

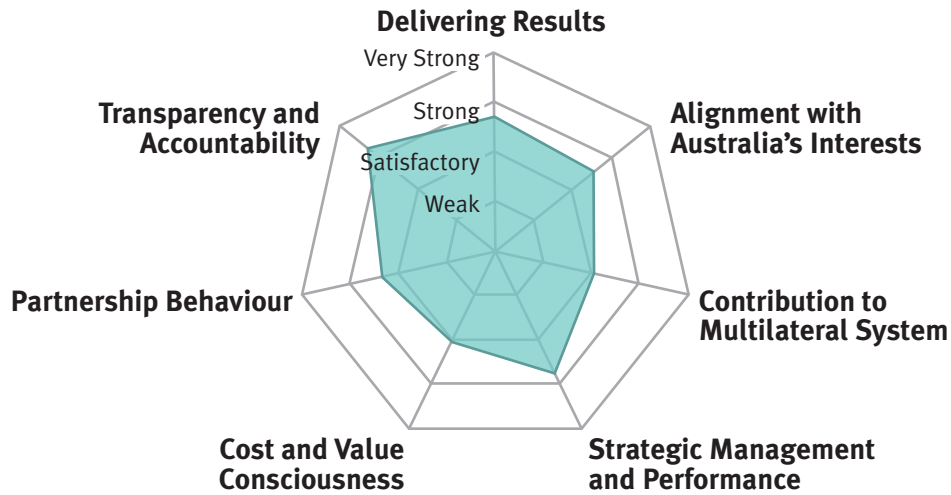


Australian Multilateral Assessment March 2012

Least Developed Countries Fund (LDCF)



OVERVIEW OF ORGANISATION RATINGS



ORGANISATION OVERVIEW

The Least Developed Countries Fund (LDCF) was established under the United Nations Framework Convention on Climate Change (UNFCCC) at its seventh session in Marrakech, Morocco, in 2001. It supports least developed countries to identify their urgent and immediate climate change adaptation needs through the preparation and implementation of national adaptation programs of action.

LDCF is governed by the Global Environment Facility (GEF) Council, which meets as the LDCF Council. GEF is the LDCF's Secretariat and the World Bank is the trustee. As at 30 September 2011 the total pledged to the fund was US\$420.8 million.

Australia provided \$6.3 million in 2010–11 in voluntary core contributions, and has pledged another \$15 million, which will be distributed to the Adaptation Fund (AF) during 2012–13. Australia engages in LDCF's operation through its seat on its Council and as party to the UNFCCC negotiations.

RESULTS AND RELEVANCE

1. Delivering results on poverty and sustainable development in line with mandate

STRONG

LDCF has only recently started to fund projects and more time is needed to assess concrete results. So far, 46 countries have completed national adaptation programs of action and submitted implementation projects. The first annual monitoring reviews and project implementation reviews were presented in May and November this year. The reviews indicate that the overwhelming majority of LDCF projects have made satisfactory progress towards development objectives, although it is still early days.

LDCF operates out of GEF facilities and uses its results-based management system. GEF is implementing a revised results-based management framework, which should enable it to report more comprehensively on results and impact. The proposed framework appears to be robust.

By its nature LDCF focuses only on the poorest countries. Its processes maximise benefits for the poorest within these countries. For example, guidance to the national adaptation programs of action stress that the poor living in least developed countries are the most vulnerable and in need of extra protection. The programs also require that in-country consultation take place with special attention given to the voice of the poor. However, the level of these consultations varies from country to country.

a) Demonstrates development or humanitarian results consistent with mandate

SATISFACTORY

As at 1 October 2011, 46 countries had completed national adaptation programs of action and submitted implementation projects.

In terms of the areas the LDCF is supporting:

- > 29 per cent of approved funding is for agriculture and food security
- > 26 per cent is for disaster preparedness and risk management
- > 19 per cent is for water resource management
- > 15 per cent is for community level adaptation
- > 8 per cent is for natural resource management
- > 2 per cent is for infrastructure, and
- > 1 per cent is for health.

Although all the projects under the LDCF are in their early stages, internal progress reports indicate that the majority have made satisfactory progress towards their development objectives.

b) Plays critical role in improving aid effectiveness through results monitoring	STRONG
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LDCF operates out of GEF facilities and uses GEF’s results-based management framework.

GEF’s results framework includes monitoring and evaluation on three levels: institutional, programmatic (or focal area); and project level.

