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**SUBJECT: CLIMATE CHANGE TRUST FUND**

- 1. STRATEGIC PROGRAM FOR CLIMATE RESILIENCE - \$5 MILLION USD TRUST FUND.**
- 2. DEVELOPMENT OF TRUST FUND AND BOARD STRUCTURE ETC**

**PURPOSE**

To submit to the Honourable Cabinet Ministers for consideration and approval, the Climate Change Trust Fund and the:

1. Development of the funding arrangements;
2. Accounting arrangements for the funding of small and medium scale projects; and
3. Board and Technical Secretariat members.

**BACKGROUND**

The Kingdom of Tonga is expected to be granted \$20 million USD by the Climate Investment Fund (CIF) for the Tongan Strategic Program for Climate Resilience (SPCR). The SPCR is funding programs for climate change adaptation and mitigation and disaster risk management across the Kingdom. The money will be made available in the 1<sup>st</sup> quarter of 2014 following the approval of the Phase 2 Report for the SPCR by the Asian Development Bank (ADB) Board in 3<sup>rd</sup> Quarter 2013. This money has been divided into two pools of money, \$15 million USD devoted to projects and programs from the Phase 2 Report and \$5 million USD to be placed into a trust fund for disbursement to small and medium scale projects and programs.

Tonga had initially proposed to develop a *Climate Change Trust Fund Act* for the purposes of managing the SCPR funds. The SPCR Team engaged by the ADB recommended that an alternative model be developed due to the complexities in the accounting arrangements required by the ADB. The SPCR team also suggested that had the previous Bill been enacted, it was unlikely that the Bill and the regulatory arrangements would have been in place and managed by the required time and in a manner required by the ADB and therefore this would have caused delay in obtaining the funding.

To mitigate these issues so as the funding can be used immediately upon receipt, an alternative Climate Change Trust Fund model has been developed under the *Public Finance Management Act 2002*. The proposed arrangements set out the purpose of the trust fund, the nature, accounting procedures as to how monies can be distributed and for what types of projects and the Board structure etc for the approval of funds to be released. The arrangements allow for monies to be paid to charities, church groups, non-government organisations (NGOs) and government agencies.

The proposed structure would be overseen by the Minister of Lands, Environment, Climate Change and Natural Resources as Chair; and include the Ministers of Finance, Infrastructure, Internal Affairs, and a development partner representative who is a resident of Tonga.

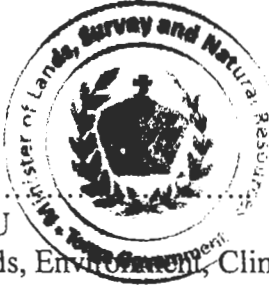
The proposed Climate Change Trust Fund can be used for the current ADB managed CIF funding and other future contributors. The original Bill can be further developed and used for any future funding made available to Tonga by international donors in the future as required.

## RECOMMENDATION

The following recommendations are submitted for approval that:

1. The Cabinet approve the Climate Change Trust Fund under the *Public Finance Management Act 2002* for use of monies provided by the Climate Investment Fund through ADB and any other future contributors; and
2. There be further development of the Climate Change Trust Fund Bill so as it can be passed by Parliament in the future.

Respectfully Submitted



LORD MA'AFU

Minister of Lands, Environment, Climate Change and Natural Resources

## CLIMATE CHANGE TRUST FUND

<b>Trust Fund Name</b>	Climate Change Trust Fund
<b>Ministry</b>	Finance and National Planning / Lands, Environment, Climate Change and Natural Resources
<b>Operation</b>	The Climate Change Trust Fund will operate under s 22 of the <i>Public Finance Management Act 2002</i> .
<b>Interpretation</b>	<p>With respect to any interpretation under this Protocol, unless the context otherwise requires, the following will be read as:</p> <ol style="list-style-type: none"><li>“ADB” means the Asian Development Bank;</li><li>“ADB Grant” means the grant to be provided by the ADB Strategic Climate Fund for the purpose of climate change adaptation and mitigation and disaster risk management under the Strategic Program for Climate Resilience and funded by the Climate Investment Fund, such grant to be administered by ADB;</li><li>“ADB Grant Agreement” means the grant agreement to be signed between ADB and the Government of Tonga in respect of the ADB Grant;</li><li>“Fund” means the Climate Change Trust Fund established by the Minister for Finance and National Planning;</li><li>“Community based” means, with reference to a project, that the project initiative comes from a Community and/or an organisation based within a community, and that the project itself is confined to the geographical and operational confines of that community;</li><li>“Small scale project” means a project requiring less than USD\$50,000;</li><li>“Medium scale project” means a project requiring more than USD\$50,000 but less than USD\$250,000; and</li><li>“Large scale project” means a project requiring more than USD\$250,000.</li></ol>
<b>Purpose</b>	<p>The purpose of the Fund is to provide grant funding:</p> <ol style="list-style-type: none"><li>To finance community based climate adaptation and mitigation and disaster risk management projects which are small scale projects: Approval for such projects would be at the discretion of the Board of the Fund;</li><li>To finance the climate component of non-community based projects that are small scale and/or medium scale projects;</li><li>To provide supplementary financial support to small scale community based, climate related projects proposed by other organisations including charities, church groups, non-government organisations (NGOs), government agencies, etc., which are small scale projects; and</li><li>To audit accounts and procedures used and to conduct technical audits to check for achievement of value for money.</li></ol> <p>All entities (Government, Civil Society and NGO’s) may propose projects for financing by the Fund.</p>
<b>Project Approval</b>	<p>Project evaluation and selection shall be made on the basis of specified criteria contained with Annex 1</p> <p>Approval for small scale projects would be at the discretion of the Board of the Fund. Approval for medium scale projects may also need Cabinet Economic Development Committee (CEDC) approval depending on the size of the project.</p> <p>Financing of projects by the Fund may be undertaken in tranches, subject to</p>

