

NEW SUB-FUND ON SUPPLY CHAIN CONNECTIVITY UNDER APEC SUPPORT FUND

Introduction

1. At the APEC Leaders' Meeting in Bali, Indonesia in October 2013, APEC Leaders concluded in the 2013 Leaders' Declaration to establish an APEC Sub-Fund on Supply Chain Connectivity, among others. The relevant part (paragraph 13) of the Leaders' Declaration is replicated below:

“We will..... instruct officials to develop a capacity-building plan to assist economies, particularly developing economies, in overcoming specific obstacles they face in enhancing supply chain performance; and establish the APEC Trade and Investment Liberalisation Sub-Fund on Supply Chain Connectivity and encourage contributions of necessary resources to execute this capacity-building plan.”

2. To implement the Leaders' decision, this paper confirms the establishment of the new sub-fund on supply chain connectivity and sets out the overall governance arrangements of this sub-fund on the advice of the initial donors.

Existing Principles and Procedures for Creating New Sub-Funds

3. In November 2004, the APEC Support Fund (ASF) was established to serve as a flexible funding mechanism to complement the Operational Account and the Trade and Investment Liberalisation and Facilitation Special Account for meeting capacity building needs for developing member economies in APEC's agreed high priority sectors for economic and technical cooperation. Under the existing mechanism, only contributions to the ASF can be tied to a specific APEC priority area. Such “tied funds” are managed under the relevant sub-funds of ASF.

4. The modus operandi for the ASF and its sub-funds (2005/BMC1/010) was endorsed by the Budget and Management Committee (BMC) and subsequently approved by Senior Officials in May 2005. As a general principle under the modus operandi, an economy wishing to establish a new ASF sub-fund must apply to the Secretariat for BMC's approval, which may be conducted inter-sessionally. If a sub-fund proposal covers a generic area within APEC, the relevant APEC forum/fora must first consider the application before it is approved by the BMC.
5. Furthermore, an additional set of principles and procedures for creating a new ASF sub-fund (2009/BMC3/014) was endorsed by the BMC and subsequently approved by Senior Officials in November 2009, with the objectives of maximising future contributions to the ASF and ensuring greater flexibility in allocating funds to quality projects. Such principles and procedures then came into effect immediately, but not retrospectively.

Creation of the New Sub-Fund on Supply Chain Connectivity (SCC Sub-Fund)

6. As stated in the Leaders' Declaration, the main objective of the new SCC Sub-Fund is to meet capacity-building needs for economies, particularly developing economies, in enhancing their supply chain performance. While this initiative relates to APEC work's on trade and investment liberalisation, the objective and nature of this sub-fund are considered to fall within the ambit of ASF as mentioned in paragraph 3 above. Hence, the aforesaid principles and procedures for creating new ASF sub-funds are relevant to the establishment of the SCC Sub-Fund.
7. In considering the application of those principles and procedures to the new SCC Sub-Fund, it is worth noting that the establishment of this sub-fund was a decision of APEC Leaders, and thus the requirement of BMC's approval should not apply. Nonetheless, this sub-fund should still be in line with other principles and procedures for creating new ASF sub-fund as endorsed by the BMC and approved by Senior Officials, where appropriate. The applicable principles and procedures for the new SCC Sub-Fund, based on those approved in 2009, are as follows –

(a) The sub-fund is established for addressing a specific long-term cross-cutting capacity-building priority of APEC Leaders:

As instructed by Leaders at Bali in October 2013, a capacity-building plan will be developed to assist economies, particularly developing economies, in overcoming specific obstacles they face in enhancing supply chain performance, and the SCC Sub-Fund is established to execute this capacity-building plan. Ministers instructed officials to begin targeted, focused capacity building activities in economies in 2014. The capacity building plan is to be drafted by the Committee on Trade and Investment (CTI) and targeted for endorsement at SOM1, 2014.