This framework is being updated in line with GEF’s fifth replenishment and now includes corporate objectives, targets and outcomes, against which focal area goals must align. This should enable it to report more comprehensively on results and impact. The framework appears to be robust, but more time is needed to see the effects of the modifications.

GEF has an independent evaluation office, which provides the LDCF Council with a range of evaluation products to assist the Council in improving effectiveness, including an overall performance study reviewing GEF’s effectiveness over each replenishment period. The study includes a review of the LDCF. GEF often implements the recommendations in the overall performance study in the following replenishment.

c) Where relevant, targets the poorest people and in areas where progress against the MDGs is lagging	STRONG
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By its nature LDCF focuses only on the poorest countries. Guidance on the preparation of national adaptation programs of action states that the poor living in least developed countries are the most vulnerable and are in need of extra protection. There is a requirement for in-country consultations and the guidelines stress that particular attention should be given to including the voices of the poor. However, in practice, the level of consultations varies from country to country and can be limited as a result of insufficient time allocated to consultations with local communities.

2. Alignment with Australia’s aid priorities and national interests	STRONG
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LDCF activities align with the Australian Government’s broader objectives for climate change and environmental sustainability.

LDCF’s work aligns with the aid program’s strategic goal of sustainable economic development, which states that the aid program should reduce the negative impacts of climate change and other environmental factors.

GEF’s policies on crosscutting issues apply to LDCF. GEF has only recently adopted a gender mainstreaming policy (May 2011) that sets out comprehensive requirements for its partners. GEF has also adopted a new environment and social safeguards policy addressing crosscutting issues such as Indigenous and cultural rights.

LDCF does not have a policy on people with disability.

Climate change is addressed as the core of LDCF’s mandate.

LDCF has successfully worked with fragile states that are also least developed countries to develop the national adaptation programs of action, although LDCF has not specifically outlined whether it adjusts its procedures to accommodate fragile states.

a) Allocates resources and delivers results in support of, and responsive to, Australia’s development objectives	STRONG
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LDCF’s mandate and activities are closely aligned with the Australian Government’s climate change and environmental sustainability objectives, including those outlined in its International Climate Change Adaptation Initiative (ICCAI), which is co-managed by the AusAID and the Australian Government Department of Climate Change and Energy Efficiency.

LDCF is responsive to Australia’s priorities. Australia actively engages in United Nations Framework Convention on Climate Change (UNFCCC) guidance to the GEF about the LDCF through the agenda items on LDCF and the Least Developed Countries Expert Group in the UN climate change negotiations. Guidance provided to the LDCF at the Conference of the Parties in December 2010 requested it improve communication with least developed countries, speed up the project approval cycle and facilitate the funding of the other elements of its work program. GEF has since worked to deliver on these requests.

b) Effectively targets development concerns and promotes issues consistent with Australian priorities	STRONG
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In *An Effective Aid Program for Australia*, the government states that one of the strategic goals of the aid program is to support sustainable economic development. Under this goal, the government indicated that the aid program should reduce the negative impacts of climate change and other environmental factors. LDCF plays a role in addressing this goal. LDCF’s goals are also consistent with the aid program’s focus on the most vulnerable states.

c) Focuses on crosscutting issues, particularly gender, environment and people with disabilities	SATISFACTORY
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GEF’s policies on crosscutting issues apply to LDCF. GEF has only recently adopted a gender mainstreaming policy (May 2011) that sets out comprehensive requirements for its partners, including the incorporation of gender equality and gender aspects into program and project design and in monitoring and evaluation.

Climate change is addressed as the core of LDCF’s mandate. GEF has adopted a new environment and social safeguards policy addressing crosscutting issues such as indigenous and cultural rights.

LDCF does not have a policy on people with disability.

d) Performs effectively in fragile states	SATISFACTORY
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LDCF has successfully worked with fragile states that are also least developed countries to develop the national adaptation programs of action, although LDCF has not specifically outlined whether it adjusts its procedures to accommodate fragile states. LDCF does not appear to have a policy or tool specifically directed at implementing agencies working in fragile states.

3. Contribution to the wider multilateral development system	SATISFACTORY
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LDCF fills the niche role of working with least developed countries to develop and implement national adaptation programs of action. As well as assisting these countries in identifying their urgent adaptation needs, the programs of action add value to the climate change financing system because least developed countries can use them to leverage adaptation funding from other climate change funds, such as Climate Investment Funds.

