Annex VII – SOPAC Due Diligence Assessment of Possible Institutional Arrangements for the Core of SOPAC's Work Programme to Determine the Option that will Deliver Optimum, Cost Effective, Benefits and Improved Services to Members.

EXECUTIVE SUMMARY

RECOMMENDATION

Compliant with the Leaders' intent of the RIF and based on the respective decisions on RIF of the governing bodies of SOPAC, SPC and SPREP, the CEOs of all three agencies SOPAC, SPC and SPREP, have agreed that the rationalisation of SOPAC should not significantly impact the delivery of SOPAC services and therefore significant fragmentation of SOPAC core services is not acceptable.

Subsequently CEOs of SPC, SOPAC and SPREP recommend the following proposed institutional arrangements:

Recommendation 1 The ICT-Outreach component of SOPAC's work programme be rationalised into SPC, under its remit to implement the Digital Strategy.

Recommendation 2 The Energy component of SOPAC's work programme be rationalised into the Economic Development, Energy, Transport, Infrastructure and Communication Division of SPC, consistent with the recommendation of the PEMM 2009.

In respect of the balance of SOPAC functions the SOPAC CEO recommends the core work programme of SOPAC be rationalised into the SPC as a Geoscience Division.

PURPOSE

The purpose of this annex is to present to the joint meeting of the governing bodies of SPREP, SOPAC and SPC a comparative assessment of three possible, new regional institutional arrangements for the rationalisation of the core work programme of SOPAC and related plans for implementing those arrangements.

1.0 Background

The comparative assessment draws largely from data and information included within the independent consultants reports that cover (i) the institutional arrangements and their implementation schedules (refer Annex III - Pittman et al., 2009); and related to these (ii) the legal implications (refer Annex IV – Heather-Latu, 2009); and, (iii) the financial implications (refer Annex V – KPMG, 2009). In addition, the comparative assessment uses other relevant documents, where necessary.

1.1 Background and Metrics of SPC, SOPAC and SPREP in 2009

Background information on SOPAC, SPC and SPREP is provided in detail in Annex III, which includes Part 1 and 2 of the Consultants report (Pittman et al. 2009). Briefly, SOPAC is the second largest of the three technical organisations, with a current staff roll of 110 staff and an annual budget of over US$17 million (refer Table 1 and, Figures 1 to 3).

	SPC	SOPAC	SPREP
Current Annual Budget (USD millions)	$ 89.05	$ 17.19	$ 7.65
Staff Numbers	368	110	65
Top 4 Donor Agencies	Australia 35% Global Fund 20% New Zealand 10% European Union 8%	European Union 63% Australia 14% GEF – UNDP 12% New Zealand 8%	GEF 20 % Australia 15 % New Zealand 12 % European Union 2%
Membership Contributions (USD millions)	$11.13 (12.5%)	$0.761 (4.4%)	$1.2 (15.6%)

***Table 1 – Summary data and information on SPC, SOPAC and SPREP** (data source Pittman et al., 2009)*

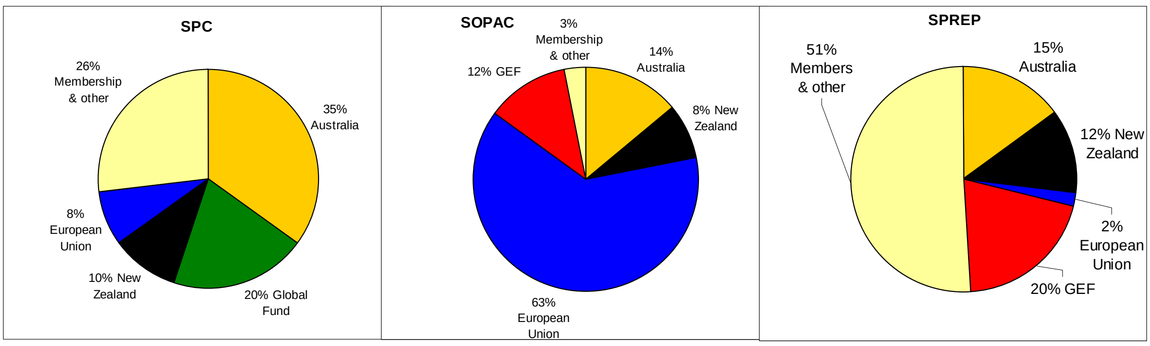
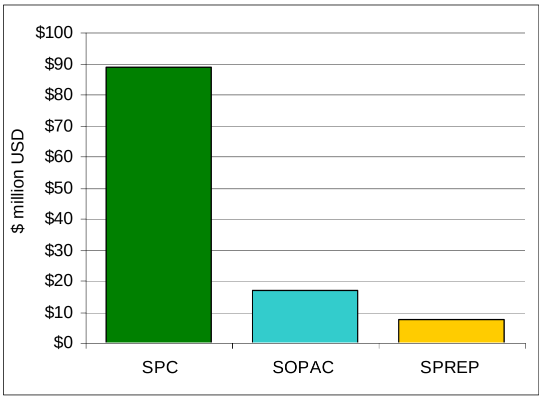


***Figure 1 Funding sources for SPC, SOPAC and SPREP** (data source Pittman et al., 2009)*

/



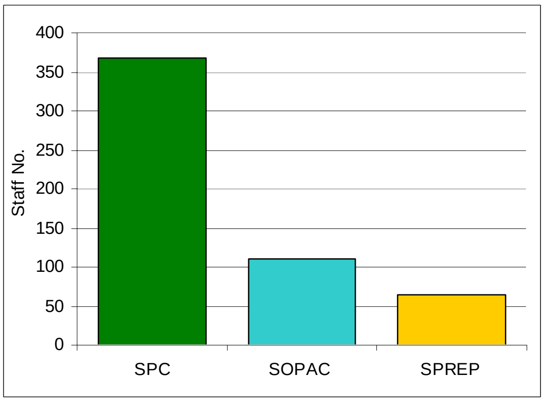


Figure 2 Comparative Annual Budgets
(data source Pittman et al., 2009)

Figure 3 Staffing Levels
(data source Pittman et al., 2009)

Consistent with the decisions of the respective governing bodies the CEOs of SOPAC, SPC and SPREP agreed that the proposed rationalisation process and implementation be guided by the following principles:

- Rationalisation should not subject the SOPAC current work programme to fragmentation.
- The excellent science being mobilised through the STAR network must be retained as a highly valued resource for the region.
- The rationalisation of SOPAC's core functions into SPC and/or SPREP, should occur without any substantive diminution in SOPAC function, as directed by the Forum Leaders; rather, rationalisation should result in improved service delivery.
- The expectation that all work to define the new institutional arrangements, as well as plans for implementing those arrangements, will be finalised and jointly agreed by the CEOs of the relevant organisations for presentation to Leaders at their 2009 meeting.
- The representatives on the Governing Councils of SOPAC, SPC, SPREP and SPBEA in 2009 (and prior to the Leaders' meeting) to take all the final decisions on the new institutional arrangements and implementation plans, with implementation to commence immediately after the Governing Council meetings and no later than 1 January 2010.

1.2 Independent Assessments Commissioned by CEOs of SPC, SOPAC and SPREP

Institutional Assessment - Part 2 of the independent consultancy on institutional arrangement, included as Annex III, considered practical implications, including administrative, programmatic, and other issues relevant to implementation of the proposed new arrangements. As a result of work undertaken there developed a greater appreciation of the range and magnitude of the issues and in particular the risks associated with the proposed ***integration of SPREP and SOPAC into a reformed rebranded organisation***. Consequently, CEOs requested that Part 2 also include an assessment and implementation plan for the ***rationalisation of SOPAC's core functions as a Division of SPC***. A comparative, comprehensive risk assessment of the risks identified for both of these possible institutional arrangements is included as Attachment 1 to this paper.

Financial Assessment and Legal Assessment – two specialised consultancies to determine the financial implications and the legal implications of the various proposed institutional arrangements were also commissioned (refer Annex V and IV, respectively).