satisfactory performance of each tranche. This may reflect the nature of the project itself, funding ceiling limitations imposed by development partners or a decision of the Board of the Fund.

Projects funded through grants provided by development partners will need to meet any relevant performance targets set out in the partner's funding agreement and also conforms with the lending and procurement rules of these development partners.

### **Nature of the Funds**

The Fund will initially be endowed with a capital sum of USD\$5 million, comprising part of the ADB Grant provided to support the Strategic Program for Climate Resilience, a program funded by the Climate Investment Fund.

Contributions may be made to the Fund by national and international parties including bi-lateral and multi-lateral development partners providing that such funds are utilised in support of the objectives of the Fund.

The Fund will be constituted of two elements:

- a) An Endowment Account comprising eighty percent (80%) of the initial capital sum (USD\$4 million). This money will be invested in a low risk financial instrument (or bank account);
- b) An Operational Account which will be used to finance projects approved by the Board of the Fund. The Operational Account will be financed through:
  - i. That portion of the initial capital sum that was not allocated to the Endowment Account;
  - ii. Interest and capital gains earned on the funds placed in the Endowment Account; and
  - iii. Money raised through other sources including: bi-lateral and multi-lateral development partner contributions, duties / taxes levied for the specific purpose of providing climate funding, etc.

The Operational Account will be used to finance projects subject to the restriction that the balance of the Operational Account must not be allowed to fall below USD\$100,000. Once the balance of the Operational Account reaches this threshold, no new projects may be approved or financed. This is to ensure that sufficient money is available to finance any unforeseen costs associated with existing projects.

The Fund is not expected to have a finite life and will continue operation beyond the lifespan of the ADB program that provided the initial grant financing for the Fund. As such, the operational arrangements set out in this Protocol should be expected to last for many years.

### **Collection and Deposit Procedures**

Treasury will undertake all necessary actions to ensure that:

- a) All monies earmarked for the Fund are directly deposited into the Fund's account(s);
- b) Money withdrawn from the Fund Operational Account is only used for the expenditures authorised by this protocol; and
- c) Budget documents accurately register the use of the projects for climate change purposes, allowing for tracking of government expenditure on climate change.

Treasury will take steps to ensure that all funds due to the Fund are collected and deposited in a timely manner into the Fund's bank account(s).

**Disbursement of Funds and Fiduciary Procedures**

The Fund shall be used primarily to finance community grant projects as well as small to medium scale climate components of other projects. The Fund will also meet the costs of administering the Fund.

Funds will only be disbursed for works, goods and services that have been approved by the Board of the Fund and that meet the criteria set out in Annex 1.

Communities may be expected to contribute towards the cost of any project in cash or in-kind. The nature and form of any such contribution shall be specified in the project funding application.

Where approved project funding has not been fully utilised by the project sponsor, all unused funds shall be re-deposited into the Fund's Operational Account.

All receipts and expenditures of the Fund must be in accordance with s 22 of the *Public Finance Management Act 2002*.

Reconciliation must be performed monthly with the Ministry of Finance and National Planning and copies of the reconciliation must be submitted within seven (7) days of receiving the ledger report.

**Audit**

The accounts and other financial statements of the Fund will be audited annually by the Auditor General and/or an auditor as appointed by the Board.

Technical audits of projects will also be carried out on a selective basis as recommended by the Auditor General, to be funded by the Fund. The technical auditor will be expected to use international audit standards. The technical auditor will present a report to the Board and subsequently Cabinet which will give an opinion on the accuracy of the records and financial accounts of the Fund, the completeness of income of the Fund and the conformity of payments with the priorities laid down in this protocol.

All accounts and records must be retained for seven (7) years after the date of the transactions to which the accounts and records relate

**Fund Monitoring**

Within six months after the end of each financial year, the Board of the Fund will publish and make publicly available an Annual Report. The Annual Report will summarise the main activities of the Fund during the preceding year, describe how the Fund has managed to meet its objectives and present the audited accounts for the year just ended together with the auditor's report on the accounts.