LDCF serves as a key channel for fast-start finance towards addressing the immediate effects of climate change on the world’s poorest and most vulnerable. LDCF has leveraged US\$919 million in co-financing, more than US\$4.2 for each dollar contributed by LDCF. It plays a leading role in setting norms and standards for national adaptation programs of action and adaptation planning more generally for least developed countries.

The LDCF promotes knowledge of adaptation among least developed countries. The Least Developed Country Expert Group—related to LDCF through the UNFCCC—provides specialist expertise and issues useful guidance to least developed countries on issues related to LDCF.

a) Plays a critical role at global or national-level in coordinating development or humanitarian efforts	SATISFACTORY
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The LDCF has a mandate to work with least developed countries to develop and implement national adaptation programs of action and, in this niche role, indirectly builds their capacity to access funding for adaptation activities. It serves as a key channel for fast start finance towards addressing the immediate effects of climate change on the world’s poorest and most vulnerable. The LDCF has leveraged some US\$919 million in co-financing for baseline development activities, more than US\$4.2 for each dollar contributed by the LDCF. This means that LDCF projects are frequently integrated with large-scale development interventions.

Through helping developing countries design the national adaptation programs of action, the LDCF has contributed to international coordination. National adaptation programs of action have been used by least developed countries to leverage adaptation funding from other climate change funds, such as the pilot program for climate resilience under the Climate Investment Funds (CIFs) as well as bilateral programs.

National adaptation programs of action capture the urgent and immediate adaptation priorities of a point in time. They therefore could become redundant before the full range of projects they propose have been implemented. To address this, the UNFCCC agreed at

the December 2010 Conference of the Parties that national adaptation programs of action should be updated to reflect current circumstances and needs. Furthermore, Parties agreed that least developed countries should build on their national adaptation programs of action to formulate National Adaptation Plans (NAPs), which will take a medium to long-term focus.

b) Plays a leading role in developing norms and standards or in providing large-scale finance or specialist expertise	SATISFACTORY
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LDCF plays a leading role in setting norms and standards and building capacity in relation to national adaptation programs of action and adaptation planning more generally for Least Developed Countries.

The LDCF has not yet provided large-scale finance.

Specialist expertise is provided to Least Developed Countries through the LDCF Expert Group, which is related to LDCF through the UNFCCC and provides guidance on preparing, implementing and updating National adaptation programs of action and other LDCF-related issues.

c) Fills a policy or knowledge gap or develops innovative approaches	SATISFACTORY
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The national adaptation programs of action fill a policy and knowledge gap. By funding the preparation and implementation of National adaptation programs of action, the LDCF provides a process for Least Developed Countries to identify and prioritise their urgent and immediate climate change adaptation needs.

ORGANISATIONAL BEHAVIOUR	
4. Strategic management and performance	STRONG

LDCF's clear mandate is to address the special needs of least developed countries on climate change adaptation. The Revised Programming Strategy on Adaptation to Climate Change for the Least Developed Countries Fund and the Special Climate Change Fund covers LDCF's operations from 2010–11 to 2013–14. The national adaptation programs of action provide strategies for how adaptation needs should be addressed in each least developed country. Decisions on projects and funding approval are made in line with programs of action.

The LDCF Council functions under the guidance of the Conference of the Parties to the UNFCCC. Decisions by the Conference of the Parties are made in the context of broader international climate change negotiations and take into account political and practical realities, which can be difficult for Council to interpret and difficult for GEF to implement. LDCF's Council is effective in guiding GEF's Secretariat.

LDCF's Council agreed to apply GEF's monitoring and evaluation system to regularly assess and evaluate its work. GEF's Independent Evaluation Office provides Council with evaluation products to improve effectiveness. A key product is the Overall Performance Study which reviews GEF's effectiveness over each replenishment period (including a

review of LDCF) and provides recommendations against findings. GEF has been very responsive to recommendations and has consistently incorporated them into replenishment periods.

LDCF relies on GEF for leadership and human resources. Current GEF leadership is strong and has overseen reforms to help improve GEF’s effectiveness. GEF has been assessed by the Australian Multilateral Assessment as having effective and satisfactory human resource policies, with staff hired in accordance with World Bank procedures.

a) Has clear mandate, strategy and plans effectively implemented	STRONG
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The LDCF has a clear mandate under the Least Developed Countries (LDC) work program, agreed at the seventh UNFCCC Conference of the Parties. The LDC work program includes:

- > preparing and implementing the National adaptation programs of action
- > strengthening climate change secretariat and focal points
- > training in negotiation skills and language
- > promoting public awareness
- > developing and transferring technology, and
- > strengthening the capacity of meteorological and hydrological services to collect, interpret, analyse and disseminate weather and climate information to support the implementation of the national adaptation programs of action.

