

# Activity Completion Report: NIE Accreditation Process

## Summary

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### Activity information

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|--------------------------|---|
| <b>Activity Title</b>    | Technical Assistance to submit an accreditation application for the Adaptation Fund project   |
| <b>Goal</b>              | To submit a Cook Islands application for direct access to the Adaptation Fund.  |
| <b>Intended outcomes</b> | <ol style="list-style-type: none"><li>1. Successful application requiring minimal additional information from the Adaptation Panel</li><li>2. Improving MFEM's systems and processes</li><li>3. Building capacity of team involved in application and process/systems improvements</li><li>4. Leveraging this experience to apply for other climate change funds (Longer term).</li></ol> |

### Funding information

|                            |                              |                |
|----------------------------|------------------------------|----------------|
| <b>Start and end dates</b> | 2 December 2013 - April 2015 |                |
| <b>Total cost</b>          | EU-SPC-GCCA: PSIS USD55,000  | UNEP USD28,000 |
| <b>Reporting period</b>    | Complete period of project   |                |

### Completion report preparation

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| <b>Prepared by:</b>                 | Frankfurt School of Finance and Management (Frankfurt School – UNEP Collaborating Centre for Climate and Sustainable Energy Finance)   |
| <b>Others involved or consulted</b> | Vanessa Jenner, ADB Liaison Officer, MFEM<br>Peter Tierney, Development Coordination Manager, MFEM<br>Richard Neves, Financial Secretary, MFEM<br>Akairo Consulting<br>Cook Islands NIE Working Group consisting of:<br>Edward Parker, Lavinia Tama, Josh Mitchel, Teu tuililo, Ana Tiraa, Daphne Ringi, Michelle Aisake, Petero Okatai, Peter Tierney, Edward Herman, Miimetua Nimerota |
| <b>Date report submitted:</b>       | February 2015  |

## Executive Summary

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Being a member of the Pacific Small Island Developing State (SIDS), the Cook Islands are isolated geographically, and are dependent upon limited land and marine resources which are intricately tied with economic development such as tourism, the primary economic driver in the Islands. The terrestrial and marine environments of the Islands are a huge draw for tourists. The Islands are also highly susceptible to extreme weather and climatic events.

To deal with these effects whilst also promoting economic growth in the tourism sector and environmental conservation, strengthening climate change resilience and disaster risk management (DRM) are crucial. The Cook Islands Government introduced a Climate and Disaster Compatible Development Policy (2013-2016) which aims to “ensure that the sustainable development of the Cook Islands is actively pursued by the people through a climate and disaster resilience approach that has the capacity to manage climate and disaster risks and reduce our emissions in the context of sustainable development.” This involves taking into account the complexity of the external funding architecture, and ownership for the legal and sovereign implications over national resources. In addition, partnerships and means of coordination and communication must recognise the human and institutional capacity to plan and implement climate and disaster resilient development strategies.

To address the complexity of the global climate change finance architecture and to build climate resilience, the Cook Islands Ministry of Finance and Economic Management (MFEM) applied in December, 2014 to become a National Implementing Entity (NIE) to the Adaptation Fund. The application and requisite capacity building needed was accomplished through generous funding provided from the European Union-supported Secretariat of the Pacific Community’s (EU-SPC) project “Global Climate Change Alliance: Pacific Small Island States (GCCA: PSIS)”. With this funding, MFEM engaged the services of the Frankfurt School of Finance and Management (Frankfurt School) to embark on a staged process to assist MFEM with applying for NIE Accreditation under the Adaptation Fund, as well as to assist with the development of capacities to build long-term “climate finance readiness” to access other funding sources such as the pending Green Climate Fund (GCF)<sup>1</sup>. Additional support was also provided by the UNEP readiness support program to facilitate additional capacity building activities.

Following the NIE application process, MFEM will also apply for NIE accreditation to the Green Climate Fund.

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<sup>1</sup> Refers to the ability of a national government or entity to mobilise and secure domestic and international sources of finance for climate change activities.

