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Cambodia

Climate Public Expenditure and Institutional Review

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July 2012

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Abbreviations

ADB	Asia Development Bank
BSP	Budget Strategic Plan (sometimes referred to as Budget Strategy Paper)
CBD	Convention on Biological Diversity
CARERE	Cambodia Area Rehabilitation and Regeneration Project
CC	Climate Change
CCCA	Cambodia Climate Change Alliance
CCCSP	Cambodia Climate Change Strategic Plan
CCD	Climate Change Department
CCO	Climate Change Office
CCSP	Climate Change Strategic Plan
CCTT	Climate Change Technical Team
CDC	Council for the Development of Cambodia
CDM	Clean Development Mechanism
CDRI	Cambodia Development Resources Institute
CI	Conservation International
CIP	Commune Investment Plan
CMDG	Cambodia Millennium Development Goal
CoM	Council of Ministers
CPEIR	Climate Public Expenditure and Institutional Review
CR	Cambodia Riel (Cambodia currency)
CSF	Commune/Sangkat Fund
CSO	Civil Society Organizations
DANIDA	Danish International Development Agency
DEPFP	Department of Economic and Public Finance Policy
DIC	Department of Investment and Cooperation
DIPECHO	Disaster Preparedness Program European Commission Humanitarian Aid Department
DMF	District/ Municipal Fund
DNA	Designated National Authority
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
EC	European Commission
ELC	Economic Land Concession
EU	European Unions
FA	Forestry Administration
FFI	Fauna and Flora International
FiA	Fisheries Administration
FAO	Food and Agriculture Organization of the United Nations
GCCA	Global Climate Change Alliance
GCF	Government Counterpart Funds
GDANCP	General Department of Administration for Nature Conservation and Protection
GDNT	General Department of National Treasury (MEF)
GERES	Groupe Energies Renouvelables, Environment et Solidarite
GHG	Green House Gas
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (was GTZ and others)
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
IP3	Three Years Implementation Plan
IUCN	International Union for Conservation of Nature
IWRM	Integrated Water Resource Management
JICA	Japan International Cooperation Agency
LAMC	Law on Administration and Management of Commune Councils
LD	Line Department
LGCC	Local Governance and Climate Change
LI	The Learning Institute
MAFF	Ministry of Agriculture, Forestry and Fisheries
MEF	Ministry of Economy and Finance
MIME	Ministry of Industry, Mines and Energy
MLMUPC	Ministry of Land Management, Urban Planning and Construction
MMPFP	Mid-term Macroeconomic and Public Finance Policy
MoE	Ministry of Environment

MoH	Ministry of Health
MoWRAM	Ministry of Water Resources and Meteorology
MPWT	Ministry of Public Works and Transport
MRD	Ministry of Rural Development
MTEF	Medium Term Expenditure Framework
NAPA	National Adaptation Programme of Action for climate change
NBSAP	National Biodiversity Strategy and Action Plan
NCCC	National Climate Change Committee
NCDD	National Committee for Democratic Development
NCDM	National Committee for Disaster Management
NCSC	National Commune Sangkat Council
NGO	Non-Governmental Organization
NFP	National Forest Programme
NIS	National Institute of Statistics
NP-SNDD	National Program for Sub-National Democratic Development
NSDP	National Strategic Development Plan
NTFP-EP	Non-timber Forest Products Exchange Programme
PAP	Priority Action Programme (sometimes referred to as Priority Action Plan)
PFM	Public Finance Management
PFMRP	Public Finance Management Reform Programme
PIP	Public Investment Programme
PLG	Participatory Local Governance Project
PMU	Project Management Unit
PPCR	Pilot Programme for Climate Resilience
PRDC/ExCom	Provincial Rural Development Committee / Executive Committee
PSDD	Project to Support Democratic Development
REDD	Reduce Emission from Deforestation and Degradation
REAP	Renewable Electricity Action Plan
REF	Rural Electrification Fund
RGC	Royal Government of Cambodia
RUA	Royal University of Agriculture
SAW	Strategy for Agriculture and Water
SIDA	Swedish International Development Agency
SNA	Sub-National Administration
SNAP	Strategic National Action Plan for DRR
SNC	Second National Communication
SNEC	Supreme National Economic Council
SNIF	Sub-National Investment Facility
SRI	System Rice Intensification
SWAp	Sector Wide Approaches (for donor financing coordination)
TOFE	Tableau des Operations Financieres de l'Etat
TWG	Technical Working Group
UNFCCC	United Nations Framework Convention on Climate Change
UNISDR	United Nations International Strategy for Disaster Reduction
UNDP	United Nations for Development Programme
UNOPS	United Nations Office for Project Services
WB	World Bank
WCS	Wildlife Conservation Society
WWF	World Wildlife Funds

Executive Summary

Introduction

This Cambodia Climate Public Expenditure and Institutional Review (CPEIR) is one of five pilot CPEIRs. The pilots are being coordinated by UNDP and undertaken by ODI with national and international experts, working closely with governments. The Cambodia CPEIR took place between March and June 2012.

The objective of the CPEIR is to review the expenditure on activities that are related to climate change, and to assess the extent to which this expenditure is guided by existing policy and institutional responsibilities.

The CPEIR focuses equally on domestic expenditure and external expenditure and covers both recurrent and development expenditure. It aims to help improve the balance and focus of existing climate expenditure, as well as to guide new climate finance that is likely to be available to Cambodia through the Special Programme for Climate Resilience, the Adaptation Fund, the Fast Track Funds and the Green Climate Fund, as well as through the funding provided by bilateral and multilateral programmes.

The Cambodia CPEIR defined three categories of climate relevance:

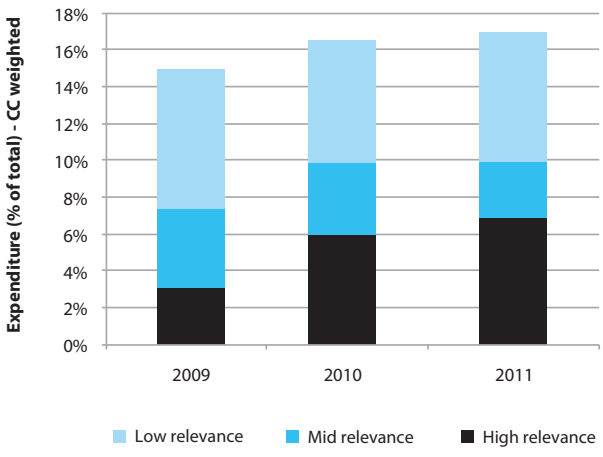
- High relevance programmes have clear primary objectives of delivering concrete and visible outcomes that improve climate resilience or contribute to mitigation. They include mitigation and adaptation to expected climate trends or extreme climate events and provision of climate services, such as awareness, information, planning and regulations. It is assumed that 80% of the expenditure in these programmes contributes to adaptation or mitigation.
- Mid relevance programmes make strong contributions to adaptation or mitigation but are motivated primarily by broader development concerns. They include economic forestry, biodiversity, many water programmes and infrastructure that have a strong climate proofing element. They may also include mixed programmes with a variety of activities that cannot be easily distinguished. It is assumed that 50% of the expenditure contributes to adaptation or mitigation.
- Low relevance programmes contribute to adaptation and mitigation only indirectly. They include livelihoods programmes and more general infrastructure and planning capacity and it is assumed that 25% of the expenditure contributes to adaptation and mitigation.

Applying the 80%, 50% and 25% assumptions for high, mid and low relevance gives an estimate of the share of total public expenditure that is climate relevant. This grew from 14% in 2009 to nearly 17% in 2011, as shown in the graph below. The figures include both on-budget and off-budget funding. Total climate relevant expenditure is CR 3076bn (US$ 769m).

Policy

High Level Engagement. The government has shown some leadership on climate change through the es-

Climate Relevant Expenditure as a % of Total Public Expenditure



tablishment of the National Climate Change Committee (NCCC), with the Prime Minister as honorary chair. There is, however, limited public debate amongst politicians and in the media about the importance of climate change, although many NGOs have expressed a strong interest to participate in such processes.

National Policy. Until recently, climate change has been treated as a subcomponent of environmental policy in national strategies. However, this situation is improving, and the current NSDP includes some specific actions addressing climate change as well as frequent references to climate change in sectoral chapters. The Rectangular Strategy is less climate sensitive, but refers to environment in relation to safe water, hydropower and population policy. A Green Growth Roadmap highlights the opportunities for activities that combine growth and climate mitigation and adaptation. There are good prospects for improved national strategic guidance on climate change in the revised NSDP and Rectangular Strategy that will be prepared in 2103.