The document titled *Revised Programming Strategy on Adaptation to Climate Change for the Least Developed Countries Fund and the Special Climate Change Fund* covers LDCF’s operations from 2010–11 to 2013–14. The strategies for how adaptation needs should be addressed in the Least Developed Countries are covered by the national adaptation programs of action. Decisions on projects and funding approval are made in line with programs of action.

LDCF uses Global Environment Facility (GEF) structures to assess, approve and evaluate projects. GEF has developed a streamlined project approval process specific to LDCF proposals. Strict deadlines exist for GEF in terms of technical assessment of the project proposal and project proposal approval. For example, for full-size projects (that is, projects over US\$2 million) the GEF Secretariat has ten business days to undertake a technical review of the Project Identification Form (PIF). The Secretariat then recommends the PIF, returns it for adjustment or rejects it. Once the PIF is accepted the LDCF Council must review the PIF within four weeks. Approval is granted if there are no objections.

b) Governing body is effective in guiding management	SATISFACTORY
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The GEF Council serves as the LDCF Council. During GEF Council meetings, time is put aside for the GEF to meet as the LDCF Council and any GEF Council member is eligible to participate in the LDCF Council or may choose to attend as an observer. The LDCF Council is composed of 32 constituencies—14 from developing countries, 16 from developed

countries and two from countries with transitional economies. It meets twice per year and is responsible for adopting, developing and evaluating LDCF programs.

The LDCF Council functions under the guidance of the Conference of the Parties to the UNFCCC. Decisions at the UNFCCC are made in the context of broader international climate change negotiations and take into account both political and practical realities, which can sometimes make them difficult for Council to interpret and GEF to implement.

The GEF acts as the LDCF's Secretariat. The Secretariat reports directly to the Council and ensures that its decisions are translated into actions. The Secretariat ensures that operational strategies are followed, coordinates the formulation of projects and oversees their implementation. The LDCF Council is effective in guiding the GEF Secretariat.

c) Has a sound framework for monitoring and evaluation, and acts promptly to realign or amend programs not delivering results	STRONG
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LDCF's Council agreed to apply GEF's monitoring and evaluation system to regularly assess and evaluate its work. A key product is the overall performance study which reviews GEF's effectiveness over each replenishment period (including a review of LDCF) and provides recommendations against findings. GEF has been very responsive to recommendations and has consistently incorporated them into replenishment periods.

Where an implementing agency already uses an independent evaluation office to validate terminal evaluations, GEF's Independent Evaluation Office assesses the independent report to ensure that it meets GEF standards. This will also be the case for LDCF once the LDCF portfolio has matured.

An independent professional peer review of the evaluation function of the GEF was conducted by consultants in tandem with GEF's overall performance studies at the conclusion of GEF's fourth replenishment. The review found that the Evaluation Office has made commendable efforts to improve and facilitate professional evaluation work in the GEF and to provide leadership, within the GEF partnership and internationally, especially in the United Nations Evaluation Group.

In order to effectively monitor projects, GEF intends to integrate its results framework into its information technology infrastructure. The GEF Secretariat will work to strengthen this area over the next several years.

Like GEF, the LDCF's structures, policies and processes are assessed and evaluated on an ongoing basis.

d) Leadership is effective and human resources are well managed	STRONG
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LDCF relies on GEF for leadership and human resources. The GEF CEO has held the position since August 2006 and has overseen a number of reforms to make the GEF, and thereby LDCF, more effective, responsive and results focused. Current GEF leadership is strong and has overseen reforms to help improve GEF's effectiveness.

GEF has satisfactory human resource policies that are used by LDCF. Recruitment of staff is in accordance with World Bank procedures. Management efficiency and effectiveness is monitored by the Evaluation Office as part of its annual monitoring report processes. The *2011 Annual Monitoring Report* indicates a continuing improvement in gender equality and geographic distribution of staff, with the percentage of women staff increasing from 35 per cent in 2010 to 38 per cent in 2011 and the proportion of staff from developing to developed countries being 48 per cent to 52 per cent.

