



ADAPTATION FUND

15 July 2019

Adaptation Fund Board

Accreditation Panel Recommendation on the accreditation of Ministry of Finance and Economic Development (MFED) of Tuvalu as National Implementing Entity for Tuvalu under the streamlined accreditation process.

Having reviewed the accreditation application under the streamlined approach of the Ministry of Finance and Economic Development of Tuvalu the Accreditation Panel recommended that:

- a) Ministry of Finance and Economic Development (MFED) be accredited as a National Implementing Entity (NIE) of the Adaptation Fund; and
- b) MFED is eligible to submit project and programme proposals to the Adaptation Fund for up to US\$ 2 million.

A summary of the review can be found in Annex I.

Accreditation Decision:

Having considered the recommendation of the Accreditation Panel, the Adaptation Fund Board decides:

- a) To accredit the Ministry of Finance and Economic Development (MFED) of Tuvalu, as a National Implementing Entity (NIE) of the Adaptation Fund under the streamlined accreditation process for a period of five years (the accreditation expiration date is 14 July 2024; and
- b) To entitle MFED to submit project and programme proposals to the Adaptation Fund for up to US\$ 2 million.

Decision B.33-34/28

ANNEX I : REPORT OF THE ACCREDITATION PANEL ON AN ASSESSMENT OF THE MINISTRY OF FINANCE AND ECONOMIC DEVELOPMENT (MFED) OF TUVALU FOR ACCREDITATION, UNDER THE STREAMLINED APPROACH, AS A NATIONAL IMPLEMENTING ENTITY (NIE) OF THE ADAPTATION FUND.

BACKGROUND

The Ministry of Finance and Economic Development (MFED) is a Ministry of the Government of Tuvalu and was nominated by the Designated Authority and submitted its application for accreditation with the Adaptation Fund (AF) in May 2017.

MFED provided over 300 distinct documents in its accreditation application, during the AF Secretariat's screening process and during the review by the Panel. The Panel's review also considered other information available online.

Tuvalu is a small island developing state whose vulnerability to adverse climatic conditions is considered the most critical threat to its national security. The Te Kaniva (Tuvalu Climate Change Policy) prescribes the Government's strategic policies for responding to climate change impacts and related disaster risks over 2012 - 2021.

THE APPLICANT – MFED

The applicant is headed by a Minister responsible under Tuvalu's Public Finance Act for the supervision of all finances of the Government including the management of the Consolidated Fund; and the supervision, control and direction of all matters relating to the financial affairs of the Government subject to the provisions of the Act. The Minister is supported in the general management of MFED by the Secretary of Finance and Economic Development.

The activities of MFED directly link to the current National Development Plan (Te Kageeka III)'s strategic area of "The Economy: Growth and Stability." Despite the relatively small size of the Ministry and the Government as a whole, Government budget papers set out a significant number of achievements as well as an ambitious set of public sector improvement priorities under MFED's responsibilities.

MFED administers, through the Planning, Budget and Aid Coordination Department, budget support and project funding provided to Tuvalu from development partners. These sources of income are essential for the Government's ongoing financial viability. Tuvalu receives significant recurrent and non-recurrent budget support from a variety of bilateral and multilateral donors who have been working closely with the Ministry and other Tuvaluan public institutions.

Project funding from a variety of development partners, and implemented by various Government Ministries, is deposited to the Tuvalu Development Fund (TDF) administered by MFED. Although part of the Tuvalu Whole-of-Government (TWOG) financial accounts, this Fund is established separately under the Public Finance Act from the Consolidated Fund and funding withdrawn from the TDF does not form part of the annual appropriation bill. Upon accreditation with the AF, any future AF project funding will be deposited into and spent from the TDF.

ASSESSMENT FOR ACCREDITATION

The review is structured according to the revised application form at Annex 2 of AFB/EFC.23/4, adopted by the Board as part of Decision B.32/36. The Panel noted that MFED has significantly strengthened its policies, procedures and capacity in many of the areas subject to review over the course of the application.

The Government of Tuvalu approved on 26 November 2017 the proposal for accreditation under the AF streamlined process as set out in AFB/FC.16/7/Rev1, adopted by the Board under Decision B.23/17. Under the streamlined accreditation process all the standards must be met, but the approach takes into consideration compensating measures, controls, and practices normally found in smaller entities, without exposing the Fund to significant risk. The Accreditation Panel has completed its assessment on this basis.