National Adaptation Programme of Action (NAPA). The NAPA has provided guidance to donors and government in identifying projects to support. Whilst only three of the twenty NAPA projects have been directly funded in the format proposed in the NAPA, fifteen have been addressed by other programmes, funded both by donors and by government. The NAPA is now out of date and is of limited relevance.

Other Relevant Strategies. The RGC has developed a range of cross-sectoral policies and strategies that are relevant to climate change. Under the Clean Development Mechanism, ten projects have been approved in Cambodia and six of these registered at UNFCCC. These do not yet include any forest projects, because of the high costs of the inventories required. RGC has also developed a REDD+ Roadmap and identified 13 pilot community forest sites. However, progress is slow because supervision is done largely by NGOs, who have limited capacity. A National Green Growth Roadmap was prepared in 2009, with seven immediate priorities. The roadmap has raised awareness about the potential for activities that contribute both to growth and climate mitigation and adaptation, but has yet to become an operational document. Finally, the National Committee on Disaster Management produced a Strategic National Action Plan for Disaster Risk Reduction (SNAP) in 2008. This has helped to raise the profile of disaster risk management in line ministries and more generally. *Any efforts to address climate change must be considered in the context of wider efforts to strengthen environmental and social governance, and particularly to improve systems to manage the environmental and social impacts of development efforts more broadly. Many activities to address climate change – particularly infrastructure projects which constitute a significant share of interventions – also have environmental and social impacts that need to be managed effectively.*

Sector Policies. Cambodia has a large number of sector strategies that address climate change, including, in particular: forestry, water and other natural resources; energy; and agriculture. All the ministries with some climate relevant expenditure have climate change focal points, but only MAFF has a climate change committee that engages senior officials. Both the Pilot Programme for Climate Resilience (PPCR) and the Cambodia Climate Change Alliance (CCCA) are planning to provide support to help line ministries improve the climate sensitivity of their sector policies.

Donor Coordination. The CCCA and PPCR provide a good basis for promoting more specific cooperation amongst donors on high relevance climate issues and for encouraging resources to be pooled. *Donors should continue to support CCCA and PPCR, and to require strong collaboration between the two. The provision of technical assistance should be linked, wherever possible, with the provision of funding for investment, if necessary through pilot schemes that test new modalities.*

Climate Policy. A new Climate Change Strategic Plan (CCSP) is currently being prepared, under the leadership of the Climate Change Department (CCD) and is expected to be ready by the end of 2012. This will be the first national policy statement on climate change. *The CCSP should guide climate relevant expenditure and policy across all the key sectors identified in the CPEIR. The CCD should continue to lead the preparation of the CCSP, with MEF involved in the costing, working with the finance departments of line ministries. The CCSP should cover mid-relevance climate expenditure as well as high relevance. It should include costings that are both aspirational and realistic, using phasing and scenarios to provide prioritisation.* The CCSP will take over from the National Adaptation Programme of Action (NAPA), and inform future action on adaptation.

Institutions

Coordinating Climate Institution. The NCCC provides a good foundation for cooperation on climate policy formulation and monitoring. The Prime Minister is honorary chairman and it is chaired by the MOE, with vice-chairs from MAFF, MIME and MOWRAM. There are 20 members, including the sixteen ministries most concerned with climate change and four committees, councils or authorities. A Climate Change Technical Team (CCTT) collaborates on more technical work and includes a Sub-group on Climate Finance that has supervised the CPEIR. The CCD acts as secretariat to the NCCC.

The next major task of the NCCC is to guide and approve the preparation of the CCSP. It will then be responsible for ensuring that the CCSP is used as the guide for future climate spending, including investments under the PPCR, Fast Track Funds and any Green Climate Funding that is available within the lifetime of the CCSP. The NCCC will also be responsible for ensuring that arrangements are made for mainstream sectoral programmes to be climate relevant.

Climate Change Annual Monitoring Report. There is currently no coordinated monitoring of climate expenditure in Cambodia. This CPEIR provides a baseline for starting this task. *To give focus to the monitoring of the CCSP a Climate Change Annual Monitoring Report (CCAMR) should be produced providing an update on policy and on climate expenditure and some indication of future prospects for policy and funding. The CCAMR should be compiled jointly by the CCD and by MEF, with contributions from relevance line ministries. CCD should deal with the policy sections and MEF with the expenditure sections. It should be approved by the NCCC.*

Climate Change in Line Ministries. There are a range of arrangements for managing climate change in line ministries: MoE have a Climate Change Department; MAFF have a Climate Change Committee; and MOWRAM, MRD and MIME rely on climate change focal points, established to collaborate with NCCC. Capacity to integrate climate change considerations into decision-making within key departments remains limited beyond a few designated individuals that are taking an active interest in climate change. *MOWRAM, MRD and MIME should create Climate Change Committees to provide higher level input and approval on climate policy in their sectors.* The CCCA includes plans for strengthening the capacity of line ministries to introduce climate sensitivity into sector strategies and this should be pursued. The PPCR includes plans for supporting climate screening of all new investments and this is also a high priority activity.

Links with Disaster Reduction. The National Committee for Disaster Management (NCDM) is responsible for responding to national disasters. It has a similar composition and status as the NCCC. It supports some disaster preparedness activities in communities, mostly involving capacity building, but does not fund any investment in infrastructure that reduces or prevents the impact of future floods or droughts. *To avoid any confusion, the relative roles of the NCDM and the NCCC should be made clear. It may be efficient for investment in*

adaptation to future climate disasters to be coordinated by NCCC, and implemented by relevant agencies.

Donor Technical Working Groups. The current system of Technical Working Groups (TWGs) can be used to facilitate donor coordination on climate change. There are, however, blockages in this system, associated often with the practical need for a small number of TWGs and, hence, the need for each TWG to accommodate the interests of several government institutions. Some pragmatic guidance is required from senior government officials.

NGOs and CSOs. NGOs and CSOs implement a large number of programmes and are often independent of government. *NGOs should also be invited and encouraged to cooperate with the TWG, the NCCC and the CCCA, to avoid duplication and inconsistency.*

The Private Sector. There is no easily available source of information about expenditure by the private sector on mitigation and adaptation. Informal consultation with an experienced business involved in solar panels suggests that the scale of the market may be about CR 20bn per year (US$ 5m), which would be the equivalent of about 2% of public expenditure. Private actors are certainly adapting to the impacts of a changing climate, and the investment associated with such changes may well be significant. It is, however, difficult to quantify and the detailed empirical work necessary to provide accurate insights into the nature and scale of such investment was beyond the scope of this review.

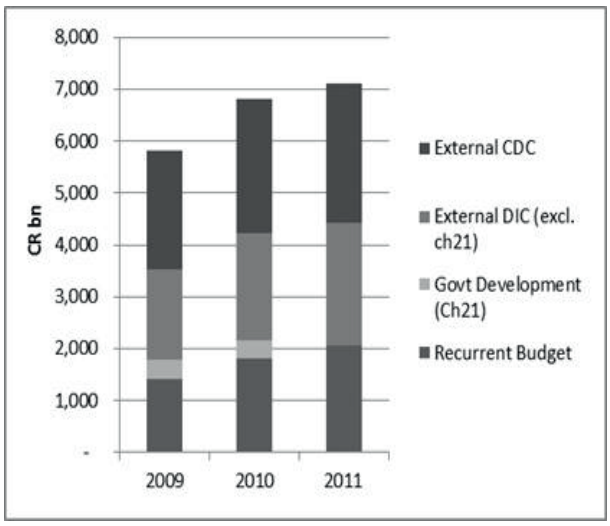
The figure below presents the range of different institutions that have been responsible for implementing climate expenditure and gives the number of programmes and the expenditure between 2009 and 2011. The institutions with the largest expenditure are the Ministry of Public Works and Transport (with 27% of total climate expenditure), the Ministry of Water Resources and Meteorology (13%) and the Ministry of Health 10%). International NGOs implement about 5% of total climate spending and local NGOs about 1%. Most NGO projects are small and they are responsible for 18% of the total number of projects.

