set deadlines for at least the preceding four quarters

4.7 Overall Guiding Principles

1. GEF Funds allocated to the Pacific IWRM Project will be fully spent by the end of the Project
2. Projects meeting performance targets shall have expanded funding opportunities and, conversely, projects failing to meet performance requirements shall have diminished funding, i.e., performance will be rewarded
3. Funds forfeited by underperforming projects will be added to a Funds Reallocation Pool
4. Funds from the Reallocation Pool shall be available to facilitate overall Project Implementation at both National and Regional levels and provide incentive for good performance
5. The RSC may agree on priority areas for the reallocation of funds