Financial Management and Fiduciary Standards

Legal Status

Taking into account the provisions of the Constitution of Tuvalu, the Public Finance Act and the Crown Proceedings Act, as confirmed by the Attorney General's Office, MFED meets the criterion. It has the necessary legal identity and capacity to receive funds, enter into contracts with international organizations and others, and serve as a defendant or plaintiff in court proceedings.

Financial statements including Project Accounts and Provisions for Internal and External Audits

MFED meets the criteria under the streamlined approach, in which the focus is on the TDF accounts within the annual TWOG financial statements. The applicant is part of the Tuvalu Government, for which there is sufficient legislation in place concerning annual financial reporting. There are recent external auditor disclaimer opinions on the TWOG financial statements, and they do not yet fully meet international reporting standards as required by national legislation. However, the Auditor General's reports' explanations of the disclaimers indicate that they don't relate specifically to the TDF into which all donor funding for projects is deposited and spent. There have been significant control observations concerning the TDF in OAG reports as well as a 2017 outsourced internal audit report, for which MFED have provided information indicating progress is being made to address them. The TWOG financial statements include a statement of balances, receipts and payments of the Tuvalu Development Fund, prepared on a cash basis, which is acceptable under the streamlined approach.

MFED is subject to audit by the Office of the Auditor General of Tuvalu (OAG), the national supreme audit institution (SAI), in accordance with INTOSAI auditing standards, including annual financial audits and performance audits although none of the latter type have been performed so far on MFED or the TDF. The TWOG financial statement audits are up to date under the legislation with the issue of the OAG report on the 2017 financial statements in November 2018. OAG has an appropriate degree of statutory and financial independence and is seeking to develop and maintain its professional proficiency within the framework of the Pacific Association of SAIs (PASAI). Annual financial reports on TWOG financial statements contain relevant and significant observations. OAG's work is reinforced by oversight from the Parliamentary Accounts Committee (PAC).

MFED uses an internationally recognized system to financially monitor and report on Government accounts including those of the TDF. The Tuvalu Government's capacity for financial monitoring and

reporting on projects has been significantly strengthened with the implementation of the Aid Information Management module of the package.

Internal audit based in MFED is still a relatively new function, with a Whole of Government scope, and aspirations of applying the Institute of Internal Auditors international internal auditing standards. The Head of Internal Audit has an appropriate degree of independence, reporting to the Chair of the Audit Committee. There is limited capacity at present, but the internal audit function completed a comprehensive risk assessment, one major audit and two investigations in 2018. Prior to this there had been one (abovementioned) outsourced internal audit of the TDF. Development plans for the in-house internal audit function propose a significant increase in staffing from one to five auditors over 2018-2020, and at present recruitment is pending. The Head of Internal Audit has been assisted by a temporary auditor and an expert Technical Advisor to move beyond commitment (as expressed through appropriate regulations, charters and plans) to capacity and implementation. Continued technical assistance with domestic and donor funding is proposed. Partnerships with other Pacific audit institutions are being pursued to also help with capacity constraints.

Following the adoption of its Charter, an Audit Committee with Whole of Government scope has been appointed by the Secretary of Finance and Economic Development and has met three times. To date it has focused on reviewing internal audit, investigations and risk management. There is also currently substantive oversight from the Parliament through the PAC with respect to reports of the Auditor General, and there was a recent (March 2017) PASAI sponsored PAC-strengthening workshop in Tuvalu involving various stakeholders. Draft legislation is currently under review aimed at reducing time lags in PAC consideration of OAG reports and enhanced focus by the PAC on the status of past PAC/OAG recommendations. This is also being addressed through the development of an Audit Issues Register maintained by the Head of Internal Audit and which encompasses these as well as internal audit recommendations. The Audit Committee Charter foresees a role for the Audit Committee to facilitate action on OAG and PAC recommendations, by reviewing progress in implementing OAG and PAC report recommendations and acting as a forum for communications between the Government and OAG and PAC on the implementation of their recommendations. In the meantime, the Government has made progress with addressing PAC recommendations and the PAC has completed and reported on its reviews of the OAG reports up to 2016.