Climate Relevant Expenditure by Implementing Agency

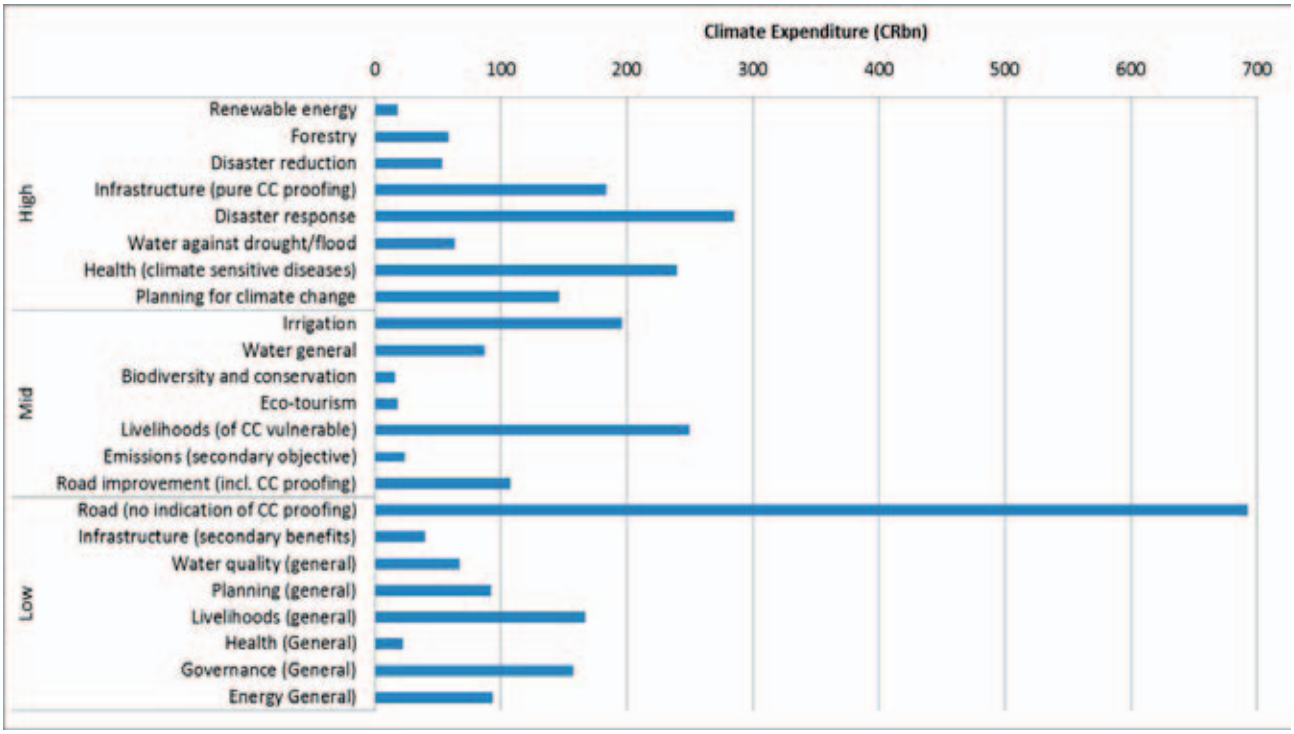
Local Governance

Capacity/Awareness at Local Levels. There is limited planning capacity at commune level and little awareness of climate change and its possible impact. However, this capacity is improving and all major investment projects at all levels, including communes, are subject to detailed appraisal and the Technical Teams that evaluate the appraisals do have the capacity to consider the impact of climate change. Recent reforms to expand the role of Provinces and, especially, Districts should help to provide further capacity at local levels. In practice, over 80% of local level funding at all levels is for roads and irrigation. Most of this is already designed to withstand severe weather events, especially since the 2009 floods. There is scope for improving the extent to which climate change concerns are taken into account in the appraisal of major investments at commune, district and provincial level, largely by working with the Technical Teams responsible for these appraisals. This approach is being tested through the PPCR.

Source of Funding for Public Expenditure



Climate Relevant Expenditure by Project Type



Public Financial Management

Data Sources. Three main sources of expenditure data have been used: the national budget, the database maintained by the MEF Department for Investment Cooperation and the database maintained by the Cambodia Development Council. The figure below presents the total expenditure recorded in each source.

The classification of expenditure was undertaken by defining 23 categories, each of which was defined as being high, mid or low relevance. The proportion of expenditure that was considered to be climate relevant was 80% for high relevance, 50% for mid relevance and 25% for low relevance. The total climate relevant expenditure between 2009 and 2011, after applying these weights, is presented below. The figure shows the importance the government places on roads in building climate resilience.

Classification. The classification of climate relevant expenditure has provided a useful overview of trends in the climate relevance of expenditure at a national level. It has the great benefit of being relatively simple. However, some challenges in classification remain, notably relating to the interpretation of projects that involve livelihood improvement, rural roads and other infrastructure. At present, there is a need for more precise guidance on the proportion of expenditure that should be considered as climate relevant, at all levels of government. In particular, it is not clear whether this is limited only to climate proofing expenditure and, if this is the case, whether it applies only to the element of climate proofing that deals with the increase in risks associated with climate change, rather than all weather related risks. Clearer guidance is also required on the extent to which improved livelihoods contributes to resilience in different locations and household types. *There is an opportunity to refine the classification system, which can be pursued through the work being supported by the PPCR to introduce screening methods that determine the contribution of programmes to mitigation and adaptation.*

The Budget Strategy Paper (BSP). The BSP and the Medium Term Expenditure Framework (MTEF) are the first steps in enabling government to change resource allocation patterns. At present, there is no assessment of climate expenditure in the BSP and MTEF. *MEF should work the MOE to ensure that every BSP and MTEF includes an assessment of the expected level of climate expenditure for the coming year and where the sectoral contributions to this expenditure are expected to come from.*

Recurrent Budget Classification. The PFM systems in place at present do not allow a thorough analysis of the climate relevance of domestically funded expenditure. The first problem is that data on budgets at department level in line ministries are not readily available and data on actual expenditure are even more difficult to access. However, even if more detail were available, it is not clear that the classification system would make it possible to monitor changes in climate relevance because it cannot be used to track changes in climate relevance within a budget unit, however detailed that unit is. *Budget systems are being improved to provide more details of functional expenditure within ministries. Whilst this will help to monitor the expenditure of the most climate relevant departments, it is more important to focus on improving the quality of mitigation and adaptation programmes and associated impact evaluation frameworks, alongside efforts to strengthen recurrent budget reporting.*

Development Expenditure. Externally funded project expenditure is easier to analyse, although there are some concerns about the data. The CDC database now includes a tag indicating whether projects address climate change. *A brief study should be undertaken of existing projects to improve the accuracy of the way the tag on climate change has been used. This is planned under the PPCR.*

Project Preparation and Appraisal. The project approval process is not coordinated, with MOP and MEF both involved, as well as the CDC. The project approval

practices used across government could benefit from greater standardisation, although the best way of achieving this is outside the scope of the CPEIR. *Whatever project approval processes are in place should include a requirement to demonstrate that climate change has been taken into consideration. This can involve a simple qualitative project screening question for smaller programmes, or programmes that do not claim to be climate relevant. For larger climate relevant programmes, it should involve a more rigorous analysis. The introduction of improved climate analysis in project appraisal should be coordinated by the CCTT, with joint input from MOE (on climate issues) and MOF (on economic issues). It should be introduced in a phased manner, and will require modest technical assistance. The PPCR is already planning to support this.*

National Climate Fund. There are a number of programmes dedicated to climate change, including: the NAPA, PPCR, CCCA, UN REDD and the FCPF. Cambodia has also sought access to global mechanisms such as the CDM. These programmes are largely implemented outside the budget. In addition, they tend to focus on high relevance activities, and are limited in their support for mid and low relevance climate programmes. NSDP II includes a priority action to create a National Climate Fund (NCF). This will be one of the most challenging elements of climate finance in the future. It may be possible to put some earmarked funding through the budget, but until impact indicators are available for climate adaptation, it will be difficult to provide budget support that is fully integrated into government planning systems. Cambodia will also need to demonstrate that the IFAPER reforms are making real progress in strengthening overarching PFM and budget management processes if contributors of climate finance are to feel confidence that these resources will be spent well if channelled through national systems. In the meantime, the government needs to plan to establish contributor coordinating modality that will take over from the CCCA and PPCR. This should be piloted as soon as possible, because the lifetime of the PPCR and CCCA is limited.

The NCF should be considered as a transitional arrangement, until full budget support is possible. MEF should lead on financial management and CCD should lead on technical analysis to ensure that all funding contributes to mitigation or adaptation. The priorities for NCF funding should be those defined in the new CCSP. It should provide funding for high relevance programmes and top-up funding to activities already covered in the budget to ensure that they are made more climate relevant. Priority could be given to no/low regret options that promote economic development as well as adaptation and mitigation. The fund might also be structured to incentivise recipient institutions to demonstrate that they are making progress towards improving PFM systems.

The NCF should consider operating through a reimbursement system similar to that used for the Commune Sangkat Fund (CSF) but not limited to local funding. This would mean that all activities are implemented fully through national planning, budget and treasury systems. As with the CSF, some form of independent verification should be provided to ensure that expenditure that is reimbursed does contribute to climate mitigation and resilience.