# Report

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## Background and context

Established in 2001, the Adaptation Fund finances climate change adaptation projects in developing countries that are Parties to the Kyoto Protocol. Access to funding from the Adaptation Fund is available to countries such as the Cook Islands that are particularly vulnerable to the effects of climate change. Since awarding the first projects funds in 2010, the Adaptation Fund has granted more than US \$225 million for climate change adaptation projects. Countries who wish to access the Fund must do so through an accredited Implementing Entity at the national (NIE), regional (RIE), or multilateral (MIE) level. Using an RIE means selecting a regional organisation of which the Cook Islands is a member, such as SPREP. An MIE requires working with a multilateral development agency such as the UNDP, UNEP, or World Bank, all of which require a “management fee” for their services.

Out of the 17 NIEs accredited so far by the Adaptation Fund, there are no Pacific Island Countries (PICs) that have successfully gained NIE status. Considering that the Cook Islands is a Small Island Developing State (SIDS) which is extremely vulnerable to current and future threats of climate change, it would be a great achievement locally, regionally, and internationally for MFEM to gain accreditation. The accreditation may help other PICs by encouraging them to likewise improve their national systems so that they may become financially stronger, more independent, and more capable of managing both domestic and international climate finance in-country.

## Introduction to the project

Beginning in January of 2014 and through the generous support of the EU-GCCA: PSIS, MFEM commissioned the Frankfurt School of Finance and Management – UNEP Collaborating Centre for Climate and Sustainable Energy Finance at the Frankfurt School to carry out the services for the “Technical Assistance to submit an accreditation application for the Adaptation Fund” project.<sup>2</sup> The objective of the assignment was to assist MFEM with applying for NIE Accreditation under the Adaptation Fund, as well as to assist with the development of capacities to build long-term “climate finance readiness” to access other funding sources such as the pending Green Climate Fund (GCF).<sup>3</sup>

In order to understand the existing resources and gaps of the MFEM which may hinder the timeliness or thoroughness of the NIE accreditation application, the Frankfurt School, working in tandem with a highly experienced local public financial management expert (the expert team) investigated in detail the institutional challenges faced by the MFEM and other agencies in financial management and governance and institutional capacities for project management and oversight.

The “Status Quo Assessment” was carried out during the inception phase of the project, from January 12<sup>th</sup> to the 11<sup>th</sup> of February 2014. Working in close collaboration with MFEM and various government ministries the expert team carried out a stock take of all information pertinent to both the NIE application, and climate finance readiness. The analysis, which included sifting through over 2000 documents to determine which are most relevant for assessing current processes and procedures, policies, guidelines and examples of projects.

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<sup>2</sup> Funded through the “Global Climate Change Alliance: Pacific Small Island States”: Project funded by the European Union and implemented by the Secretariat of the Pacific Community.

<sup>3</sup> Refers to the ability of a national government or entity to mobilise and secure domestic and international sources of finance for climate change activities.

Two workshops<sup>4</sup> held in were also carried out to introduce the topic of climate finance readiness and the NIE process, as well as to verify the on-site analysis findings. Following this, an Inception and Analysis Report was drafted which mirrored the NIE application and contained suggested measures for addressing capacity gaps as well as to build climate finance readiness for improved access to other international climate funds (please see Appendix 1 for the Inception and Status Quo Assessment Report).

To ensure buy-in and carry out the subsequent capacity building, an NIE Working Group was established at the beginning of the project with relevant government ministries working in climate change, financial management, and project implementation and oversight. The terms of reference for the Working Group required regular meetings to be held (see Appendix 8). The objective of these meetings was to address areas identified as weak or requiring improvement, as well as driving the focus on completion of activities.

## Capacity building

The second stage of the project was the implementation plan which involved activities and timeframes being agreed upon in relation to short and medium term opportunities and also highlighting any long term initiatives that will need to be worked on in the future (e.g. not required for accreditation, but important to achieve in the longer term “climate finance readiness”). These recommended measures for the way forward were carried out during 2014, with some tasks still on-going in 2015 (e.g. “Te Tarai Vaka” (TTV) Activity Management System).

