FFA

FFC COMMITTEE
118th Meeting

25 - 28 May 2021

Agenda Item:	**xx**
Paper No:	**FFC118-INFO.18**
Title:	**Addendum EU Ineligibles**

Summary

In light of the **final pre-information letter** received on 4th May 2021 from the EU Delegation to the Pacific relating to the DEVFISH II Project recoveries, a variation to the paper titled "***Update on EU ineligibles***", uploaded on 20th April 2020 was required to incorporate this latest development.

The sections that have been changed are listed below. All other sections remain.

- Variation 1 – Recommendation is deleted and replaced
- Variation 2 – Section 1 is deleted and replaced
- Variation 3 – Section 3 is deleted and replaced.

1. The variations to the paper titled “Update on EU ineligibles” are as follows:

Variation reference	Variation details (*to be replaced with*)
The recommendation to the paper is deleted and is replaced by:	**Recommendation** **The Audit and Risk Committee is invited to:** i. Note efforts by FFA in reducing the ineligibles for both DEVFISH II Project with the EU and ineligibles with SPC; ii. Note that the Secretariat will recognise a liability of the full amount of ineligible in the current financial year for DEVFISH II with the EU; ii. Consider and discuss a repayment option to be offered to the EU; iii. Agree on a repayment plan to be included in the response to the pre-information letter to the EU due on June 4
Section 1 of the paper is deleted and is replaced by:	**1. Update on ineligibles for DEVFISH II Project** 1.1 The EU has completed its review of the additional supporting evidence and justifications submitted in January 2020. No further submission was made by the Secretariat following this. 1.2 The final pre-information letter ***(Refer Annex 1)*** for recovery for DEVFISH II Project with the EU was received on May 4, 2021. The letter indicated that the Commission intends to recover the amount of EUR 531,628.67. The Secretariat is required to provide a response to the pre-information letter no later than June 4, 2021 (one month from the date of the letter) and, if required, to also submit a proposal of a reimbursement or repayment plan on how the recovery would be settled. The response will eventually be discussed and decided at the EU Headquarters. 1.3 If no response is provided, the EU will send a "debit note" stating that EUR 531,628.67 is to be repaid to the Commission before a date specified by the EU. Based on the general conditions of the DEVFISH II Project, this would be 45 days from the date of the debit note. Interest will be charged on any delays of payment following this. The EU can also use future payments for the PEUMP project to cover the ineligible. 1.4 The default position of our members has been to wait for the response to the letter by the Chair of the PACP to EU before any further action is taken by the Secretariat. However, based on the advice from PIFS after a recent follow up on the response to the PACP letter of May 5, 2020 the Secretariat was informed that while the letter was drafted and sent to Tuvalu, the letter may not have been sent by the Chair. Furthermore, PIFS had met with the EU Ambassador last October and the Ambassador had cautioned against writing another letter to the (new) EC Commissioner as the next response will be ‘harder’ and he suggested that a meeting to discuss and seek options to resolve this was a better alternative. 1.5 FFA’s external auditors, KPMG, during the external audit for the financial year ending 30 June 2020, were advised of FFA’s position on this. The

	Auditors have highlighted this issue as a “matter of emphasis” and is also detailed in note 24 of the Audited financial report as at 30 June 2020. Once the Debit note is received by the Secretariat, most probably between June and September this year, a provision for the full sum to recognize the liability will be required by the auditors to be recorded and this will have an impact on the General Fund expenditures for the current financial year. 1.6 PIFS and SPC have already booked their ineligible amounts as a liability in their accounts and are now looking at options to make a repayment to the EU. SPC in particular is currently negotiating a debt swap arrangement. We understand that this arrangement will require the organization to make the full payment of the debt upfront with the possibility of funds being channeled back to the organization in the form of a funding arrangement and is a complicated financial solution. Further details of this possibility including the exact form of the funding arrangement is still being discussed by SPC with the EU.
Section 3 of the paper is deleted and is replaced by:	**3. Repayment options using General Funds income only** 3.1 After careful consideration of all repayment options that were presented in AC19, the Secretariat has narrowed this down to the following options for consideration by the ARC members to be funded from income sources in the General Fund. **Donor Funds will not be used to pay this liability**. 3.2 Specifically, the General Fund income sources that the Secretariat is suggesting to cover the payment of this liability are: interest income, program support fee and member contribution. 3.3 Based on our cash flow forecast, the option to be offered to the EU and to be included in the response to the pre-information letter due on June 4, is a 15 year repayment period with annual repayment of US$43,200. If the EU decides otherwise or re-negotiates on the term, then the minimum repayment period recommended is 9 years with an annual repayment of US$71, 500. This is what we can afford with limited sources of funds that can be accessed to settle this liability.