Impact of Climate Expenditure. There is little work in Cambodia on the impact of expenditure on mitigation and adaptation. Although rigorous work on this is detailed and requires good data, it is possible to provide indicative back-of-the envelope estimates very rapidly, based on estimates of emission and sequestration and the latest evidence of the increase in frequency and severity of extreme precipitation events (eg from the 2011 SREX report). *A brief study should be undertaken to provide yardstick indicators of the relative size of climate related benefits from projects, compared with overall benefits for all the main sectors. The implications of this for overall climate change policy should be considered.* It may also be useful to identify some public expenditure that has clear negative impact on climate change, increasing either emissions or vulnerability. This, however, is a complex task, given the linkages between economic development and vulnerability.

Future Prospects. There has been no clear trend of increased climate spending of domestic resources in the budget over the last three years. Indeed, it is not yet clear whether the focus in future budgets should be on increasing the level of climate spending or the quality of that spending. Although the scale and nature of future international climate financing is not yet clear, it seems likely that there will be significant increases in available for climate expenditure, both through dedicated climate finance and through the mainstreaming of climate change into development finance. The CPEIR presents three indicative scenarios of possible future climate expenditure. *The CCTT Climate Finance Sub-group should work to refine the scenarios of possible future climate finance contained in the CPEIR.*

Readiness Plan

The following table summarises the phasing of the actions that are needed to establish a structured and coordinated Climate Fiscal Framework.

		2012				2013				2014				2015				2016				Lead RGC	Milestones	Cost
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	Institution		US$'000
R1	Higher profile for CC in media																					NCCC	Media output	
R2	Recognise CC in next NSDP and RS																					NCCC	NSDP/RS	
R3	CCSP																					CCD	CCSP	
R4	Climate sensitisation of sector policies																					CCD/MEF	Sector policies	50
R5	PPCR and CCCA																					CCD/MEF	Project docs.	
R6	CC and DRM policy consistency																					RGC	Regulations	
R7	NCCC strengthening																					NCCC	Minutes	
R8	Produce CCAMR and approve by NCCC																					CCTT	CCAMR	50
R9	Strengthen CC focal points in line ministries																					LM	LM Declaration	
R10	TWG meetings on CC																					RGC	Donor statements	
R11	NGO and CSO collaboration																					NCCC	Minutes	
R12	Strengthen local technical appraisal teams																					NCDD	Workshop/guide	10
R13	Refine classification of CC expenditure																					CCTT	Guidelines	
R14	Include CC in BSP and MTEF																						BSP/MTEF	
R15	Climate screen recurrent expenditure																					CCU/MEF	Guidelines	30
R16	Tagging study on existing database																					CCU/MEF	CDC database	5
R17	Upgrade project appraisal techniques																					CCU/MEF	Guidelines	10
R18	Establish NCF																					MEF	NCF accounts	100
R19	Review of climate impact on expenditure																					CCD	Study report	20
R20	Refine future climate finance scenarios																					MEF	Study report	

Note: specific time-bound actions are shaded in dark grey and on-going activities in light grey

1 Introduction

1.1 Background

Climate change finance is predicted to increase and countries are challenged with the need to demonstrate effective policies and systems to access and deliver this finance. CPEIRs respond to concerns that climate change finance is not progressing as fast as it should be and that there is scope for improved coherence in those activities that are being funded. A first set of pilot CPEIRs conceptualised and managed by UNDP Asia Pacific Regional Centre is being conducted in Nepal, Bangladesh, Thailand, Cambodia and Samoa.

The Cambodia CPEIR is being undertaken under the guidance of the Climate Finance Sub-group of the Climate Change Technical Team (CCTT), with funding from the Cambodia Climate Change Alliance (CCCA) Trust Fund, managed by UNDP. This will feed into the Cambodia Climate Change Strategic Plan (CCCSP) being prepared by the Climate Change Department in the Ministry of Environment.

1.2 Objectives, Methodology and Report Structure

The objective of the CPEIR is to review the expenditure on activities that are related to climate change and to assess the extent to which this expenditure is supported by existing policy and institutional responsibilities. On the basis of this review, the CPEIR aims to generate recommendations for improving the climate relevance of public expenditure in the future.

Methodology. The work was undertaken by a team of 3 Cambodian experts, supported by 3 international experts from the Overseas Development Institute over 3 months. The work started with an inception workshop, led by the Climate Finance Sub-group of the Climate Change Technical Team (CCTT), which is established by the National Climate Change Committee (NCCC). The inception workshop established the scope and focus of the work, including the sectors to be considered. The first month was devoted to collecting information, in close collaboration with ministries, including the climate change focal points and the finance and planning units in ministries. At the heart of the CPEIR is the classification of public expenditure and this was discussed with key government officials. Group discussions and interviews were held with Cambodia's development partners and many leading representatives of civil society who are actively engaged on environmental sustainability and climate change issues. This was complemented with a comprehensive desk review of key policies and regulations enacted by the government of Cambodia, as well as of published and grey literature on issues related to climate change, governance, and public financial management in the country.

The local government analysis of the CPEIR explores local government's understanding of, and contribution to, addressing climate change, and presents initial mapping of different sources and modalities of climate finance at the local level. This study focused on two case study areas: Kampot and Takeo, and is based on forty-nine interviews in line agencies and commune councils during March 2012. In each province, interviews were conducted and information collected from: 1) staff of the provincial administration and of a number of key line departments including agriculture, rural development, forestry, water resource management, mine and energy, and health; 2) district administration officials in one district; and 3) commune council officials in two communes. The fieldwork was followed by telephone interviews to collect additional information and data that were not made readily available during the field visits.

An Inception Report was produced after one month, containing the descriptive work on policy, institutions and expenditure and some preliminary findings on local expenditure. Draft conclusions and recommendations were developed in the second month of the CPEIR and were presented at a retreat organised to discuss the CPEIR and the other activities of the Cambodia Climate Change Alliance (CCCA) and Pilot Programme for Climate Resilience (PPCR). A Draft Report was subject to peer review within ODI.

Report Structure. The central chapters of the report present the evidence for the four themes. The report

starts with chapters on policy and on institutions. Three chapters are associated with the analysis of PFM, one dealing with PFM systems, the second with classification and the third with expenditure patterns. Chapter seven deals with village level activity. Each of the chapters concludes with a section on the findings for the chapter. The final chapter of the report presents recommendations and a readiness plan.

1.3 International Climate Finance

Background. Providing finance for vulnerable countries was a fundamental part of the UN Rio Treaty (UNFCCC) in 1992. But, once the reality of climate change became clear, delivery became an overwhelming necessity. There has been general agreement about the urgent need for additional funds for climate change activities, principally since the publication of the Stern Report (Stern 2007), and a financial package has been critical to negotiations of the post-Kyoto deal as recognised in the Bali Action Plan (BAP). The Copenhagen Accord provided for 'fast start' funding of $30 billion for 2010-2012 and medium term finance of $100 billion annually by 2020. This commitment was formalised in the Cancun Agreements, and the Green Climate Fund (GCF) was launched in Durban. The High-level Advisory Group (UNAGF) identified in 2010 that it was challenging, but feasible, to meet the goal of mobilising $100 billion a year by 2020 to meet the needs of the developing countries (UNAGF 2010). But this has yet to be raised and there is no agreement about how it can be done, although another report was produced by the G20 Finance Ministers in October 2011. Post Durban, the issue continues to be the subject of negotiations in the UNFCCC.

There is an increasing emphasis in UNFCCC on monitoring, reporting and verification (MRV) of climate finance and on tracking and transparency. This reflects concerns that it is currently difficult to track the full range of climate relevant activities that are taking place.

Global Environmental Facility (GEF) and Least Developed Countries Fund (LCDF). The GEF has administered various funds specifically for climate change since 2002. As of December 2011, the LDCF has approved over US$ 215m to implement 52 projects and programmes in 42 LDC countries, and US$150m through the Special Climate Change Fund to implement 39 projects.

The resources within the LDCF have not been sufficient to get many NAPA projects implemented, and GEF procedures have been challenging for developing countries. This is part of the context in which Parties to the UNFCCC have created two new funding mechanisms, the Adaptation Fund and the Green Climate Fund, to allow more direct access to funds.

Strategic Programme for Climate Resilience (SPCR) and Pilot Programme for Climate Resilience (PPCR). The PPCR is a part of the Climate Investment Funds (CIFs) at the World Bank, to which the UK, Germany and Japan are principle contributors. The PPCR is aimed at providing incentives to integrate climate resilience into development planning. The PPCR has been controversial. As the modalities of the Adaptation Fund had just been agreed in Bali at COP13, when there had been disagreements about the role of the GEF, it seemed to many in civil society that this was an unwelcome proliferation of funds at a critical point and that support for poor countries affected by climate change should be in the form of grants not loans. These issues were resolved by blending in grant components and providing concessional loans, but procedures involved in developing what became the PPCR have been very slow, in part in response to the formalities involved in constructing a transparent credible process and structure. Cambodia is one of the first pilot countries to receive funds under the PPCR.