Some of the 2014 capacity building measures or improvements carried out by MFEM and ministries either on their own, or in partnership with consultants (e.g. Akairo Consulting and the Frankfurt School) include the following:

- The Activity Management System<sup>5</sup> and Environmental and Social Safeguards (“Te Tarai Vaka”, designed by Akairo Consulting).
  - TTV aims to streamline activity management and allow for better monitoring and evaluation which is aligned with international best practice.
  - TTV includes an extensive set of templates, guidance notes and policies, all of which can be readily found on MFEM’s webpage.
  - Trainings have and are being carried out with MFEM staff and line ministries to ensure TTV is used properly and efficiently.
- Developing a dedicated Cook Islands Procurement Policy to bring tendering in-line with international best practice.
  - For transparency, a webpage (procurmenet portal) was also set up containing all tender updates and templates.
  - MFEM has also created a core funded Procurement Officer position (currently advertising) whose responsibility is to update and maintain existing procurement policy, serve as a central advice and training provider on the procurement process, recommend any training and act as a secretariat to the Tender Committee.

<sup>4</sup> The on-site analysis started with a kick-off meeting and workshop on January 16th; organized by MFEM with all relevant stakeholders to make them aware of the NIE accreditation process and the role of climate finance readiness. A participant list and agenda of the first workshop can be found in Annex 1 of the Inception and Analysis Report. At the end of the first on-site mission, a second workshop was held with all relevant stakeholders to present the initial findings and offer preliminary short- and long-term recommendations for the NIE application and to build climate finance readiness. The agenda for this workshop and the overview table containing the recommendations can be found in Annex 3 of the Inception and Analysis Report. Working groups were organised based on individual competencies of the participants to receive feedback on the recommendations presented. Working group questions can be also be found in Annex 3

<sup>5</sup> Thanks and acknowledgement to the New Zealand Aid Programme for their generous provision of all templates forming the basis of this system.

- Following national consultation, the preparation and distribution of a Code of Conduct which clearly states as a principle a "zero tolerance to fraud" policy was completed in 2014.
- Taking the decision and attaining budget allocations through 2016 for outsourcing the internal audit function.
- Setting up a committee to review all policies and procedures within the Cook Island Government Financial Policies and Procedures Manual (CIGFFPM) to ensure that the wording in relation to corruption and fraud is specific and that the internal control aspects are effective and clear.
- Revising the Cook Island Government Financial Policies and Procedures Manual (CIGFFPM) with the following updates:
  - Statement of commitment to the United Nations Convention Against Corruption (UNCAC) and a laminated wall poster on what corruption looks like;
  - Updating the complaint procedures for various government functions;
  - Tender policies, templates and complaint process; and
  - Remuneration and payroll policies.

It should be noted that the capacity building carried out also built upon the work compiled under the Cook Island's Public Expenditure and Financial Accountability (PEFA) Assessment, which was first prepared in 2011. During the PEFA Assessment the status of the Cook Islands Public Financial Management (PFM) systems in terms of the main systemic strengths and weaknesses was examined. This resulted in the subsequent Public Financial Management Road Map stipulating medium and long-term targets for meeting the goal ratings in the PEFA. A full self assessment was also undertaken in November 2013, which demonstrated a number of significant improvements. The full external PEFA assessment completed in December 2014, confirmed significant progress across the PEFA (see Appendix 2).

## The NIE application process

The final stage, completed in December of 2014, was MFEM's submission of the NIE accreditation application to the Adaptation Fund Board. All involved ministries in the Cook Islands and the local and international consultant worked diligently throughout the month of November and the first part of December to finalise and upload the NIE application to the Adaptation Fund's online application portal. In total, 232 supporting documents were provided, and the application itself totalled 65 pages. Cover letters were provided from the Minister of Finance, the Financial Secretary, and the Designated Authority (DA) to the Adaptation Fund to bolster the application (please see Appendix 3 for the completed application package).