1.3 Possible Institutional Arrangements

Following considerable discussions on various options, the CEOs of SOPAC, SPC and SPREP:

a. **Agreed** that the ICT-Outreach component of SOPAC should be coordinated and absorbed by SPC.

b. In recognising the recent directive by Pacific Energy Ministers at the 2009 Pacific Energy Ministers Meeting in Tonga, **agreed** that the Energy component of SOPAC should be coordinated and absorbed by SPC.

c. Were unable to reach consensus on the location of the remaining core of SOPAC's functions and programmes (namely the Community Risk Programme, the Ocean and Islands Programme and the Water section of the Community Lifelines Programme). The possible institutional arrangements, which form the basis of this comparative assessment include:

(1) A **reformed, rebranded regional environment and natural resources management organisation** established through the integration of the core functions and programmes of SPREP and SOPAC, while taking into account the recommendations of the SPREP Independent Corporate Review (ICR).

(2) The establishment of the **SOPAC's core work programme as a Division of SPC.**

In addition, a third possible institutional arrangement was prepared solely by SPREP, and first shared with the CEOs of SOPAC and SPC on 22 June 2009 has been proposed by SPREP. As such, there has been inadequate opportunity as of the date of this writing to fully evaluate the legal and practical implications of this proposal. The arrangement proposes:

(3) The **absorption of SOPAC's core work programme into SPREP.**

2 COMPARATIVE ASSESSMENT OF POSSIBLE INSTITUTIONAL ARRANGEMENTS

2.0 Introduction

Section 1.3 outlines the two original institutional arrangements for the rationalisation of the core work programme of SOPAC as identified through the rationalisation process and included in Part 2 of the independent consultants report (refer Annex III). Additionally Section 1.3 also includes an outline of the arrangements for a third option, prepared solely by the SPREP Secretariat.

The comparative assessment considers mainly the **risks and the financial and legal implications** of the first two options and recommends the preferred, proposed new institutional arrangement and related implementation plan for consideration by the governing bodies of SOPAC, SPREP and SPC, based on available data and information. It makes only a cursory assessment of the SPREP "preferred" Scenario due to the time made available. It is offered that a comprehensive risk and comparative analysis of this scenario would need to be completed.

2.1 Risk Implications

A comprehensive risk analysis has been undertaken for the thirty-seven risks identified in the report of Pittman et al., (refer Attachment I). The residual risk of each option comprises the impact of that risk and its likelihood of occurrence.

The top five risks for the reformed, rebranded organisation are assessed as having the potential for high/critical impact if they are realised (residual risk >20). These are:

- The proposed SOPAC/SPREP integration would not be endorsed by Members.
- Key elements of the implementation plan would not gain consensus.
- The two organisations would not work collaboratively and as equals during the integration.
- The strategic planning process for the reformed, rebranded organisation would be undertaken without adequate planning, consultation or input from staff, executives and Members.

/

- Donors and partners would lose confidence due to lack of progress against key tasks required to establish the reformed, rebranded organisation.

The top five risks for SOPAC's core work programme as a Division of SPC are assessed as having the potential for low to medium impact if they are realised (residual risk <16) and include:

- Corporate and institutional memory would not be retained for management of programmes during implementation.
- Members would not endorse the proposed institutional arrangement.
- Insufficient funds for maintenance and acquisition of field and marine equipment.
- Loss of key technical personnel (staff contracts not honoured under new arrangement).
- Staff remuneration levels would not be harmonised in the context of CROP.

As indicated in Figure 4 which displays the overall residual risk profiles of the two original institutional arrangements proposed by Pittman et al, the top risks associated with the reformed, rebranded organisation (SPREP) option are higher than for the SOPAC core work programme established as a Division of the SPC option. A summary of the statistics indicate a total score of residual risk of 280 and an average score of 7.5 (low impact) for SOPAC's core work programme as a Division of SPC whereas for the reformed, rebranded organisation the total score of residual risk is 612 with an average score of 16.5 (high impact).

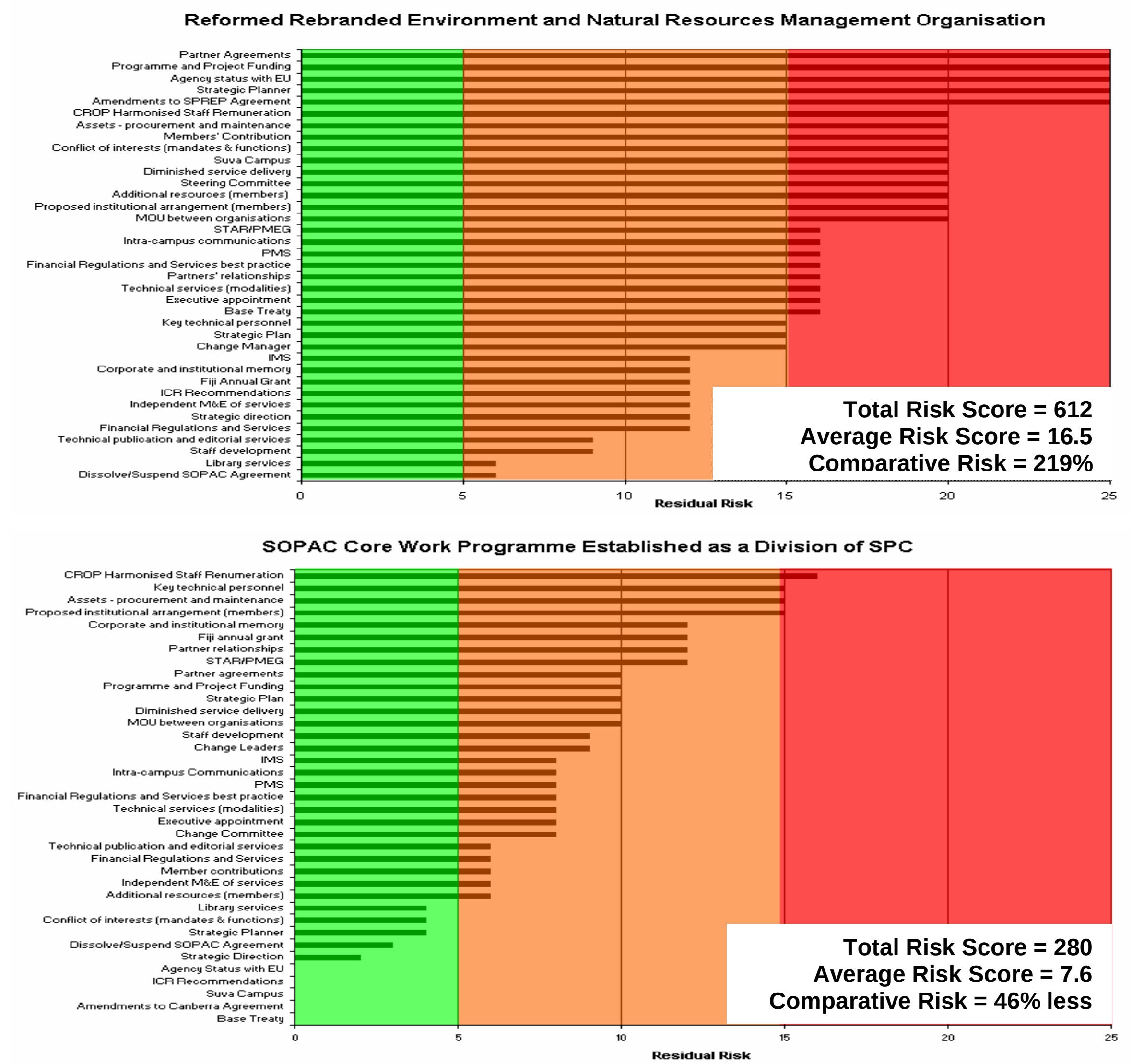


Figure 4 Risk Profiles for the Reformed Rebranded Environment and Natural Resources Management Organisation and SOPAC Core Established as a Division of the SPC

/

A comparison between the two options shows that the residual risk for the reformed, rebranded organisation is more than twice the residual risk for SOPAC's core work programme as a Division of SPC. This means that to implement the option of a reformed rebranded organisation **members will need to invest /commit more time and resources** to address, manage and mitigate the risks whereas the SPC option can be achieved with lesser investment of resources.