5. Cost and value consciousness

SATISFACTORY

LDCF relies on GEF for cost and value consciousness. GEF continues to improve the cost effectiveness of its activities. GEF has estimated that its climate change mitigation portfolio has avoided or prevented carbon emissions for a cost of less than US\$2 per ton. It has established thresholds for project management budgets but only scrutinises these when thresholds are exceeded.

In November 2011, GEF’s Secretariat established a working group to review the full fee structure for agencies to decrease the total cost of the fee structure.

In 2011, LDCF’s operating costs were three per cent of the overall value of the Fund. Costs are kept to a minimum by housing LDCF in the GEF and keeping staffing numbers low.

GEF provides a standard project cycle management fee to implementing agencies to manage GEF and LDCF project implementation. Project management costs have been reduced from an average of 15 per cent (under GEF-3) to five per cent in GEF-5.

GEF’s internal administrative costs are quite low in proportion to its external expenditure, noting that it does not implement projects directly.

The summary of the negotiations of the Fifth Replenishment of the GEF outlines the roles and responsibilities of implementing agencies, which includes ensuring cost effectiveness. However, LDCF’s Project Identification Form does not ask funding applicants to explain how the investment will be cost effective.

a) Governing body and management regularly scrutinise costs and assess value for money

SATISFACTORY

LDCF relies on the Global Environment Facility (GEF) for cost and value consciousness. GEF continues to improve the cost effectiveness of its activities.

GEF has estimated that its climate change mitigation portfolio has avoided or prevented carbon emissions for a cost of less than US\$2 per ton.

GEF’s internal administrative costs are low in proportion to its external expenditure, noting that it does not implement projects directly. The operating costs of the LDCF amounted to only three per cent of the overall volume of the Fund in fiscal year 2011 (July 2010 to June 2011). Cost savings are generated in part by having the LDCF housed in the GEF and keep staffing numbers low.

GEF provides a standard project cycle management fee to implementing agencies to manage GEF and LDCF project implementation. Project management costs have been reduced from an average of 15 per cent (under GEF-3) to five per cent in GEF-5.

In November 2011 the Secretariat established a working group to review the full fee structure for agencies to decrease the total cost of the fee structure.

b) Rates of return and cost effectiveness are important factors in decision making	SATISFACTORY
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GEF projects are reviewed for cost effectiveness at the endorsement stage. It has established thresholds for project management budgets but only scrutinises these when thresholds are exceeded.

c) Challenges and supports partners to think about value for money	SATISFACTORY
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The roles and responsibilities of implementing agencies outlined in the GEF Instrument include ensuring cost effectiveness of GEF financed activities. The document *Summary of the Negotiations of the Fifth Replenishment of the GEF* lists the responsibilities of implementing agencies, including ensuring cost effectiveness of GEF-financed activities.

Part two of the Project Identification Form which addresses project justification requires applicants to describe the incremental/additional cost they would like GEF to fund, but it does not ask them to explain how this investment will be cost effective.

When considering the cost effectiveness of projects at the CEO endorsement state of the approval process, if the GEF is not satisfied with the evidence provided, then further amendment will be requested and if required the project proposal amended.

6. Partnership behaviour	SATISFACTORY
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LDCF works closely with implementing agencies to improve program effectiveness and its relationship with recipient countries.

Measures include those carried out by the Least Developed Countries Expert Group, which conducts regional workshops to help recipient countries develop, update and implement national adaptation programs of action and better understand LDCF application procedures.

LDCF generally aligns with country priorities as national adaptation programs of action are strongly country-driven. However, feedback from least developed countries on LDCF project development and approval processes has been mixed on country ownership, with some recipient countries suggesting they are not fully consulted and that implementing agencies do not update them on project proposal status.

Guidelines on preparing national adaptation programs of action provide for the voice of stakeholders in decision making. There is a participatory process with stakeholders and, in particular, local communities. The degree of stakeholder engagement, however, varies

from country to country and there have been reports of participation being limited because insufficient time has been allocated for local community consultations.

a) Works effectively in partnership with others	STRONG
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LDCF works closely with implementing agencies and is improving its relationship with recipient countries. The LDCF Expert Group conducts regional workshops to assist Least Developed Countries in developing, updating and implementing national adaptation programs of action and to better understand LDCF project development and approval processes.

Some partner countries have expressed concerns about LDCF implementation with regard to country ownership of project proposals. This issue is further explored in the component immediately below.