Adaptation Fund (AF). The AF was created under the Kyoto Protocol by parties to the UNFCCC. It has been administered by the GEF since 2007. It is largely financed through a 2% levy on revenues from the sale of CDM credits. It has limited funds, of which a significant share has gone to support administration. The AF is likely to be overtaken by the Green Climate Fund. Cambodia has not received any funds through this mechanism. Cambodia made an application to the AF in March 2012 for a small project to be implemented by UNEP.

Fast Start Funds (FSFs). The FSFs started in the Copenhagen Accord of the UNFCCC are the implementing modality for the $30bn fast track 2010-12 financing. FSFs are managed through the existing channels of bilateral and multilateral funding. The EU has been particularly forthcoming with a € 7.2bn for 2011-12 contribution but the EC and the Member States operate separately and the EU allocations are not always "new and additional". For example, the EU includes several on-going programmes in its FSF funding: including member state contributions to the PPCR; and funding for the Global Climate Change Alliance.

Green Climate Fund (GCF). The GCF was launched at Durban. It is expected to provide an important element of the medium term financing of $100bn annually, by 2020. However, there is still no money for funding allocations which should start in 2013, apart from some funding for the start-up phase from Germany, Denmark and Korea. The COP approved the governing instrument, which contains the key design elements the product of many months of negotiations by the Transitional Committee. Part of the GCF decision now clarifies the greater role and voice of designated national authorities in the approval of funding proposals so as to ensure consistency with national strategies and plans, in response to pressures from developing countries for institutional arrangements and mechanisms that provide greater legitimacy, and enable direct access. The GCF has had a troubled start, however, and Parties failure to finalise agreement on who should represent them on the board has now resulted in 3 postponements to its first meeting.

The sourcing of the new and additional funds required is a significant stumbling block. Developing countries have emphasised the need for developed countries to provide new and additional climate finance from public finances. Developed countries hold that innovative funding, linked to the private sector, is more likely to deliver over the long term. One idea, which had been supported by the World Bank, OECD and Regional Development Banks, has been to put a price on carbon fuels from aviation and shipping. A tax on bunker fuels had been included in draft text. But many countries (including India, China, Brazil and Saudi Arabia) opposed endeavours to raise this international carbon tax in the absence of compensation, insisting on the principle that there should be "no net incidence" on developing countries.

The interests of LDCs and AOSIS diverged from the bigger countries particularly from the BASIC group. LDCs did not get their special window in the GCF or any early capitalisation. The LDC group argued for a dedicated funding window for LDCs and SIDS. LDCs think that: firstly, adaptation funding has to be on a fully grant basis; secondly, the access must be direct by Parties; and thirdly, while the funds may be coordinated by the COP for efficient fiduciary management though multilateral financial institutions, the choice of projects, and actual use and management of the funds must be in the hands of the designated National Implementing Agencies who may be helped to develop their capacity and human skills.

Table 1: Main Sources of Global Climate Funding – Indicative Values

	Expenditure	Period	Annual Spend	Basis
LDCF (including GEF)	$400m	2002-11	$40m	Actual
CIF (including PPCR)	$800m	2012-14	$270m	Approved
AF	$115m	2011-12	$67m	Committed
FSF	$30bn	2010-12	$10bn	Target
GCF and other $100bn modalities	$100bn	Annual	$100bn	Target

Note: the values presented in this table are guestimates and are intended only to give a rough indication of the relative size of the various sources of funds

2 Policy Analysis

The major policies in Cambodia that support its efforts to respond to climate change include the National Strategic Development Plan and an emergent Green Growth Plan. There are a number of initiatives underway to address climate change, including the National Adaptation Programmes of Action; a road map on efforts to Reduce Emissions from Deforestation and Forest Degradation plus conservation; and on-going efforts to access the Clean Development Mechanism of the Kyoto Protocol. While there is a National Committee on Climate Change, and a climate change strategy is under development, thus far there are no specific climate change policies in place.

The largest sources of emissions in Cambodia in 2000 were land-use change and forestry (49 percent), agriculture (44 percent), energy (7 percent) and waste (less than 1 percent).[1] However, energy and transport related emissions are likely to increase significantly as Cambodia pursues its economic development aspirations to become a Middle Income Country. Sectoral policies related to energy, transport, forests and land use management, rural development, and agriculture are therefore closely linked to climate change mitigation. These sectors are also vulnerable to the impacts of climate change, however, as are the water, and health sectors. Disaster risk management is a cross cutting theme that already greatly affects Cambodia's society and economy, and is exacerbated in the context of vulnerability to climate change. These sectors were therefore identified as priorities for the CPEIR in consultation with members of the Climate Change Technical Task Team.

2.1 National Development Strategies

Government policy is guided by National Strategic Development Plans (NSDPs) and by Rectangular Strategies. NSDPs provide comprehensive commitments across the whole government administration, whilst the Rectangular Strategies have been prepared as statements of policy by new governments and have been compiled by the Supreme National Economic Council (SNEC).

National Strategic Development Plan. The RGC has developed two NSDPs, the first covering the period 2006 – 2010 and an update covering 2009 – 2013. The NSDPs took over from the National Poverty Reduction Strategy, which was approved in 2002 and the Socio-Economic Development Program (2001-2005). NSDPs are compiled by MOP, with full engagement of all government bodies. They express a strong commitment to the Millennium Development Goals, which ensures that social sectors have a high priority.

NSDP II contains the following priority actions referring specifically to climate change:

- strengthen the capacity of the Secretariat of NCCC
- promote and coordinate the mainstreaming of climate change in concerned sectors
- continue preparing a Second National Report under the UNFCCC
- prepare a National Strategy and Action Plan for Climate Change
- promote the establishing of a national fund for climate change
- promote the implementation and update the National Action Programme on climate change adaptation
- further identify and foster the implementation of clean development mechanism and green-house gas reduction projects
- educate and inform the public on climate change
- mobilise resources and support to deal with climate change problems
- decentralise the preparation of GHG inventory and set up a database management system

The NSDP II also contains references to climate change in the commitments covering environment, education, transport, water resources and agriculture. It supports the role of MOE in conducting environmental impact assessments; environmental pollution control, covering solid waste management, air quality control, and public water quality management; natural protected area management; and education and dissemination of information on environmental issues.

1 Cambodia's Second National Communication to the UNFCCC.

The NSDP reflects a diversity of issue areas that are of varying interest and priority to the implementing agencies and stakeholders, including donors. Implementation of the NSDP II has been less smooth, however, and this has been a particular concern for donors. Commonly cited explanations for limited progress include a lack of inter-ministerial coordination and the capacity constraints amongst ministries to deliver across the full range of policy.

Triangular and Rectangular Strategies. New governments in Cambodia produce a statement of political commitment at the start of their term. The first of these was called the Triangular Strategy (1998-2003) and this was followed by the Rectangular Strategy (2003-2008), for growth, employment, equity and efficiency. Phase 2 of the Rectangular Strategy (2008-2013) covers the fourth legislature of Cambodia and continues with the same underlying principles of the first phase, with some refinements. These principles include: enhancement of the agricultural sector; further rehabilitation and construction of physical infrastructure; private sector development and employment; and capacity building and human resource development. Phase 2, however, recognises climate change as one of the major challenges to Cambodia, with an explicit focus on climate change whereas the earlier plan looked at environmental issues and conservation in more general terms. Commitments to climate change include:

- strengthening RGC institutions capacity to identify the implications of climate change
- developing a strategy to deal with the anticipated impact of the climate change
- strengthening disaster management capabilities.
- addressing climate change through the Forestry Reform and Environmental Protection Policy
- raising awareness and education about climate change

In the context of adaptation, the RGC intends to increase capacity to cope with climate risk including through short term efforts such as:

- increasing the capacity to use climate information, such as the use of climate forecast information in setting up better cropping strategies and agribusiness activity
- implementing adaptation measures which also contribute to emission reduction such as the introduction of technology that aims to increase water use efficiency, such as the System Rice Intensification
- creating additional sources of income for communities from mitigation activities such as generating carbon credits from the use of manure and biomass waste, such as biogas for cooking, biomass energy in rice mills and composting

Long term efforts will be directed at increasing the resilience of the agriculture system to future climate risks through the revitalization of long term policies and planning that take into account climate change. Key long term activities include:

- institutionalizing the use of climate information in agriculture management and development
- prioritizing structural intervention programs (where and when a particular intervention should be in place to minimize the impact of increasing climate risk such as constructing a dam, irrigation facilities)
- expanding agriculture areas to regions with lower climate risk
- creating climate insurance for vulnerable communities
- generating more varieties resistant to drought, flood and high water salinity
- developing and implementing long term research on climate modelling, mitigation and adaptation technologies

Policy Format. In 2011, the Council of Ministers developed a standard format for policies, to ensure consistency in approach. This requires that all policies define a vision, goals, objectives, strategies and action plans (CoM 2011).