The Board of the Fund should also provide any other reporting documentation requested by any development partners (as well as any other relevant parties) who have contributed to the Fund and any administrators of such contributions.

**Board**

The Fund will be managed by a Board chaired by the Minister of Lands, Environment, Climate Change and Natural Resources, or his/her successor. The Board shall comprise the following individuals (or their designated representatives):

- a) Minister of Lands, Environment, Climate Change and Natural Resources (Chair);
- b) Minister for Finance and National Planning;
- c) Minister of Infrastructure;
- d) Minister of Internal Affairs; and
- e) Bi-lateral / multi-lateral development partner representative (who should be

resident in Tonga) as nominated by the bi-lateral / multi-lateral development partners present in Tonga.

The role of the Board shall include:

- a) Approving fund disbursement for project applications made to the Fund;
- b) Managing and directing the work of the Fund's Technical Secretariat;
- c) Working with relevant government organisations on planning and managing climate related projects and investments;
- d) Recommending to the Minister for Finance and National Planning how financing may be secured and spent;
- e) Reviewing and approving a communications program to inform the public about the existence, purpose and operating modality of the Fund;
- f) Publishing and presenting to Cabinet a financial and technical annual report of the activities undertaken and results achieved by the Fund; and
- g) Publishing and presenting any other Reports as required, including audit reports.

Project funding decisions made by the Board will normally be by consensus but may be subject to a vote. A minimum of four members of the Board constitutes a quorum and no Board decisions may be made if less than four members are present. A majority of the Board need to be in favour for the project funding application to proceed. In the event of a tie, the vote of the Chair will be the casting vote.

The Minister for Finance and National Planning consistent with s 22(3) of the *Public Finance Management Act 2002* shall not disapprove the request of the Board where the money has already been received by the Ministry and is trust money as defined under this Act. In the event of funding disapproval, the Minister of Finance and National Planning shall provide justification and reasons in writing to the Board for the decision.

#### **Authorised Signatories**

Funds will be withdrawn from the Fund following a resolution of the Board. Cheques will be signed by two (2) authorised signatories including one authorised signatory that must be a Board Member. The following are authorised signatories under the Fund:

- a) Minister of Lands, Environment, Climate Change and Natural Resources;
- b) Minister of Finance and National Planning;
- c) Chief Executive Officer of the Ministry of Lands, Environment, Climate Change and Natural Resources; and
- d) Chief Executive Officer of the Ministry of Finance and National Planning.

#### **Technical Secretariat**

The Technical Secretariat function under the Fund will be provided by the Joint National Action Plan (JNAP) Secretariat and Working Group and a Member of Civil Society as part of Working Group. The role of the Technical Secretariat shall include:

- a) Developing and updating (as necessary) criteria and a process for the selection of projects to be financed by the Fund;
- b) Receiving, reviewing and assessing project applications received by the Fund;
- c) Liaising with relevant government and NGOs in relation to the planning and management of climate related projects and investments;
- d) Recommending to the Board how funding for the Fund money may be secured and spent;
- e) Developing and mobilising a communications program to inform the public about the existence, purpose and operating modality of the Fund;
- f) Monitoring the progress of projects financed by the Fund;
- g) Producing a financial and technical annual report for submission to the Board

- of the activities undertaken and results achieved by the Fund; and  
 h) Producing any other Reports as required.

**Authorised Signatories**

Name	Position/Designation	Signature
Lord Ma'afu	Minister of Lands, Environment, Climate Change and Natural Resources (Chair)	
The Honourable Lisiate 'Aloveita 'Akolo	Minister of Finance and National Planning	
Mr Asipeli Palaki	Chief Executive Officer of Ministry of Lands, Environment, Climate Change and Natural Resources	
Ms Balwyn Fa'otusia	Chief Executive Officer of Ministry of Finance and National Planning	

Signed by Minister of Lands, Environment, Climate Change and Natural Resources (Chair)

Name

Lord Ma'afu

Date

**Approved/Not Approved**

## **Annex 1 – Project Selection Criteria**

The Technical Secretariat shall apply the following criteria in selecting projects for submission to the Board for funding approval.

1. The proposed activity addresses:
  - a) Identified immediate and urgent priority climate change risks; and
  - b) Community vulnerability to, and impacts of, climate change.
2. The activity must form part of an existing Community Adaptation Plan and/or Vulnerability Assessment.
3. The proposed activity does not produce adverse social and/or environment impacts.
4. The project implementing entity clearly demonstrates that it has available (or has secured access to) human resources with the necessary skills required to implement the activity.
5. The proposed activity must have clear objectives and measurable impacts.
6. The proposed activity should represent ‘value for money’ as represented by measures such as number of households benefitted, proportion of funding allocated for non-overhead expenses, etc.
7. Priority should be given to proposed activities that directly benefit women, children or vulnerable groups.