In the case of the SPREP "preferred" Scenario similar risks will need to be assessed, managed and mitigated. However, given the compressed timeframe for full implementation it is deemed that residual risks will be magnified. Therefore, it will be imperative that SPREP establishes a comprehensive risk management plan to ensure that risks with potential for catastrophic impact are not realised by the reformed SPREP.

2.2 Financial Implications

A guiding principle and a key objective for RIF has been cost-effectiveness. An analysis was made of the financial implications for the two options. In addition the consultants *KPMG* were requested to cost the SPREP "preferred" Scenario as well.

On the basis of the independent financial assessment, it is anticipated that the reformed, rebranded organisation will require additional resources for its implementation given the need for significant organisational reform and guidance required for the change process. In addition, given the EU would require the reformed, rebranded organisation to conform with EU rules and procedures, additional cost will be incurred to the new organisation until it can adopt EU-compliant procedures and is positively assessed by the EU. This is particularly crucial given that up to 63% of SOPAC's extra budget spread across its work programme are EU funds provided under Contribution Agreements.

On the basis of the independent financial assessment, it is anticipated for SOPAC's core work programme as a Division of SPC that there will be some cost savings over time, due to streamlining of some of the executive functions of SOPAC such as re-designation and re-sizing of some of the following positions: Director, deputy Director, Manager Corporate Services and Programme Manager positions; in addition to dispensing of some of the mentioned positions certain support services and functions are centralized and harmonised.

For both options, Associate Members of SOPAC will become full Members and this will have further unknown resource implications. Additional resources will need to be identified and secured to ensure that there is no substantive diminution of services to those current full Members of SOPAC.

The independent financial assessment of KPMG (refer Annex V) identified the financial implications and anticipated savings and costs for both the rebranded organization option and the SOPAC core work programme as a Division of the SPC. The main outcome of the report has been summarized below under the assumption that staff remuneration will be harmonized for Pacific regional organisations as per the CROP Executives decision that translated to subsequent decisions of various governing bodies in 2008 in respect of CROP Remuneration for professional staff.

(USD)	Reformed Rebranded Organisation	SOPAC Core a Division of SPC	SPREP Preferred Scenario
One-off Costs	**1 405 100**	**239 700**	**1 153 100**
Recurrent Costs	**225 700/(350 300)*)**	**(164 300)/(461 300)***	**225 700/(350 300)***

* ***New staff contracts use, current staff terms and conditions of the receiving organisation***

***Table 2 Financial Implications** (data source KPMG, 2009).*

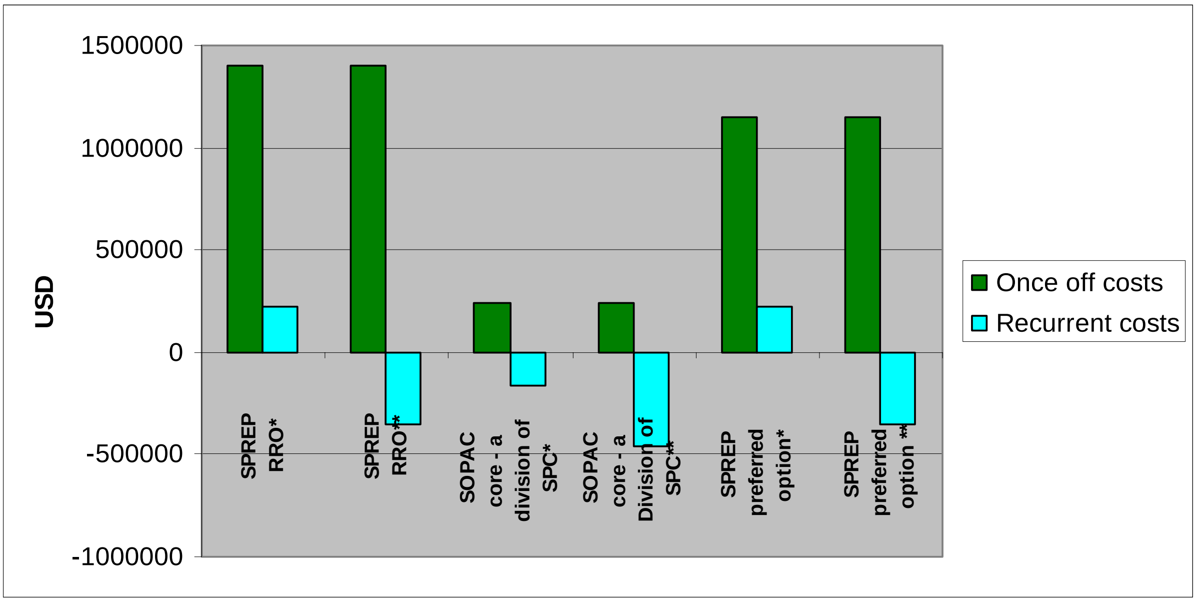


Figure 5 ***Financial Implications** (data source KPMG, June 2009)*

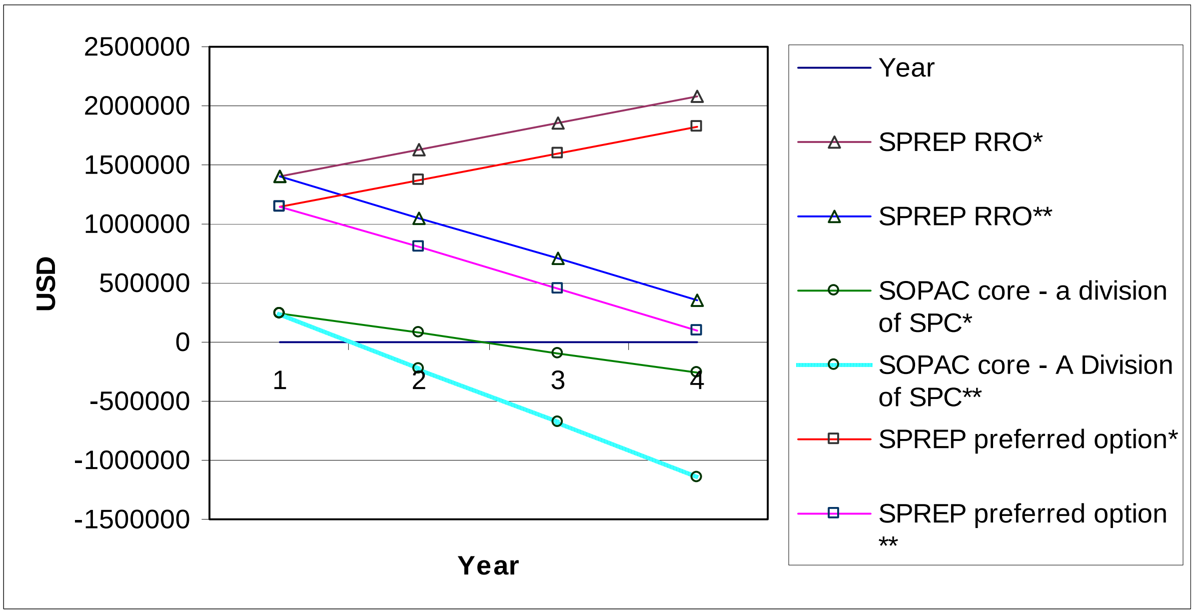


Figure 6 ***Cumulative Financial Implications for the period 2010 to 2012** (data source KPMG, 2009)*

It needs to be noted that the costs estimated by KPMG do not at this point include the costs of mitigating many of the risk associated with the rebranded reformed organisation option nor the SOPAC core functions as a Division of SPC option. These items – which are likely to include increased communications, briefings and travel, as well as extra salary time to enable appropriate planning etc. – would need to be identified in detail between the organisations, calculated and then resourced in order to minimise risks (such as threats to service delivery) from SOPAC absorption/merger. It is reasonable to presume that higher risks would require greater investment in risk mitigation. It is therefore the view of SOPAC that, while the costs of all options would in reality be higher than estimated by KPMG, the costs will be highest for the SPREP option(s).