Internal Control Framework with Particular Reference to Controls over Disbursements and Payments

Taking into account the efforts to address reported TDF control weaknesses, MFED meets the criteria under a streamlined approach. The overall control framework established for the Tuvalu Whole-of-Government, while not documented in one place, adequately defines the roles for management, internal and external audit and parliamentary oversight. It also establishes control and risk management policies and procedures. Current challenges to the implementation of the internal control framework are being openly reported and considered through the PAC and in key areas being sought to be addressed through Tuvalu's strategic development and annual budget plans, as evidenced from related audit, PAC and planning and budget documents. At a Whole-of-Government level, improvements are being guided by a Public Financial Management Roadmap 2017-2021. The TWOG risk assessment has begun, coordinated from the IAU with the IA Technical Advisor's assistance, and is being used to prioritize internal audit work. As part of the annual TWOG financial statements package, MFED provides a statement on responsibility for establishing and maintaining a system of internal controls designed to provide reasonable assurance as to the integrity and reliability of financial reporting. MFED provided specific information on steps to address weaknesses at TDF level identified by OAG, internal audit and the PAC in their reports – these are currently being worked on with the assistance of a Technical Advisor.

The applicant has the elements in place for an adequate payment/disbursement system applicable across the Government, including TDF projects, and this is subject to annual audit by OAG. However, compliance has been an issue. The most recently available OAG report on the payment/disbursement system indicates the need to strengthen controls to prevent budget overspending, payments without required purchase orders and goods received notes, and ensuring adequate supporting documentation and compliance with approval policies for transactions without purchase orders. MFED provided evidence of work to address these observations. With regard to anti-money laundering and counter-financing of terrorism (AML-CFT), there is an adequate regulatory framework in place by which the National Bank of Tuvalu (the sole financial institution for funds transfers) monitors for and reports suspicious transactions to the Transactions Tracking Unit of the Tuvalu Police.

Preparation of Business Plans and Budgets and Ability to Monitor Expenditure in Line with Budgets

MFED meets the criterion. Government long-term solvency is monitored by both Government and international donors/financial institutions and is considered appropriately managed in the context of a multi-donor supported Public Financial Management program. There are long/medium term and annual planning and budgeting processes at Whole of Government level, adequately codified, and systems to monitor implementation and public reporting on budget performance on a monthly basis. MFED has been identified by the central Monitoring & Evaluation (M&E) Unit as being one of the Ministries having a corporate plan appropriately aligned with the current National Development Plan (TKIII). The OAG and PAC review budget management and have made recommendations to improve compliance with budget rules to mitigate the risk of budget overruns. The risk of budget overruns in the TDF is considered lower than for the Whole of Government, because it is monitored under a separate module of the accounting system which facilitates closer monitoring and actual overspending has been minimal. TKIII includes a proposal to enhance budget preparation scrutiny through extension of the Public Accounts Committee mandate, for which legislation has been drafted and is under discussion. In terms of capacity to implement, the Government has implemented improvements, including at the level of the TDF which is considered the most relevant element for this accreditation.

Requisite Institutional Capacity

Procurement

MFED meets the criterion. There is a Whole-of-Government procurement policy framework administered by MFED through a Central Procurement Unit (CPU). Procurement rules, with complaint and sanctioning processes recently added, currently meet international standards, and capacity is developing to implement these standards. MFED is planning to establish a website which will include information to fulfill requirements of the Procurement regulations, including communication of policies and meeting transparency requirements, for which it has begun to take the necessary technical steps. Compliance has been an issue, with critical OAG findings on 2015 practice and there have been various TWOG initiatives to address them. The CPU provided an action plan on the OAG recommendations. Money laundering and terrorism financing risks are considered low. The CPU confirmed that suppliers are checked against AML-CFT sanctions/debarment lists prior to contracting.

Project Preparation and Appraisal including impact (environment, socio- economic, political, gender etc.) assessment study with risk assessment and mitigation plans

Taking a Whole-of-Government perspective, where capacity resides in various parts of the Tuvalu Government and on the basis that MFED and Line Ministries of the Tuvalu Government will continue to work closely with international technical advisors, MFED meets the criteria under the streamlined approach. MFED and Line Ministries have gained experience with project identification, design and appraisal, at a level expected for AF projects, through working closely with international donors. The Government has been taking actions to develop its own capacity. In 2017 MFED finalized an updated Official Development Assistance (ODA) Handbook and tools to assist with its own and Line Ministry identification, design and appraisal of projects, particularly adaptation projects, drawing on its experience participating in this phase with development partners. Documentation of the application of an earlier version of the Handbook, which Line Ministries were expected to use autonomously, was not systematically maintained. A 2018 addendum to the Handbook ensures that gender aspects are appropriately considered. MFED advised of capacity building on implementing the updated manual and tools and provided an example of a 2018 workshop that included this. In early 2019 it provided three examples of appraisal summary sheets which have now been implemented for project proposals, indicating that assessments must now include environmental and social as well as other expected elements.