There are also some communication issues between the LDCF Secretariat and least developed countries. In particular, there has been ongoing confusion around the principle of the co-financing sliding scale. Because LDCF funds the incremental cost of adaptation activities, it relies on co-financing from development partners to pay for the business-as-usual part of the project. The co-financing sliding scale was designed to simplify and expedite the calculation of incremental costs. However, despite the Global Environment Facility (GEF) Secretariat's repeated efforts to explain the sliding scale, Least Developed Countries view it as an additional requirement for accessing LDCF resources.

b) Places value on alignment with partner countries' priorities and systems	SATISFACTORY
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The LDCF aligns with partner country priorities and systems through the funding of the national adaptation programs of action, which have strong country ownership and are strongly country driven. Country ownership of project funding applications is variable. Some partner countries have expressed concern over less than adequate consultations in the development of project proposals and that implementing agencies do not provide them with updates regarding the status of project proposals.

c) Provides voice for partners and other stakeholders in decision making	SATISFACTORY
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Guidelines on national adaptation programs of action preparation state that they must be prepared through participatory processes involving stakeholders and, in particular, local communities. A similar approach is expected for the implementation process. However, the level of consultation has varied from country to country. There have been reports of participation being limited because insufficient time has been allocated for local community consultations. In East Timor, district level consultations were held over one day in a number of districts, and most participants at these meetings were village representatives, predominantly men.

7. Transparency and accountability**STRONG**

LDCF is transparent and systematically publishes all documentation on its website. GEF’s Secretariat maintains a project database easily accessible through the internet, allowing the public to access all documents and information on approved projects. However neither GEF nor LDCF are members of the International Aid Transparency Initiative.

LDCF is transparent and systematic in allocating resources. Under the balanced access principle, funding is available to all least developed countries on an equal basis. Funding is not provided on a first-come, first-serve basis, which would favour countries with higher institutional capacity. However, this approach has led to some problems, with countries with greater capacity being unable to access further funding. This is because a large proportion of LDCF’s resources are notionally allocated to countries not yet ready to access funding.

As LDCF’s trustee, the World Bank’s strong internal controls, fiduciary management and audit compliance are applied. Transparency and accountability in partners is promoted through the application of minimum fiduciary standards to all LDCF implementing agencies, which include a strong transparency component.

a) Routinely publishes comprehensive operational information, subject to justifiable confidentiality**STRONG**

LDCF’s transparency policies and practices are the same as those of GEF. GEF publishes all of its policies, decisions, evaluations and operational documents as a matter of course. The *Instrument for the Establishment of the Restructured Global Environment Facility* states that GEF operational policies, ‘with respect to GEF-financed projects shall provide for full disclosure of all non-confidential information’.

GEF also has a Project Database accessible via the internet, which allows the public to access all documents and information on approved projects. This includes LDCF projects.

However, neither GEF nor the LDCF are members of the International Aid Transparency Initiative.

b) Is transparent in resource allocation, budget management and operational planning**STRONG**

The LDCF is transparent and systematic in resource allocation. Under the balanced access principle, funding for national adaptation programs of action implementation is available to all least developed countries on an equal basis. Funding is not provided on a first-come, first-serve basis, which would favour countries with higher institutional capacity. However, this approach has led to some problems, with countries with greater capacity being unable to access further funding. This is because a large proportion of LDCF’s resources are notionally allocated to countries not yet ready to access funding.

c) Adheres to high standards of financial management, audit, risk management and fraud prevention	VERY STRONG
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The World Bank is the trustee for the LDCF and is responsible for:

- > accounting and reporting
- > investment management and cash flow management
- > financial and risk management
- > management of transactions with partners
- > commitment and disbursement of funds
- > infrastructure and systems, and
- > legal services.

LDCF's resources have been managed responsibly and effectively by the World Bank as Trustee.

d) Promotes transparency and accountability in partners and recipients	STRONG
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GEF is encouraging transparency and accountability in LDCF partners by applying minimum fiduciary standards to its implementing agencies. These standards were approved by GEF Council in June 2007.

The fiduciary standards, amongst other things, include requirements for:

- > a financial disclosure policy that addresses possible or apparent conflict of interest
- > a code of ethics defining the standards to be upheld by agency staff including the protection of agency and GEF assets
- > internal auditing in line with internationally recognised standards, and
- > a hotline or whistleblower mechanism for reporting of suspected unethical, corrupt, fraudulent activities.

The fiduciary requirements will apply to the new agencies accredited under the GEF's new 'Broadening the GEF Partnership' pilot.