2.2 Climate Change Policy

The Kingdom of Cambodia ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1995 and acceded to Kyoto Protocol in 2002. As a least developed country, the government has expressed its commitment to addressing climate change at both the national and global levels. The government

recognizes its responsibilities to act to address climate change, consistent with principles of common but differentiated responsibilities articulated under in the UNFCCC. As a least developed country, its efforts are primarily focused on adaptation to climate change, but there is broad recognition that mitigation opportunities can accelerate on-going efforts to realize the countries sustainable aspirations. Cambodia also ratified the Convention on Biodiversity (CBD) in 1995.

Since 2000, relatively soon after the last defection of Khmer Rouge guerrilla, 26 ministries and few other government Secretariats were established, followed by sectoral laws and regulations such as laws on environment protection, law on forestry, land law. Cambodia developed a National Biodiversity Strategy and Action Plan (NBSAP) in 2002 with the support of the FAO, UNDP, and Global Environment Facility (RGC -a, 2002), which identified climate change as a major threat to national biodiversity. The NBSAP states that *"Cambodia's ecosystems include low-lying agricultural, wetland and coastal areas, as well as forest and mountainous areas that are vulnerable to the negative impacts of climate change. As Cambodia's economy is largely dependent on agriculture, and its biodiversity, in the form of natural resources, it is likely that the country will be vulnerable to the impacts of climate change."* The document further emphasizes the need to integrate climate change issues into national policies is needed.

As a signatory to the UNFCCC, Cambodia reports its emissions by sources and removals by sinks through a greenhouse gas inventory, national mitigation and adaptation measures, and any other relevant achievement towards the Climate Convention objectives. The First National Communication to the UNFCCC (for 1994) was reported in 2002 and the Second National Communication has been under preparation for some time (NSDP, 2009). The SNC project was formulated in 2007 supported by UNDP with total budget of US$405,000. The SNC report remains a draft, last updated in July 2010.

The issue of mainstreaming climate change issues into decision making has received increasing prominence, including through the establishment of a National Climate Change Committee (NCCC) in 2006 (discussed in Chapter 3). While there is no overarching climate change policy in place, a strategy is under development, coordinated by the CCD. The CCD has received substantial support from international donors, including through the Cambodia Climate Change Alliance and its associated Trust Fund, with support from UNDP. In parallel, many government departments have begun to develop their own climate change strategies. In particular, MAFF are developing a detailed strategy on climate change, with a focus on vulnerability to climate change and strengthening adaptive capacity.

The Cambodian Constitution was promulgated in 1993 after its first national general election, and has been amended six times. Article 59 affirms that "*The State shall protect the environment and the balance of natural resources and establish a precise plan for the management of land, water, airspace, wind, geology, ecological systems, mines, oil and gas, rocks and sand, gems, forests and forestry products, wildlife, fish and aquatic resources.*"

The Government is currently in the process of preparing a Climate Change Strategy and Plan (CCSP). Recommendations for the CCSP are addressed in chapter 7.1.

The National Adaptation Program of Action for Climate Change

With support from the international community under the UNFCCC, the RGC approved a National Adaptation Program of Action to Climate Change (NAPA) in 2006. The objectives of the NAPA were: (1) to understand the main characteristics of climate hazards in Cambodia (flood, drought, windstorm, high tide, salt water intrusion and malaria); (2) to understand coping mechanisms to climate hazards and climate change at the grassroots level; (3) to understand existing programmes and institutional arrangements for addressing climate hazards and climate change; (4) to identify and prioritise adaptation activities to climate hazards and climate change. Cambodia's NAPA identifies 39 priority adaptation projects in key sectors such as agriculture, water resources, coastal zone and human health. Of these, 20 projects were identified as priorities with a combined budget of about US$130 million (see table 3).

The NAPA process provided a framework to guide coordination and implementation of adaptation initiatives.

Table 2: Projects included in the 2006 NAPA and Estimated Budget

No.	Sector	Project title	Estimated Expenditure UD$ and duration (year)
1	Agriculture and Water Resources	Rehabilitation of a Multiple-Use Reservoir in Takeo Province	4,000,000 (3 years)
2	Agriculture and Water Resources	Rehabilitation of Multiple-Use Dams in Takeo and Kampong Speu Provinces	2,500,000 (2 years)
3	Coastal Zone	Community and Household Water Supply in Coastal Provinces	1,000,000 (1 year)
4	Agriculture and Water Resources	Development and Rehabilitation of Flood Protection Dikes	5,000,000 (3 years)
5	Agriculture and Water Resources	Rehabilitation of Upper Mekong and Provincial Waterways	30,000,000 (3 years)
6	Coastal Zone	Rehabilitation of Multiple-Use Canals in Banteay Meas District, Kampot Province	1,500,000 (1 year)
7	Coastal Zone	Vegetation Planting for Flood and Windstorm Protection	4,000,000 (3 years)
8	Coastal Zone	Strengthening of Community Disaster Preparedness and Response Capacity	5,000,000 (5 years)
9	Agriculture and Water Resources	Water Gates and Water Culverts Construction	10,000,000 (2 years)
10	Agriculture and Water Resources	Safer Water Supply for Rural Communities	5,000,000 (3 years)
11	Agriculture and Water Resources	Development and Improvement of Small-Scale Aquaculture Ponds	4,000,000 (3 years)
12	Agriculture and Water Resources	Promotion of Household Integrated Farming	2,500,000 (3 years)
13	Coastal Zone	Rehabilitation of Coastal Protection Infrastructure	2,000,000 (2years)
14	Agriculture and Water Resources	Development and Improvement of Community Irrigation Systems	45,000,000 (3 years)
15	Coastal Zone	Community Mangrove Restoration and Sustainable Use of Natural Resources	1,000,000 (3 years)
16	Coastal Zone	Community Based Agricultural Soil Conservation in Srae Ambel District, Koh Kong Province	2,000,000 (3 years)
17	Health	Production of Bio-pesticides	3,000,000 (5 years)
18	Health	Development of Healthcare Centres and Posts	750,000 (3 years)
19	Health	Provision of Safe Water in High Risk Malaria Regions	100,000 (3 years)
20	Health	Malaria Education and Mosquito Habitat Clearance Campaigns	500,000 (per year)
Total			**128,850,000**

Source: NAPA document, RGC -b, 2006

Provisions were made for stakeholder consultation and policy reviews throughout the NAPA development process. Implementation of the NAPAs, however, has been more difficult, for a variety of reasons including inadequate human, institutional and financial resources and capacity; a lack of coordination amongst key players, and an enduring need to improve understanding, awareness and commitment to addressing climate change issues as part of development practice. The NAPA emphasized infrastructure development, and gave relatively less emphasis to strengthening capacity to manage climate change. It also did not outline a strategy to mobilize resources to implement priority projects.

By early 2012, only three of the NAPA projects had received funding. The MOE continues to pursue fund-

ing for NAPA projects and requested funding from the PPCR. However, an analysis of the projects in the CDC database suggests that nine of the NAPA priorities have been at least partly addressed by projects, even if the specific proposals in the NAPA have not been funded. A further six are partly addressed by activity funded under the budget. There are two on-going NAPA follow up projects. One is the Promoting Climate Resilience in Water and Agriculture funded by UNDP-GEF and another one is the UNEP-GEF coastal zone adaptation. The CCA and PPCR also support NAPA follow up to some extent.

In March 2009, Cambodia launched Strategic National Action Plan for Disaster Risk Reduction, 2008 – 2013 (SNAP), which covers a number of themes relevant to climate change adaptation, including mainstreaming disaster risk reduction into (i) national, sector and local development policies and plans; (ii) national and local risk assessments; (iii) improved flood forecasting and early warning capabilities; (iv) education and awareness raising; and (v) promotion of structural and non-structural measures to enhance resilience to climate change (RGC-c, 2011).