MFED is still developing capacity and guidance material to ensure that the likely impact of technical, financial, economic, social, environmental, gender and legal aspects are fully incorporated into project plans and appraisal practice. Guidance on environmental aspects, established in national environmental legislation, is the most developed, and a cost-benefit tool for use in project planning has been recently introduced. There are laws and policies requiring consideration of all elements and the ODA Handbook could benefit from further cross-referencing to them. The abovementioned addendum to the Handbook on gender mainstreaming and safeguards is a recent positive development. Line Ministries will provide inputs on technical, financial, economic and legal aspects, and the Environment, Community Affairs and Gender Affairs Departments will provide inputs on environment, social and gender aspects. Examples provided were prepared with the assistance of external consultants and capacity to implement will continue to heavily rely on outside expertise working with Tuvaluan authorities.

In mid-2017 MFED expanded its procedures regarding ensuring risk assessments and mitigation plans for development projects, drawing on its experience with and technical assistance from development partners and consultants. There is some track record of application of the new requirements, though it appears that capacity will continue to rely on outside expertise working with Tuvaluan authorities.

Commitment has been made for MFED and other Ministries in their role as Executing Entities to access resources to assist with project preparation and appraisal as needed. Tuvalu currently has in place ODA funding to support preparation of climate change adaptation proposals.

Project Implementation Planning and Quality-at-entry Review

MFED is considered to meet the criteria under the streamlined approach. In 2017 MFED expanded its procedures to ensure quality-at-entry for development projects, drawing on its experience with and technical assistance from development partners and consultants. MFED has some experience with preparing project budgets and in 2017 the Government expanded its procedures covering project budgeting to ensure that a uniform approach is applied.

Project Monitoring and Evaluation During Implementation

MFED is considered to meet the criteria. The applicant has recently established a sound M&E framework that will act as a benchmark for project M&E planning and implementation. It has access through the Government's M&E Unit to specialist resources but also expects to draw upon external technical assistance. Examples of six-monthly monitoring reports for a multi-project program supported by one bilateral donor indicates some experience of MFED in undertaking a coordinating role in monitoring multi-agency activities for purposes of donor reporting. The examples are simple but tailored to the particular program.

MFED provided an example of quarterly project accounting. The Audit Act empowers the Auditor General to conduct audits at his/her discretion or at the request of Government of any public accounts, including development project accounts. One example of a project audit from 2015 and two from 2018 were provided.

Project Closure and Final Evaluation

Taking a Whole-of-Government perspective, where capacity resides in various parts of the Tuvalu Government and external consultants under their supervision, MFED is considered to meet the criteria under the streamlined approach. In mid-2017 Tuvalu updated its procedures with respect to closure and final assessments for development projects. The requirements draw on Tuvalu's experience with and technical assistance from development partners and consultants. In house capacity to oversee evaluations and assess the range of aspects required for AF projects is located in various parts of the Government. Capacity will also rely on outside expertise working with Tuvaluan authorities. Commitment has been received for MFED and other Ministries (to be Executing Entities) to access resources to assist with this as needed.

The portfolio of projects funded by one country donor evidences a capacity for multi-agency coordinated execution at relatively small scale. MFED is addressing internal audit recommendations relating to the TDF to strengthen project portfolio monitoring by the Aid Coordination Unit.

The abovementioned M&E framework includes sound requirements for project final evaluations. In house capacity to oversee evaluations and assess the range of aspects required for AF projects is located in various parts of the Government. Capacity will also rely on outside expertise working with Tuvaluan authorities on independent evaluations. MFED's experience to date with this has been working with donors and financial institutions.

Transparency, self-investigative powers, and anti-corruption measures

Policies and Framework for Dealing with Financial Mismanagement and Other Forms of Malpractices

Taking a Whole-of-Government perspective, whereby some aspects are handled by other parts of the Government, MFED is considered to meet the criteria. The applicant has included a message of "zero tolerance" for fraud, financial mismanagement and other malpractice by officials and third parties in a financial fraud policy as well as reflecting this in internal codes and in standard bidding documents /contract general terms and conditions. It also has policies in place applying to leaders, government employees and third parties bidding or contracted on Government business to support this approach.