/

2.3 Legal Implications

Some of the legal implications have been preliminarily identified or assessed under the independent legal consultancy (Heather-Latu, 2009). The analysis provided in this report follows a course of "issue spotting", by which it identifies particular areas of risk or concern that may arise from the proposed transactions. It does not, however, offer specific solutions or explanations as to how these concerns or risks will be resolved. These risks and concerns must be addressed and accounted for prior to final approval of any terms of transition.

Based upon the risks and concerns identified in the Heather-Latu Report, it appears it would be highly advisable for SOPAC and SPC or SPREP to obtain and consider independent legal counsel with respect to the discharge of their respective duties and responsibilities to their members, affiliates, and parties-in-contract. Moreover, it would be prudent for any final, agreed-upon transaction to be reduced to written terms in a form consistent with a merger agreement between corporate entities, then subject to final ratification by the respective governing bodies in the manner that each body is advised is required for the ratification to be effective. This process could all be undertaken consistent with the Leaders' wishes as to timetable.

Failure to follow this course appears to subject all the organisations to significant legal risk, including but not limited to the following:

- That contracts in place with the existing parties (eg. donors) may be disrupted or terminated at great prejudice to the membership and to the recipients of anticipated services;
- That, if a substantive diminution in functions occurs, in a manner inconsistent with the Leaders' directive, the recourse of the parties might be limited or unavailable depending on the sequence and process applied;
- That the agreed upon transaction will be approved invalidly (*ultra vires*), based upon the potential objections of members or amendments of existing treaties;
- That the agreed upon transaction is completed without a full and frank exchange of information between the parties (due diligence), including disclosures relating to finances and the ability to secure future funding;
- That valuable assets held by the parties may be lost or their value impaired (including, for example, research and development, intellectual property and goodwill);

These risks appear to be substantially higher as a legal matter for the reformed, rebranded organisation option than that for the SPC division option. This conclusion is drawn in part from the other risk analysis presented herein, and by the greater degree of corporate change and transition required under the first option. The greater degree of corporate change, in turn, creates greater legal risk with respect to existing assets, liabilities and contracts, as well as greater complexity in the legal processes required to complete the transaction.

Regardless of which option is selected, a more definitive resolution of these concerns is critical to carrying out the overall objective of the Forum Leaders. If, for example, flaws in the transaction process, as a matter of law, denied the region promised funding in substantial amounts or impaired continued services, this would in fact be inconsistent with the Leaders' directive. A reasonable construction of their directive is that they wished to act in the Region's best interest by improving and maximizing services and resources while eliminating redundancies.

2.4 Assessment Overview

A more comprehensive assessment of the possible institutional arrangements for the core work programme of SOPAC is provided in the summary matrix below which draws on the independent reports of consultants, who completed institutional, legal and financial assessments for the three CEOs as well as from other documents.

Beyond the risk, financial and legal implications, the matrix also includes the following, other issues that will need to be considered and compared when addressing and assessing the option that will yield and achieve the best possible benefits and maximum impacts for sustainable development for Members:

1. **Timeframe** for full implementation
2. **Legal**
   - SOPAC, SPREP and SPC Agreements
   - Contract Agreements - Donors
   - Contract Agreements – Staff
3. **Financial** Implications
   - One-off Costs
   - Recurrent Costs
   - Total Costs for 2010 to 2012
4. **Risks**
5. Current **Governing Body – decision making** roles
6. **Service Delivery**
   - Impacts during implementation
   - Improved service delivery
7. **Change Management**
8. **Strategic Management and Structural Reform**
9. **Executive Management**
10. **Location**
11. **Systems**
    - Financial
    - ICT
12. **Independent Institutional Assessments**
13. **Institutional Strengthening and Governance**
14. **SOPAC Technical Workshop**
15. **STAR Network and Other Partnership Networks**

Table 3 Comparative Assessment Matrix of Possible Institutional Arrangements and Related Implementation Schedules

Parameters and Issues used for Comparison	**Reformed Rebranded Organisation**	**SOPAC Core as a Division of SPC**	**SOPAC Core absorbed into SPREP**
Timeframe for Full Implementation	24 months (January 2012)	10 months (October 2010) Division established January 2010	15 months (March 2011) Functions absorbed January 2010 *Note – 2012 also mentioned*
Preparation of Implementation Schedule	Pittman et al, in consultation with SOPAC and SPREP (refer Annex IIII)	SOPAC and SPC (refer Annex III)	SPREP (refer Annex VI)
Legal SOPAC, SPREP and SPC Agreements	Potentially broad enough mandate to incorporate SOPAC functions, subject to legal requirements Name change and integration of SOPAC functions may not require amendments to the SPREP Agreement, subject to legal requirements	Potentially broad enough mandate to absorb SOPAC functions, subject to legal requirements	Potentially Broad enough mandate to incorporate SOPAC functions Name change and rationalisation of SOPAC functions may not require amendments to the SPREP Agreement, subject to legal requirements Transfer of SOPAC functions away from SOPAC purported to require early termination of the SOPAC Agreement, with SOPAC Council required to terminate, by resolution the SOAC Agreement (Oct 09)
Legal Contract Agreements Donors Staff	EU status raised as a matter requiring priority attention due to budget size (63% of XB or up to 26M USD at risk), with nature of agreements dependent on institutional status (risks = service	Similar status with the EU Terms and conditions of current staff contracts will be honoured	Transfer of SOPAC functions into SPREP will have substantial legal implications for EU contribution agreements with up to 26M USD at risk (refer pp52 Annex V). Given the timeline for implementation

/

Parameters and Issues used for Comparison	Reformed Rebranded Organisation	SOPAC Core as a Division of SPC	SOPAC Core absorbed into SPREP
	delivery impacts as well as sustained financing (donor relations)) CROP Harmonisation in respect of Remuneration highlighted		significant implications are envisaged. New contracts proposed to assume SPREP terms and conditions – legal mechanics and assurances not explored
Financial Implications One-Off Costs Recurrent Costs **Total Costs 2010 - 2012**	 1 405 100 225 700 / (350 300)* **2 082 200 / 354 200**	 239 700 (164 300) / (461 300)* **(253 200) / (1 144 200)**	 1 153 100 225 700/(350 300)* **1 830 200 / 102 200** ***see Table 2**
Risks (refer Attachment 1)	23 of 37 Risks have high residual risk exposures Total risk score = 612 Comparative risk = 219% more	1 of 37 Risks have high residual risk exposure Total risk score 280 Comparative risk = 46% less	Risk assessment not completed The absorption of SOPAC functions into SPREP January 2010, with compressed timeframe will significantly magnify residual and legal risks; risk cannot be fully evaluate due to late timing of proposal
Current Governing Bodies - decision making role	**SPREP and SOPAC Councils retained during the reform** MoU providing guidelines for SOPAC and SPREP during the reform signed (January 2010) Joint Prep Comm. of SOPAC and SPREP Councils (September 2010)	Joint Prep Comm. of SOPAC Council and CRGA (October 2010) • Legal (dissolve/suspend) • Governance • Divisional Strategic Plan • WP+Budget 2010/2011 **SOPAC Council becomes decision making body for the Division with strategic**	**SOPAC Council will relinquish decision making powers, by resolution (October 2009) and will transfer its functions and assets to SPREP (January 2010)** *However, suggests that SPREP Council could be reconstituted briefly as the SOPAC Council in 2010 to pass required to ratify*