(b) The sub-fund will have the broadest possible mandates:

Apart from the objective mentioned in (a) above, the SCC Sub-Fund will also support APEC's ongoing priority of promoting supply chain connectivity, in particular achieving the target of an APEC-wide 10% improvement of supply chain performance in terms of reduction of time, cost, and uncertainty of moving goods and services through the region by 2015 as declared by Leaders in 2010 and reaffirmed in subsequent years.

(c) The quantum of sub-fund contributions should not distract APEC from its core funding priorities as set by the SCE:

Despite the specific scope of the SCC Sub-Fund as stated in (a) and (b) above, the project proposals to be funded under this sub-fund will be prioritised and selected based on the APEC-wide funding criteria. The approval process for the project proposals will also follow APEC's standard procedures. Interested economies and the CTI, with cooperation with CTI sub-fora, may submit project proposals which emanate from the capacity building plan and fall within the specific scope of the sub-fund and the ambit of APEC funding criteria. The Secretariat will assess the proposals according to the agreed criteria and make recommendations to the BMC for approval of the projects.

- (d) There will be a minimum initial contribution of US\$800,000 sourced from either a single donor or several for the sub-fund:**

For the purpose of establishing the SCC Sub-Fund, the United States (US) has pledged a contribution of US\$1 million to the sub-fund. In addition, Hong Kong, China (HKC) has also pledged to contribute US\$150,000 to the sub-fund for projects within the scope of this sub-fund, with priority for those benefiting developing economies.

- (e) The sub-fund is created with a view to being sustainable, and in realistic anticipation that there will be further contributions in the future:**

The initial contribution of US will be made available until 31 January 2019, while that of HKC will remain available until cessation of the SCC Sub-Fund, save for the standard clause on the termination of the respective Memorandum of Understanding (MOU), if any, to be signed with the Secretariat. Some other economies, such as New Zealand and Chinese Taipei, have also indicated their intention to contribute to this sub-fund.

As one of the recommendations on financial realignment endorsed by the BMC and approved by Senior Official in July 2013 (Annex F to 2013/SOM3/016), when the funding level in this sub-fund has been depleted to a level equal or below US\$100,000 without any pledges for new contributions, the Secretariat will seek the agreement of the contributors to reallocate the balance left in the sub-fund to the ASF (General Fund). With the agreement of the contributors, the Secretariat will recommend to SOM, on the endorsement of BMC, the cessation of the sub-fund.

Management of the SCC Sub-Fund

8. Same as other existing project funds, contributions to the SCC Sub-Fund will be managed by the Secretariat. While the Secretariat will endeavour to absorb the additional work arising from the new sub-fund within existing manpower resources, there may be a need for additional accounting or other support staff on an ad-hoc basis in light of the increase in complexity and volume of workload particularly in the financial and project assessment processes. Hence, following the same practice of the previous ASF sub-fund established in 2011, i.e. the ANSSR Sub-Fund, 2% of the contributions to the SCC Sub-Fund will be allocated to the Secretariat as a management fee. The Secretariat will deduct this portion and transfer it to the Administrative Account (AA) upon receipt of the contributions.
9. The accounts of the ASF and its sub-funds and the AA will be audited by the auditor of the Secretariat approved by the BMC and Senior Officials. The Secretariat in close coordination with the contributors will prepare an annual report of the activities of the SCC Sub-Fund. The report will be considered by the BMC and Senior Officials, and the comments of Senior Officials, if any, will be acted upon by the Secretariat. The Secretariat will also maintain full records of the SCC Sub-Fund, including accounts of income and expenditure, and make the records available to the contributors for audit and inspection if requested by them.

Conclusion

10. Members are invited to note the establishment of the SCC Sub-Fund and consider making contributions to it on the basis of the overall governance arrangements as set out in paragraphs 6 to 9 above. Project proposals under this sub-fund will start to be processed once the relevant capacity building plan is finalised.

APEC Secretariat

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