The Clean Development Mechanism

Cambodia has also sought access to the instruments of the Kyoto Protocol, particularly the Clean Development Mechanism. The CCD acts as the Designated National Authority for the CDM, ensuring consistency with national sustainable development priorities. So far, ten projects have been approved in Cambodia, primarily in the energy sector using technologies such as biogas, hydropower, and waste/heat gas utilization. Six of these ten projects have been registered at UNFCCC.

There are no forest related CDM projects in Cambodia, despite scoping studies to facilitate such efforts. This is because the cost of forest inventories is high and the Forest Administration has insufficient to undertaken the inventories, in the absence of support from donors.

REDD+ Road Map

Cambodia also participates in the UN-REDD programme, and has begun to develop a REDD+ Roadmap. A governmental regulation called Sar Chor Nar number 699 (2008) guides FA, MAFF to lead on REDD development and carbon sale for the benefits of communities and national economy. This regulation has allocated 13 Community Forestry sites (more than 600,000 ha) as pilot sites for REDD development activities in Oddar Meanchey province, north-western Cambodia, and there are at least three further REDD sites (one in Mondulkiri, one in Cardamom, and another in Preah Vihear province) under development and seeking for carbon markets, mainly voluntary. Progress on REDD+ has slowed in recent years, partly because of uncertainty over the nature of a future REDD+ mechanism and partly because of a limited capacity for supervision by local NGOs. Promoting the sustainable use of forests and ensuring forest conservation is a difficult challenge in Cambodia given significant pressures, including related to demand for forest products, but also as a result of infrastructure development and extractive industries in forested areas.

The National Green Growth Roadmap

The National Green Growth Roadmap was prepared in 2009, guided by an Interministerial Working Group comprising 16 ministries, plus the Cambodia Chamber of Commerce and the Phnom Penh Municipality and Environment Department. The Ministry of Environment acted as secretariat to the Working Group. The roadmap was prepared as part of an initiative across Asia and the Pacific, with the objective of identifying priorities that contribute to economic growth, environmental sustainability and social well-being. The Green Growth Roadmap defines seven goals, involving improved access to: clean water and sanitation; renewable energy; information and knowledge; better mobility; finance and investment; food security; and sustainable land use. To achieve the seven goals, the roadmap defines seven immediate priority actions:

- create a National Ministerial Green Growth Council
- create a national public awareness and consultation process
- integrate the eco-village/eco-city initiatives into national strategic development plan
- develop national strategy for greening industries
- develop stimulus measures for promotion of sustainable agriculture including index-based insur-

ance schemes and/or micro-financing
- develop a scheme for innovative investments
- develop measures to strengthen the national environmental industry sector

These immediate priorities are to be further implemented in the medium and long term by projects that focus on sustainable rural development, including interventions to support sustainable development in the sectors of agriculture, energy, forestry and water, waste management, and transportation. The proposed priorities for longer term interventions include: fiscal initiatives, ecological agriculture, infrastructure and trade, sustainable energy, education and health, gender, land use and the urban environment. Implementation is to be coordinated through a system of Integrated Sustainability Assessments, which is a 'cyclical, participatory process of scoping, envisioning, experimenting, and learning through which a shared interpretation of sustainability for a specific context is developed and applied in an integrated manner in order to explore solutions to persistent problems of unsustainable development.

The Green Growth Roadmap identifies four challenges: population growth, poverty, legal and policy frameworks and environmental pressures. Climate change does not feature explicitly in these challenges, except to the extent that deforestation is noted as reducing carbon sequestration.

The Green Growth Roadmap has helped to raise awareness of the interlinkages between economic growth and environmental sustainability and the importance of climate change in raising the importance of these linkages. This should help to raise the profile of climate mitigation and adaptation in future policy formulation. It is still too early to say whether the roadmap will help to coordinate the emergence of new funding.

2.3 Sector Policies Related to Climate Change

National Forest Program (2010)

Efforts to reduce emissions from deforestation and degradation and promote the resilience of forest ecosystems need to be considered in the context of the policies and regulations that govern forests and land use management. The process to develop a National Forest Program (NFP), a policy aimed at supporting sustainable forest management, took 10 years due to the lack of government commitment and financial support. From 2008 – 2009, however, the policy was subject to public consultation, which included six national and sub-national workshops throughout the country. The Forest Administration within the Ministry of Agriculture, Fisheries and Forests (MAFF) oversees implementation of the NFP, which has nine strategic priorities including: contribution to economy; climate change and reducing emissions from deforestation and degradation; forest governance; biodiversity conservation; improved forest management; and sustainable forest financing. The NFP has a 29 year implementation period. It is intended to be a living document, subject to strategic periodic review, that is increasingly recognised as the framing strategy for the government and its international donors. The costs of implementation of the NFP programmes have been estimated at $41 million. A Technical Working Group on Forestry and Environment (TWG-F&E) has been established as a national forum for dialogue and progress on the NFP implementation.

Economic Land Concessions

A major challenge to realising the sustainability focused objectives of the National Forest Policy is the competing incentives created by Economic Land Concessions (ELC) which supports the conversion of land for economic purposes. At the same time, however, Cambodia has many laws in place to protect high conservation value areas, and promotes community protected areas. The Ministry of Environment is mandated to approve both economic land concessions and community protected area establishment.

Forests are classified as either Production Forests or Protected Areas. The Production Forests are under the management mandate of the Forestry Administration (FA) of the Ministry of Agriculture, Forestry and Fisheries (MAFF) whereas the forests within the Protected Areas are under the management mandate of MOE. Economic Land Concession can be granted either within

the Production Forests or Protected Areas. The MAFF and MOE are responsible for granting the ECL with the endorsement of the government. In theory, Protected Forests contain four zones: core, buffer, development and community. ELCs are permitted in both the development and community zones, but must first be approved by MOE on the basis of a full environmental impact assessment. In practice, zones have yet to be defined in Protected Forests, so MOE approval of ELCs in Protected Forests is based on a more general assessment of biodiversity loss.

Energy Strategy and National Policy on Renewable Energy and Rural Electrification

Extending access to sustainable energy services is a policy priority for Cambodia, and seen as integral to poverty reduction, with the additional objective of reducing dependence on fuel wood. The CMDGs and the NDSP both recognise the need to extend access to energy. Cambodia is completely dependent on imports for all of its fossil fuel consumption, which is central to transport systems as well as playing an important role in electricity generation as many people are dependent on diesel generators for electricity. The costs of fossil fuel imports have grown steadily from US $549 million in 1998 to US $691 million in 2004 (NIS 2005). Fuel wood is the dominant source of energy for cooking within the domestic sector and is used extensively by industry and services, as well as by the expanding informal sector. (MIME 2008).

The Cambodia Power/Energy Sector Strategy 1999 – 2016 has the following objectives.

- To provide an adequate supply of energy throughout at reasonable and affordable price.
- To ensure a reliable, secure electricity supply at price, which facilitate investment in Cambodia and development of national economy.
- To encourage exploitation and environmentally and socially acceptable development of energy resources needed for supply to all sectors of the Cambodian economy.
- To encourage efficient use of energy and minimize detrimental environmental effects resulting from energy supply and use.

The strategy has yet to be finalised and so serves as a working document, which is regularly updated with new information on power generation and distribution (MIME 2009). The strategy includes a list of power plants that are expected to be built in the coming two decades including hydro and coal, and information on grid extension planning. The Cambodia Technology Needs Assessment noted many options to invest in and strengthen energy infrastructure in Cambodia while delivering real mitigation and sustainability improvements.[2]

In 2007 the Royal Government of Cambodia approved the National Policy on Rural Electrification by Renewable Energy which: "recognizes that supply of modern energy sources for community applications like biomass, biogas, small hydro, wind, solar and liquefied petroleum gas are also critical in the rural areas, and intends to address this issue in a separate policy statement to be developed in due course" (RGC, c, 2011). The government has also established a Rural Electrification Fund (REF) and formulated a Renewable Electricity Action Plan (REAP). Work on a Wood and Biomass Energy Strategy was tendered in 2011, but the results are not yet available.

Private companies can be sub-contracted to run electricity services while being completely controlled by the MIME. MIME has cooperated with GERES Cambodia on sustainable biomass and residue energy development including the preparation of the Wood Biomass Strategic Plan. This is still incomplete and has yet to be accepted by the government. Work will be re-activated under the UNDP/GEF financial support of the Sustainable Forest Management project, which is implementing by FA.

The lack of access to reliable and affordable energy services is a major impediment both to business investment and economic development in Cambodia. In rural areas, access to energy is further compounded by limited ability to pay for energy services, and low levels of energy use that impede commercial viability of systems. Some concerns have also been raised about the

2 http://unfccc.int/ttclear/pdf/TNA/Cambodia/Cambodia-1.pdf

technical reliability of renewable energy systems and the necessary maintenance services due to the limited availability of improved technology.