Parameters and Issues used for Comparison	Reformed Rebranded Organisation	SOPAC Core as a Division of SPC	SOPAC Core absorbed into SPREP
	• Legal • **Governance (will determine representation on Council of the RRO)** • Mandate • Draft Strategic Plan • CSS regulations Separate WP + budgets for 2010/2011 Joint Prep Comm. of SOPAC and SPREP Councils (September 2011) • Consolidated WP+Budget • Strategic Plan • New Structure • Legal (dissolve/suspend)	**programming and operational oversight (similar to other SPC Divisions)**	*dissolution of SOPAC Agreement (5.10), as well as other possible arrangements (5.11 & 5.12)* SOPAC Governing Council become one of two operational focal points and will retain decision-making powers Separate WP+budgets for SOPAC and SPREP 2010 and 2011 AND Single SPREP WP + Budget 2012 Separate financial and corporate systems for SOPAC and SPREP 2010 and 2011 AND Synchronised systems 2012 Special SPREP Council Session March 2011 • Strategic Plan Organisational Structure (reform)
Service Delivery Impacts during implementation Improved service delivery	Reform process (CCS harmonisation, strategic planning and organisation restructuring) will to an extent impact technical service delivery of SPREP and SOPAC (18 to 22 months) due to staff commitments for this	Divisional Strategic Plan and CSS harmonisation will require time and effort Limited impact to technical service delivery expected (6 to 8 months)	Absorption and harmonisation of SOPAC functions into SPREP will result in diminution of SPREP and SOPAC services by as much as 40% (12 to 15 months) Variations to delivery modalities or termination of contractual agreements by January 2010 may delay, impact and diminish services

Parameters and Issues used for Comparison	Reformed Rebranded Organisation	SOPAC Core as a Division of SPC	SOPAC Core absorbed into SPREP
Change Management	Complex reform requiring strong leadership Senior Change Management Specialist recruited (24 months) Works closely with the CEOs of SOPAC and SPREP to implement reforms. *Allows for CEOs to concentrate on the reforms, as well as continued and sustained service delivery.*	Simpler and administratively more straight forward SPC Change Manager works closely with nominated Change Leaders from SOPAC and SPC (senior level staff)	Complex with high risks and impacts on service delivery Change management advisers engaged to support the strategic planning and organisational restructuring of SPREP
Strategic Planning and Structural Reform	Requires strategic integration of the core WP of SOPAC and core WP of SPREP with an appropriate organisational structure to deliver against it. Requires commitment and ownership of members, and Secretariats (executives and staff) Draft SP presented to Joint Prep Comm (Sept 2010)	Divisional Strategic Plan developed using similar approach adopted by SOPAC (per 2005 – 2009) and SPC Division SP (not as demanding as RRO option) Presented to Joint Prep Comm. (October 2010)	Strategic Plan and Org Structure (March 2011) • Significant additional resources needed (staff time and SPREP members commitment) • Donor support required
Executive Management	CEO for SPREP and CEO for SOPAC appointed for duration of the reform and accountable for effective service delivery and sustained financing	Division Director appointed in early 2010 (March/April)	SPREP CEO is accountable to SPREP for reforms, technical service delivery of SPREP and the absorbed SOPAC functions, their combined budgets and ensuring sustained financing

/

Parameters and Issues used for Comparison	Reformed Rebranded Organisation	SOPAC Core as a Division of SPC	SOPAC Core absorbed into SPREP
	CEO position described and advertised and appointment made coincident with completion of reforms (January 2012) Senior Change Management Specialist works closely with CEOs on the reforms		Integrated executive management structure in place to guide RIF implementation, with SOPAC Director position redundant effective January 2010 and suggests that either the DD or a PM manage the day-to-day operations of the Suva Campus
Location	Apia and Suva Campuses for RRO	Science and Technical Division folded into current SPC Suva Campus	SPREP establishes a Suva Campus and establishes MoU or Host Agreement with Government of Fiji
Systems **Financial**	Migration to NAVision will require SOPAC migration from SUN4.0 and SPREP migration from AccPac (2011)	Migrate SOPAC from SUN to *NAVision* (2010)	Migration to NAVision will require SOPAC migration from SUN and SPREP migration from AccPac (Jan 2012)
ICT	Synchronise IT systems (2012) Harmonise telephone system (2010)	Synchronise IT systems (2010) Harmonise telephone system (2010)	Synchronise IT systems (2012) Harmonise telephone system (2010)
Independent Institutional Assessments	The RRO will need to ensure that its institutional arrangements are best practice; that it receives a positive assessment from the EU, given strong SOPAC/EU relationship (63% of XB)	Not Applicable SPC and SOPAC enjoy similar contracting arrangements with the EU	ICR and EU Assessments require urgent, priority attention as immediate impacts will be felt on current contract agreements with key donors (EU) Suggestion that the CAC (Committee for ICR) be merged with the Joint Steering Committee for RIF

/

Parameters and Issues used for Comparison	Reformed Rebranded Organisation	SOPAC Core as a Division of SPC	SOPAC Core absorbed into SPREP
Institutional Strengthening and Governance	ICR recommendations will need to be addressed separately as well as within the context of the wider regional reform to ensure cost effectiveness and avoid diminution of services Strong management and corporate governance will be critical for the RRO	The Science and Technical Division would be comparable in size and budget to other Divisions of SPC	Recent institutional Assessments (ICR and EU) will need to be addressed as a matter of urgency if service delivery levels and funding are to be improved and institutional and governance arrangements are to be supportive of a tripling in size of SPREP (staff numbers and budget)
SOPAC Technical Workshop	Highlights the critical role of the workshop to support delivery of field-based technical services and the need for it to be maintained in Suva	Retain present location and existing organisational management systems for mobilising and demobilising field support	Not mentioned
STAR and Other SOPAC Partnership Networks	Suggests that STAR be encouraged to align itself with any new governance arrangement	Articulates that STAR will meet in the margins of the Heads of Ministry/Department meeting for the Geoscience Division AND Mentions the opportunity for back-to-back Divisional Meetings that could see an expansion of STAR membership	Acknowledges the important role of STAR and wishes to ensure that this service is maintained and expanded

3 Recommendations on the new regional institutional arrangements and related implementation schedules

3.0 Summary

As agreed by the CEOs two options for the rationalisation of the remaining SOPAC core have been subject to comprehensive analysis:

A **reformed, rebranded regional environment and natural resources management organisation** be established by integration of the core functions and programmes of SPREP and SOPAC, while taking into account the recommendations of the SPREP Independent Corporate Review (ICR).

AND

The establishment of the **SOPAC's core work programme as a Division of SPC**.

Comparative analysis of these two options in Part 2.0 of this paper, and cursory examination of a third possible institutional arrangement – the SPREP Preferred Scenario introduced by SPREP on 22 June 2009 - clearly suggests that the most feasible and cost effective option which offers the least risk of damage to present levels of regional service delivery is that the remaining SOPAC core be rationalised into SPC as a new Division. In summary:

- SOPAC as a Division of SPC presents significantly less risk than the reformed, rebranded organisation, with regards to the continued geoscience service delivery to members and subsequently the best chance of immediate regional net benefits of RIF;
- It is a comparatively simple and cost effective option and process with minimal disruption envisaged;
- SOPAC as a Division of SPC does not present immediate donor funding risks, since SPC and SOPAC share similar donor relationships. Particular emphasis is given to EU Contribution Agreements which are crucial to continued SOPAC service delivery (63% of SOPAC working budget);
- SPC is a technical agency and is best placed to more seamlessly integrate and maintain SOPACs highly technical service delivery to the region, based on existing modalities;
- SPC has established relations with the host Government as does SOPAC and the amalgamation of these agencies presents few, if any, costs or logistic challenges from this perspective.

Proceeding with due diligence to the Leaders' decisions to implement RIF and:

- The need for a clear decision based on the best possible analysis of options for presentation to the Joint Council Meeting; and
- Given the clear instruction to minimise the risk to the ongoing delivery of SOPAC services to members.

It is recommended that the remaining SOPAC core be rationalised without fragmentation into SPC, if possible, by integration of SOPAC core functions into the framework of SPC as a new Geoscience Division, and through a procedure designed to minimize the legal risks identified and maintain services at the highest levels.