It is the opinion of MFEM and the Frankfurt School of Finance and Management that the NIE accreditation application showed that much progress has been made in the area of public financial management as well as oversight and institutional capacities for climate projects and programmes, as well as building overall climate finance readiness. The application showed, as well, that the Cook Islands has made strides to bring the country's policies in line with international best practice for environmental and social risk management, which in turn has improved its national systems and has enhanced its sustainable development. This is reflected in the Cook Island's existing environmental regulations and social policies, continued work with international donors, and in particular, the new Cook Island's environmental and social management system which is contained in the national "Te Tarai Vaka" activity management system.

MFEM is maintaining close contact with the accreditation panel to ensure that all requirements are met, and any required follow-up or clarifying information is provided in a timely manner.

## Risk Management

As part of the agenda and minutes of each working group meeting, an issues/risk register was kept up to date and known risks were managed. Below is the final risk register for the September 2014 meeting (please see Appendix 4 for the meeting minutes).

| <b>Issue</b>                    | <b>Detail</b>   | <b>Response</b>  | <b>Status</b>  |
|---------------------------------|---|--|--|
| Audit of all Govt Ministries    | Audit is being fasttracked for MFEM, but we do not yet have clarity on need for audited accounts across government for NIE and PEFA         | Frankfurt to give advise on NIE requirements<br>Edward to update on overall plan | Audit for MFEM only required   |
| Dates of Board meetings unknown | The board meeting timeline is not published for 2014 so there is no way to confirm the board meeting to ensure we meet the 3 month deadline | Frankfurt to follow up with accreditation panel                                  | Aim for end November submission  |
| Caretaker Government            | Budget delays and PEFA delays   | Delay submission to Q3   | Decision taken to delay submission until end November. Revisit once elections have occurred  |
| Dual process for AFB and GCF    | Resource to manage application process for both funds   | Seek further funding for Frankfurt support                                       | Advice and decision to await feedback from AFB accreditation panel before starting with GCF. |

Additionally, as issues arised they were dealt with in a cooperative fashion and this flexibility on behalf of Frankfurt and funders was key to successfully managing risks. A few examples are given below:

- Unforeseen additional work in the application process required additional consulting support, expecially in relation to anti-corruption and proof of project management skills such as monitoring and evaluation (M&E), and reporting.
- Flexible UNEP funding used to cover additional resource to meet deadlines; and
- An initial 2 week in-country schedule was extended by one week to ensure completion of the application by the due date. This carried additional costs to change airfares etc., but funding from UNEP designed to support the application process ensured this was managed effectively.

## Monitoring and Evaluation Issues

**There were a few objectives outlined in each of the contracts and funding agreements.**

*The objectives for EU-SPC-GCCA: PSIS were:*

- a. Inception Report (completed);
- b. Analysis Report (combined with above Inception report, completed);
- c. Implementation plan (completed with above Inception report, completed);
- d. Application to the Adaptation Fund Board (completed);
- e. Final report detailing further implementation requirements (this report).

EU-SPC-GCCA:PSIS disbursed 70% of the amount up front and therefore 30% is outstanding and to be disbursed upon acceptance of this completion report.

*The objectives for UNEP were:*

- a. Activity Management Cycle (now "System") has monitoring and evaluation, standard project management procedures and environmental and social safeguards incorporated (completed).
- b. Anti-Corruption Committee re-established (completed)
- c. NIE accreditation application of MFEM of Cook Islands submitted to Adaptation Fund Board (completed).

UNEP disbursed 75% of the amount up front and therefore 25% is outstanding and to be disbursed upon acceptance of this completion report.

*The objectives outlined for Frankfurt School of Finance and Management (CR005) were based on payment on results:*

- a. 10% upon completion of Inception report (completed);
- b. 50% upon completion of Workshop report (completed);
- c. 40% upon approval of report detailing further implementation requirements (this report).