Tuvalu has an impressive set of legislation and policies to establish baselines of unacceptable conduct, including fraud and corruption and money laundering/terrorism financing; sanctions for

violations; instructions concerning complaints; and whistleblower protection. To some extent this information is readily available, on an ongoing basis, to those with access to the Government intranet. Internet connectivity is challenging for the country and websites are not yet a major form of communication for the general public. For the time being there is no public Government internet site where the general public can access the anti-fraud policies and information on complaint mechanisms to report concerns. Instead, MFED has made the information more public through the Government Office public noticeboard, outer island village offices, and via radio announcements and interviews. This is considered acceptable under a streamlined approach. Notwithstanding these limitations, there are cases of investigations of misconduct undertaken by the Ombudsman Office and the Internal Auditor.

The Ombudsman Office and the Internal Auditors are the two main mechanisms for investigations of allegations of fraud, corruption and other misconduct established under Tuvaluan legislation, regulations and policies. Although the Internal Audit investigation capacity is still limited, it has completed two investigations in 2018. Further, this is mitigated to some extent by investigation capacity being built in the Ombudsman Office, which has undertaken a number of investigations since 2015, and there is capacity available in OAG. Additionally, for procurement-related cases, there is a role for investigation by the Central Procurement Unit within MFED. With regard to suspected violations of AML-CFT regulations, investigative responsibility and capacity resides with the Transaction Tracking Unit within the Tuvalu Police Force.

Commitment by the entity to apply the Fund's Environmental and Social Policy and Gender Policies

Taking a Whole-of-Government perspective, whereby some aspects are handled by other parts of the Government, MFED is considered to meet the criterion. References to requirements are in summary form in the ODA Handbook itself, but Tuvalu has in place legislation and policies that effectively establish a framework for environmental, social and gender safeguards equating to or approaching the Adaptation Fund standards. In 2018 it adopted an addendum to the ODA Handbook that comprehensively addresses gender mainstreaming and safeguards. The Tuvalu Government has invested in gender mainstreaming capacity. Following an ADB review it has updated its environmental standards further to align to ADB, Adaptation Fund and other donor policies in this domain and enhance its capacity to implement. The revised regulations include requiring stakeholder consultations throughout the project cycle and enhancing transparency through expanded assessment report disclosures. Under the streamlined approach, it is considered that the limited examples of application of the new/updated policies are sufficient.

Mechanism to Deal with complaints on Environmental and Social Harms and Gender Harms Caused by Projects/Programs

Taking a Whole-of-Government perspective, whereby some aspects are handled by other parts of the Government, MFED is considered to meet the criterion. The 2018 amended Environmental Impact Assessment regulations provide for complaints and appeals processes applicable to environmental, social and gender harms. This provides for appeals to the Minister of Environment and ultimately the National Environment Council. Complaints can also be lodged through the Ombudsman Office. Taking into account the limited internet access of most of the population, the same communications channels applicable to fraud and corruption also apply to safeguard-related complaints. It is considered that these arrangements are acceptable under the streamlined approach, notwithstanding the lack of examples of the operation of the new mechanisms.

CONCLUSION

The Accreditation Panel concludes that MFED has met the AF's financial management and integrity standards; has the requisite institutional capacity and meets the requirements for transparency, self-investigative powers and anti-corruption measures under the streamlined approach. The Panel notes that some fiduciary and safeguard standards are met in whole or part by other parts of the Government of which MFED is a part, and that capacity within MFED and other parts of the Government will continue to be developed with the support of international technical assistance. The Panel also notes the priority accorded by the Government of Tuvalu in addressing climate challenges for the country and the evident strong commitment displayed by the Government of Tuvalu, and development partners who have been assisting it in various areas to strengthen capacity, to successfully meeting the requirements of AF accreditation as part of its response strategy. The Panel therefore recommends that MFED:

- a) be accredited as a National Implementing Entity (NIE) of the Adaptation Fund; and
- b) based on the type and size of projects for which MFED and other line Ministries of the Government have had experience autonomously managing, MFED be eligible to submit project/program proposals to the Adaptation Fund for amounts up to US\$ 2 million.

The Panel strongly encourages MFED and the Government of Tuvalu as a whole to continue their concerted efforts to strengthen internal controls and compliance in the areas of coverage of the AF accreditation standards. It notes that, under the AF Board's policy on the streamlined process, the financial limit adopted by the AF Board may be reassessed, upon request of the Designated Authority, during the initial accreditation period or thereafter, based on project implementation performance and further development of institutional capacity.