3.1 Overview - Comparative analysis

Following the 2007 Leaders Decision SOPAC immediately engaged in this process and the rationalisation of SOPAC was discussed at the 36th Session of the SOPAC Governing Council in Tonga (October 2007). During this meeting the SOPAC Council charged SOPAC with implementation of the Leaders decision but, cautioned against rushing the process unnecessarily and reiterated that the integrity of the applied science and technical services of SOPAC be maintained through the “rationalisation” of SOPAC.

Through subsequent discussions between the CEOs, Programme Managers and the SOPAC Council Committee of the Whole (SCW) it was conclusively shown that any move to split SOPAC’s core Programmes of Community Risks; Community Lifelines; Ocean & Islands through fragmentation of this core between SPC and SPREP would cause irrevocable damage and indeed lead to a substantive diminution of SOPAC service delivery.

The basis for this is that SOPAC Programmes work together in a complementary manner to provide integrated solutions to natural resource use issues. These core Programmes function by sharing resources and expertise flexibly and depending on the nature of any given country request expertise, tools and resources are drawn from all three components to provide the best possible solution to members. The recent EU funded EDF8 and 9 Reducing Vulnerability Project provides many tangible examples of this integrated approach.

Given the interdependent nature of SOPAC programmes the two Options developed through the RIF Process for the rationalisation of the SOPAC’s core have a foundation where the SOPAC core “moves” as a single entity to either SPREP or SPC.

The two options developed through the RIF process to date and subsequently subject to comprehensive in-house and independent analysis are:

A **reformed, rebranded regional environment and natural resources management organisation** be established by integration of the core functions and programmes of SPREP and SOPAC, while taking into account the recommendations of the SPREP Independent Corporate Review (ICR).

AND

The establishment of the **SOPAC’s core work programme as a Division of SPC**.

3.1 Analysis of a reformed, rebranded organisation

The creation of a Reformed, Rebranded Environment and Natural Resources Management Organisation (integration of SOPAC and SPREP core services) has been subject to rigorous assessment and the SOPAC Secretariat concludes that the conditionalities to support this option are not in place.

As such, it is not possible given due diligence, legal and financial risks to recommend this option for the rationalisation of SOPAC’s core.

The integration of SOPAC services with SPREP services by combining both agencies into a single reformed, restructured, renamed agency was considered earlier this year and was picked up, developed and most clearly articulated by the independent consultants report (Annex III) following extensive consultations with the agencies.

It was unanimously agreed that this option potentially offered an opportunity to rationalise by combining SOPAC and SPREP services to develop a, geoscience and environmental agency with possible long term benefits. However, clear articulation of the tangible benefits to SOPAC geoscience service delivery to members remains in question and many foreseeable risks are inherent in pursuit of this option since it advocates quite radical change and combines agencies with significantly different mandate goals.

There is clear evidence that the costs (Annex V), legal issues (Annex IV) and overall implementation risks (Annex III, pp 33 – 36) of the reformed, rebranded organisation are both consistently higher and more complex than the option of SOPAC as a Division of SPC. As such, articulation of the net tangible benefits to members of this institutional arrangement must be clearly shown to out weigh the costs, complexity and risk if this is to be considered feasible. At the time of writing this has not been conclusively shown. Indeed continuing assessment of its merits only serve to strengthen argument against this course (Attachment I - Risk matrix).

More fundamentally, between the three agencies there remains divergence on the intent and potential of a reformed, rebranded organisation to produce tangible net benefits to members and retain immediate damage to SOPAC service delivery to a minimum, bearing in mind that significant change is required to produce the required benefits. The SOPAC Secretariat must respond to the available analysis and evidence which show that combining SOPAC and SPREP services is more likely to significantly and negatively impact SOPAC service delivery, as well as impact to delivery of SPREP services, to members. In the case of the SPREP "preferred" Scenario impacts would be realised immediately due to current conditionalities with respect to some, critical contract agreements as well as the obvious competition that will emerge between reform actions and the need to maintain service delivery while mindful of the following.

- SPREP is less than half the size of SOPAC and as such has significantly lower capacity to either integrate or absorb SOPAC than SPC (see Table 1).

- SOPAC is a highly technical agency and is less well suited to integration with SPREP than SPC which also delivers at a technical level.

- Tangible evidence of progress addressing key issues within the SPREP ICR (Independent Corporate Review) have not been presented. Given some of the critical issues raised by the ICR it must be questioned if SPREP is in a strong position to assume additional responsibilities, particularly those which are outside its current mandate.

- 63% of SOPAC total work budget is derived from the European Union through Contribution Agreements. SPREP can give no assurance that it is able to maintain or receive funding under these arrangements; consequently this could lead to critical funding issues for continued SOPAC service delivery to members.

- The reformed, rebranded organisation is comparatively complex and will require significant additional resources and funding to ensure the process is implemented successfully.

- This new financial burden would have to be met by members since donors have indicated they would not provide additional funding to implement this option.

Whilst less tangible, it is acknowledged that net benefits may eventually accrue through pursuit of the arrangement toward a reformed and rebranded organisation. However, without concrete assurances, of which there are none, which address the critical issues of donor confidence, cost, the SPREP ICR and ultimately damage to SOPAC service delivery further consideration of this institutional arrangement can not be pursued.

In view of the Leaders' decision that the rationalisation should not result in significant diminution of SOPAC's functions, which has implications on service delivery, and the high risks associated with this option, the SOPAC CEO is not recommending this option to combine SOPAC and SPREP services.

3.2 Analysis of SOPAC's core as a Geoscience Division of SPC

SOPAC's core rationalised as a Geoscience Division of SPC.

This scenario presents a far simpler, less costly and rational option for SOPAC members. In the immediate term this institutional arrangement is not expected to damage current levels of SOPAC core service delivery to members and has tangible potential to improve service delivery of both SOPAC and SPC services to members.This option is preferred for the rationalisation of SOPAC functions in response to the Pacific Leader's decision. If existing assumptions about the transaction prove to be accurate, and the decision is implemented in the proper manner to address potential legal risks, it offers an option with less potential impact to SOPAC service delivery.

The implementation of this option would see the remaining SOPAC core rationalised into SPC as a new Geoscience / Science and Technical Division of SPC. In essence, this option, due to its comparative simplicity, presents substantially fewer risks (see Attachment I) and is unlikely to result in immediate damage to current levels of SOPAC service delivery.

It is also unlikely to result in a significant financial burden to the agencies' members who will have to provide additional resources required for rationalisation (Annex V) and it appears that it is comparatively simple from a legal perspective (Annex IV). There is clear alignment on the time lines and processes necessary to successfully implement this institutional arrangement. It is agreed that until clear evidence shows otherwise there is great value in retaining the existing integrated structure of SOPAC's core applied science and technical services, with gradual optimising cross over and support between the new Geoscience Division and SPC existing Divisions and their activities.

These facts are a corner stone to provide confidence to members that SOPAC service delivery can indeed be maintained through pursuit of this arrangement. It is also envisaged that gradual exploration of interdivisional synergies building on strong existing links between SOPAC and SPC technical Programmes provides a more tangible basis for longer term service delivery enhancement through this proposed institutional arrangement.

- SPC is significantly larger than SOPAC (see Table 1) and has the technical and administrative background and capacity to better support SOPAC core Programmes.
- SOPAC and SPC already share strong established technical partnerships which deliver in key sectors such as land resources, health and education, maritime programme and coastal fisheries and there is considerable scope to expand these.
- There are significantly less risks or costs associated with this scenario in comparison with the other option (Annex V and Attachment I).
- SPC already has an established Suva campus and relationship with the host Government, SOPAC shares similar arrangements.
- SPC shares a similar excellent relationship with the EU and other important donors such as Australia, New Zealand and the UN agencies; therefore, SOPAC's existing funding mechanisms are not foreseen to be threatened by this option.

- SPC existing experience in managing multiple campuses suggest a new SOPAC campus will not present significant problems. Additionally, SPC satellite offices elsewhere in the region are seen as an important resource from which SOPAC services can benefit.
- Whilst both options will require SOPAC to invest in translation services, SPC has dedicated, technical translation and interpretation service capacity in place.