To date 60% (+ \$6,000 letter of variation via UNEP funds) has been disbursed to Frankfurt. Detailed in expense breakdown Appendix 6.

Overall, upon acceptance of the submission of this completion report, all reporting obligations will be concluded.

Management and Governance was managed with two layers of escalation. The first was the NIE Working Group which was represented by all relevant ministries. The second was the authority of the Financial Secretary who resolved issues as they arose.

Some of the issues which were raised and successfully dealt with including ministries not completing information on time, resource constraints, and making decisions on timeframes. In all instances these were worked through in a spirit of cooperation and with the end goal of accreditation in mind.

## Lessons Learned

| Lesson   | Who  |
|--|--|
| <p>The process has to be country owned, as the required resources can be significant. It needs to be integrated with other national processes to ensure it is part of the core function of the government. In the Cook Islands, this included the national budget process, PEFA roadmap plans, and National Development processes including the Activity Management System.</p>  | <p>Government</p>                          |
| <p>Instead of having a stand-alone NIE, integration with national processes and agencies will ensure broader ownership and avoid perceptions that this is “additional” work. Countries can view this as a broader mandate to strengthen systems and capacities to increase country ownership, effectiveness and build the trust of development partners.</p>   | <p>Development Partners<br/>Government</p> |
| <p>Cooperation between partners can take more time and effort, but allows for better risk management, especially regarding funds to cover activities. When the contract was signed with EU-SPC-GCCA: PSIS some of the costs of activities had not been fully scoped. Support from UNEP covering various workstreams enabled flexibility to provide additional support where it was needed without having to vary the original contract.</p>                                  | <p>Development Partners<br/>Government</p> |
| <p>The time involved in this process cannot be under-estimated. Having a working group dedicated to the task was very useful and membership changed in a few instances to ensure willing team members who could devote the time needed to the process. Even after many months of preparation, the application data gathering and uploading took a lot longer than expected. New online references (eg page numbers) meant a lot more time to upload documents correctly.</p> | <p>Government<br/>Consultants</p>          |
| <p>Cross government commitment to the project is essential. While MFEM is the one applying for accreditation, in reality it takes all ministries being on-board with why the country is doing it and freeing up resource to dedicate to a comprehensive application. The NIE Working Group was an excellent mechanism to progress areas requiring cross government collaboration.</p>  | <p>Government</p>                          |

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|---|-----------------------------------|
| <p>Navigating the Adaptation Fund requirements is quite a technical, resource intensive and lengthy process. Engaging a consultant or consultancy who has the background to understand the requirements is a key part of the process. It is also important to note that the NIE for a country may not have all the necessary technical skills or capacity in-house for some areas of the fiduciary standards, so partnerships to provide specialist assistance are essential.</p> | <p>Government<br/>Consultants</p> |
|---|-----------------------------------|

## Final actual expenditure against budget

Accurate records of all expenditure have been kept for audit purposes and funds have been utilised to achieve the objectives and outcomes of this project. The budget against spend to date for both funds show full utilisation of all funds including the outstanding amounts which are due for disbursement upon acceptance of this completion report. The CIG have advanced the amounts to cover consulting expenses and requires reimbursement to both cover costs and to complete final payments to Frankfurt School of Business and Management.

For a full breakdown of budget verses expenditure, please see appendix 6.

## Appendices

This report includes the following appendices:

- Appendix 1: Assessment and Status Quo Report
- Appendix 2: PEFA summary
- Appendix 3: Complete NIE Application, including cover pages
- Appendix 4: NIE Working Group Minutes, September 2014
- Appendix 5 AMS Work Plan revised v4
- Appendix 6: Budget Reconciliation Report
- Appendix 7: Transition Planning
- Appendix 8: Terms of Reference (TOR) for NIE Working Group
- Appendix 9: Inputs for Akairo\_PM\_E&S\_CBA\_MFEM NIE accreditation