The longer term implications of pursuing this option are less well developed by the existing analysis and will be dependant on factors which are in some measure beyond SOPAC's present control. However, through careful planning and management the sustained resourcing, net benefits and enhanced service delivery of SOPAC services is considered feasible through this option.

Long term management considerations of this option would include the following recognition:

- At present SOPAC remains very dynamic and has an efficient and comparatively low ratio of support staff to technical staff. This means that for every dollar spent in SOPAC more is directly translated to in-country service delivery to members.
- SOPAC has been able to achieve this as it is currently managed in a very targeted manner, with independence allowing for rapid and easy response to both regional and country priorities and needs. This organisational flexibility is used to positive advantage to members and is evidenced by SOPACs rapid increase in budget size, staff numbers and product delivery over the last decade.
- As an almost inevitable casualty of incorporation of a smaller organisation into a far larger organisation and bureaucracy will be the degree to which SOPAC can maintain its present flexibility and responsiveness to members. As well, SOPAC's ability to compete for Project funding may be impacted due to the necessity of centralised strategies prioritising proposal development and resource allocation within the larger organisation – will for example, geoscience service delivery compete in a diverse selection of priorities including; health and coastal fisheries and how will this impact sustainability of services.

There will be an ongoing need to ensure such risks are assessed and managed appropriately to ensure the current targeted geoscience support and services SOPAC provides is not eroded.

Comprehensive and pragmatic assessment of the risk analysis profiles and independent assessments of each Option provides a clear unbiased indication of the feasibility of each Option and remaining mindful of the specific instructions of the Leaders that rationalisation of SOPAC function must not lead to service delivery damage.

The SOPAC CEO recommends that SOPAC's functions be rationalised into SPC, as a new Geoscience Division, as the most viable option and one which has the potential to retain present levels of SOPAC service delivery to members with minimal risks and a tangible expectation of service delivery benefits. The SOPAC CEO further recommends that this process be accomplished through the preparation of a transition agreement to be prepared by the collective efforts of the parties, after each has obtained and considered independent legal advice regarding the method of implementation, and that the transition agreement then be subsequently presented to the governing councils of SOPAC and SPC for their approval and proposed ratification by membership.

/

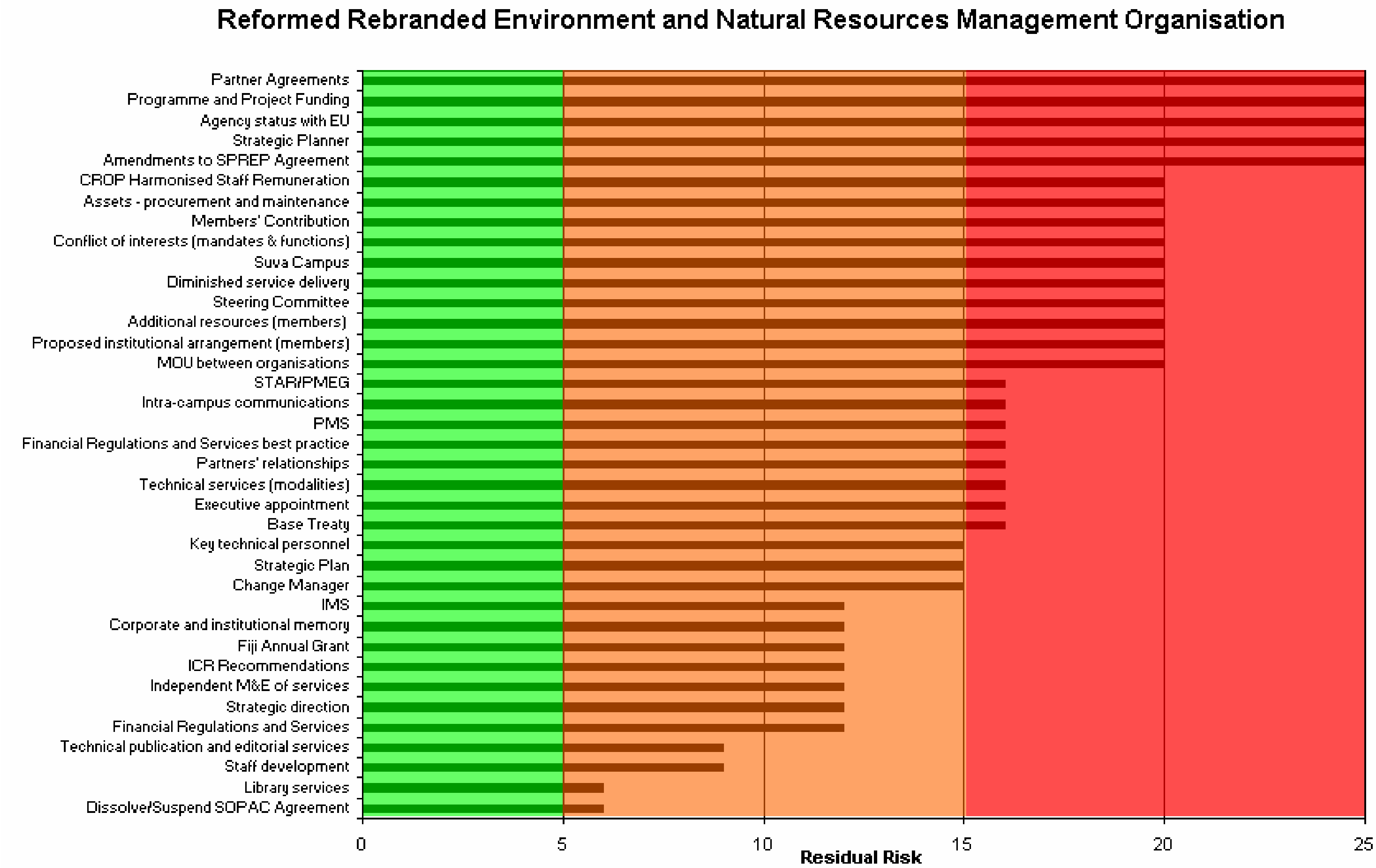
Attachment I - Risk Assessments and Risk Profiles for a Reformed Rebranded Environment and Natural Resources Management Organisation and for SOPAC Core Work Programme Established as a Division of SPC

Reformed Rebranded Environment and Natural Resources Management Organisation

#	Category	Risk Description	RI	L	RR
1	Inception	MOU between organisations	5	4	20
2	Governing Councils	Proposed institutional arrangement (members)	5	4	20
3		Additional Resources	5	4	20
4	Legal Frameworks	Base Treaty	4	4	16
5		Amendments to Canberra Agreement	5	5	25
6		Disolve /Suspend SOPAC Agreement	3	2	6
7	Coordination & Direction of Implementation	Change Committee	5	4	20
8		Strategic Direction	4	3	12
9		Diminished service delivery	5	4	20
10	Executive Management	Executive appointment	4	4	16
11		Change Leaders	5	3	15
12	Delivery of Services	Suva Campus	5	4	20
13		Technical services (modalities)	4	4	16
14		Partner Relations	4	4	16
15	Strategic Planning and Programming	Strategic Planner	5	5	25
16		Strategic Plan	5	3	15
17		Independent M&E services	3	4	12
18		Conflict of interests (mandates & functions)	5	4	20
19		ICR Recommendations	4	3	12
20		Agency Status with EU	5	5	25
21		STAR/PMEG	4	4	16

#	Category	Risk Description	RI	L	RR
22	Finance	Member Contributions	4	5	20
23		Fiji annual grant	3	4	12
24		Programme and Project Funding	5	5	25
25		Partner agreements	5	5	25
26		Financial Regulations and Services	3	4	12
27		Financial Regulations and Services-best practices	4	4	16
28		Assets - procument and maintenance	5	4	20
29	Human Resources	CROP harmonised staff renumeration	4	5	20
30		PMS	4	4	16
31		Staff development	3	3	9
32		Key technical personnel	5	3	15
33		Corporate and institutional memory	4	3	12
34	Communications & Information	Intra-campus Communications	4	4	16
35		Library services	2	3	6
36		IMS	4	3	12
37		Technical publication and editorial services	3	3	9

RI	Risk Impact
L	Likelihood of Occurrence
RR	Residual Risk


Reformed Rebranded Environment and Natural Resources Management Organisation
Partner Agreements
Programme and Project Funding
Agency status with EU
Strategic Planner
Amendments to SPREP Agreement
CROP Harmonised Staff Remuneration
Assets - procurement and maintenance
Members' Contribution
Conflict of interests (mandates & functions)
Suva Campus
Diminished service delivery
Steering Committee
Additional resources (members)
Proposed institutional arrangement (members)
MOU between organisations
STAR/PMEG
Intra-campus communications
PMS
Financial Regulations and Services best practice
Partners' relationships
Technical services (modalities)
Executive appointment
Base Treaty
Key technical personnel
Strategic Plan
Change Manager
IMS
Corporate and institutional memory
Fiji Annual Grant
ICR Recommendations
Independent M&E of services
Strategic direction
Financial Regulations and Services
Technical publication and editorial services
Staff development
Library services
Dissolve/Suspend SOPAC Agreement
0
5
10
15
20
25
Residual Risk

/

SOPAC Core Work Programme Established as a Division of SPC

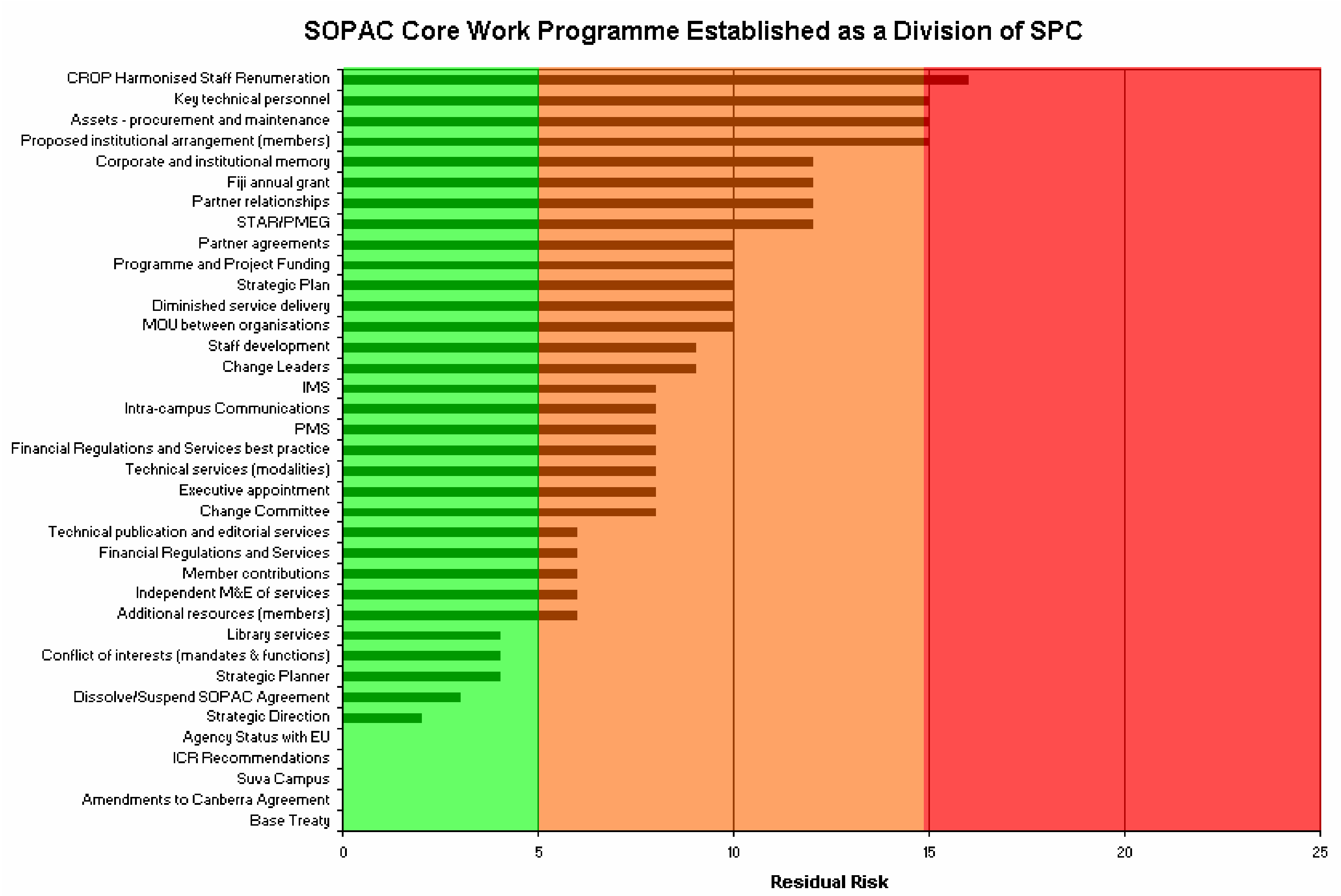
#	Category	Risk Description	RI	L	RR
1	Inception	MOU between organisations	5	2	10
2	Governing Councils	Proposed institutional arrangement (members)	5	3	15
3		Additional Resources	3	2	6
4	Legal Frameworks	Base Treaty	0	0	0
5		Amendments to Canberra Agreement	0	0	0
6		Disolve /Suspend SOPAC Agreement	3	1	3
7	Coordination & Direction of Implementation	Change Committee	4	2	8
8		Strategic Direction	2	1	2
9		Diminished service delivery	5	2	10
10	Executive Management	Executive appointment	4	2	8
11		Change Leaders	3	3	9
12	Delivery of Services	Suva Campus	5	0	0
13		Technical services (modalities)	4	2	8
14		Partner Relations	4	3	12
15	Strategic Planning and Programming	Strategic Planner	2	2	4
16		Strategic Plan	5	2	10
17		Independent M&E services	3	2	6
18		Conflict of interests (mandates & functions)	2	2	4
19		ICR Recommendations	0	0	0
20		Agency Status with EU	0	0	0
21		STAR/PMEG	4	3	12

/

#	Category	Risk Description	RI	L	RR
22	Finance	Member Contributions	3	2	6
23		Fiji annual grant	3	4	12
24		Programme and Project Funding	5	2	10
25		Partner agreements	5	2	10
26		Financial Regulations and Services	3	2	6
27		Financial Regulations and Services-best practices	4	2	8
28		Assets - procument and maintenance	5	3	15
29	Human Resources	CROP harmonised staff renumeration	4	4	16
30		PMS	4	2	8
31		Staff development	3	3	9
32		Key technical personnel	5	3	15
33		Corporate and institutional memory	4	3	12
34	Communications & Information	Intra-campus Communications	4	2	8
35		Library services	2	2	4
36		IMS	4	2	8
37		Technical publication and editorial services	3	2	6

NOTE

RI	Risk Impact
L	Likelihood of Occurrence
RR	Residual Risk


SOPAC Core Work Programme Established as a Division of SPC
CROP Harmonised Staff Renumeration
Key technical personnel
Assets - procurement and maintenance
Proposed institutional arrangement (members)
Corporate and institutional memory
Fiji annual grant
Partner relationships
STAR/PMEG
Partner agreements
Programme and Project Funding
Strategic Plan
Diminished service delivery
MOU between organisations
Staff development
Change Leaders
IMS
Intra-campus Communications
PMS
Financial Regulations and Services best practice
Technical services (modalities)
Executive appointment
Change Committee
Technical publication and editorial services
Financial Regulations and Services
Member contributions
Independent M&E of services
Additional resources (members)
Library services
Conflict of interests (mandates & functions)
Strategic Planner
Dissolve/Suspend SOPAC Agreement
Strategic Direction
Agency Status with EU
ICR Recommendations
Suva Campus
Amendments to Canberra Agreement
Base Treaty
0
5
10
15
20
25
Residual Risk

SOPAC