Strategy for Agriculture and Water

Together with MoWRAM, the MAFF implements the Strategy for Agriculture and Water (SAW, 2010-2013). The climate change related focus of the SAW has been on post-disaster emergency relief (SAW, 2010). The SAW seeks to take into account climate change impacts such as floods and droughts through interventions in Food Security and Water Resources Management (p8), and recognises climate change as one of the threats to agriculture and water long-term management (p12). Annex 1 provides more details of the main programmes in the SAW.

Water Resources Management and Meteorology

The Law on Water Resources Management was approved in 2007 building on the National Policy on Water Resources Management and the Strategic Plan on Water Resources Management and Development (2005 – 2008).The Law is set within the framework of Integrated Water Resource Management (IWRM) that recognises different sector interests in water uses. The Law includes several articles that deal with rights, organization and participation of water users. The Law does make reference to the need to integrate environmental considerations into water management, but does not address climate change issues specifically. It does recognise the cross sectoral nature of water management, and the need for inter-agency and ministerial cooperation, although such cooperation is challenging in practice.

Disaster Risk Management

Recent vulnerability to natural disasters including floods have heightened the emphasis on disaster risk management in Cambodia, which takes on increased relevance in a climate change context. The National Committee for Disaster Management was established in 1995 by Sub-Decree Number 35, which reports to the Council of Ministers of RGC. Its main roles and responsibilities are to develop emergency Management Plans for disaster risk reduction (DRR), particularly floods, drought, fire, storm, and widespread disease such as vector and water born; forecast and broadcast urgent disaster warning; and training and coordination.

A Law on Disaster Management was drafted in2008 (NCDM Decision No. 02, 2008) still remains a draft, and largely focuses on rehabilitation, preparations to deal with disasters, and intervention during the disaster stage. There is little emphasis on risk reduction and prevention measures which would be highly relevant in the context of climate change. The NCDM has also developed a Strategic National Action Plan (SNAP) for DRR for the period of 2008 – 2013 (RGC-d, 2008) which focuses on:

1. Ensuring that DRR is a national and a local priority
2. Strengthening sub-national and community-based disaster risk management
3. Identifying, assessing and monitoring hazard risks and enhance early warning
4. Using knowledge innovation and education to build a culture of safety and resilience
5. Mainstreaming DRR into policies and programs of relevant government ministries
6. Strengthening disaster preparedness for effective response at all levels.

Roads and Transport

The need to increase resilience to climate change is being incorporated into rural road construction and development (MRD and ADB, 2010). The Ministry of Rural Development is responsible for district and commune roads whereas MPWT (Ministry of Public Work and Transport) is responsible for national and provincial roads. Efforts in this regard have been underway since 2010; however there is a need for additional technical guidance on how to realise such aspirations. The aim has been to incorporate potential climate change impacts into project design, in order to reduce the damages caused to planned and existing transport infrastructure and affected areas. Indeed MRD is a significant beneficiary of $42 million from the Strategic Program on Climate Resilience in Cambodia, building on on-going Asian Development Bank programming, in partnership with the Ministry of Public Works and

Table 3: Adaptation programs, activities and target

Main Goal	Program	Activity	Target
Reducing the number of malaria cases	Improving hygiene and health	Education about hygiene, environment and health	• Student • Public • Housewife
		Increasing the capacity of women	• Housewife
	Socialization techniques for early detection of malaria cases	Studies of prediction model of malaria cases	• Researcher • Student
		Socialization techniques for early detection of malaria occurrence	• Public • Student
	Mosquito population reduction program	Termination of the mosquito life cycle	• Public
		Fogging	
	Mosquito reduction program	Dissemination and use of mosquito nets	• Public
		Dissemination of anti-mosquito materials	• Public
Reducing the number of deaths caused by malaria	Improve the ability of dealing with cases of malaria	Increasing the ratio of health workers (nurses, doctors, pharmacists): total human population	• Public
	Increasing the availability of treatment and diagnostic aids	Maintain the availability of drugs, devices and distribution	• WHO

Source: Health Strategic Plan (MoH, 2008)

Transport. A pilot project to strengthen the resilience of rural roads to flash floods is underway.

Relatively limited attention has been paid thus far to the potential to introduce more environmentally sustainable and climate change friendly solutions to transport needs in Cambodia. These opportunities were recognised in the Cambodia Technology Needs Assessment supported by the UNFCCC in 2002[3]. This represents a potentially important sustainable development and green growth opportunity for Cambodia, however. Its transport infrastructure is relatively less developed, and a focus on sustainable mobility solutions and low emission transport solutions – rather than merely investing in roads and private transport solutions – could allow it to avoid the carbon intensive paths that many other South East Asian countries have followed and are now struggling to remedy. Transport is one of the leading and fastest growing sources of GHG emissions in the South East Asian region, and an over reliance on private motorised transport is also linked to serious social and economic problems including serious congestion and air pollution.

Health Strategic Plan

Climate change impacts human health both directly and indirectly. The Health Strategic Plan, 2008 – 2015 (MoH, 2008) recognises the impact of climate change on widespread diseases such as malaria, and other vector borne diseases, as well as its implications for ensuring access to safe drinking water and other water related health considerations. The plan aims to reduce i) the number of malaria cases, and ii) deaths caused by malaria. Malaria cases can be reduced by reducing the transmission risk. Since rainfall is significantly correlated with mosquito population, the use of rainfall information for malaria early warning systems has been considered. The Strategic Plan further emphasizes that in addition to malaria other diseases will also be affected by climate change, including dengue fever, diarrhoea and other water and food borne diseases. The Ministry of Health has established a technical working group on climate change, although it has yet to develop a focused climate change strategy. It is working

3 http://unfccc.int/ttclear/pdf/TNA/Cambodia/Cambodia-1.pdf

closely with the WHO to incorporate climate change concerns into implementation of its health strategy.

Decentralisation

Efforts to decentralise decision making of course have substantial implications for Cambodia's response to climate change. Many of the impacts of climate change are likely to be felt at local level and pose new challenges and responsibilities for local authorities, as are many investments in activities that are linked to climate change. The National Program for Sub-National Democratic Development (2010 – 2019) is the major initiative through which decentralisation is being pursued. The policy framework for a local government response to climate change is discussed in detail in Chapter 7 of this report.

2.4 Conclusions

The government has shown some leadership on climate change through the establishment of the NCCC, with the Prime Minister as honorary chair. There is, however, limited public debate amongst politicians and in the media about the importance of climate change, although many NGOs have expressed a strong interest to participate in such processes.

Until recently, climate change has been treated as a subcomponent of environmental policy in national strategies. However, this situation is improving, and the current NSDP includes some specific actions addressing climate change as well as frequent references to climate change in sectoral chapters. The Rectangular Strategy is less climate sensitive, but refers to environment in relation to safe water, hydropower and population policy. A Green Growth Roadmap highlights the opportunities for activities that combine growth and climate mitigation and adaptation. There are good prospects for improved national strategic guidance on climate change in the revised NSDP and Rectangular Strategy that will be prepared in 2103.

The NAPA has provided guidance to donors and government in identifying projects to support. Whilst only three of the twenty NAPA projects have been directly funded in the format proposed in the NAPA, fifteen have been addressed by other programmes, funded both by donors and by government. The NAPA is now out of date and is of limited relevance.

The RGC has developed a range of cross-sectoral policies and strategies that are relevant to climate change. Under the Clean Development Mechanism, ten projects have been approved in Cambodia and six of these registered at UNFCCC. These do not yet include any forest projects, because of the high costs of the inventories required. RGC has also developed a REDD+ Roadmap and identified 13 pilot community forest sites. However, progress is slow because supervision is done largely by NGOs, who have limited capacity. A National Green Growth Roadmap was prepared in 2009, with seven immediate priorities. The roadmap has raised awareness about the potential for activities that contribute both to growth and climate mitigation and adaptation, but has yet to become an operational document. Finally, the National Committee on Disaster Management produced a Strategic National Action Plan for Disaster Risk Reduction (SNAP) in 2008. This has helped to raise the profile of disaster risk management in line ministries and more generally.

Cambodia also has a large number of sector strategies that address climate change, including, in particular: forestry, water and other natural resources; energy; and agriculture. All the ministries with some climate relevant expenditure have climate change focal points, but only MAFF have a climate change committee that engages senior officials. Both the PPCR and the CCCA are planning to provide support to help line ministries improve the climate sensitivity of their sector policies.

The CCCA and PPCR provide a good basis for promoting more specific cooperation amongst donors on high relevance climate issues and for encouraging resources to be pooled.

A new Climate Change Strategic Plan (CCSP) is currently being prepared, under the leadership of the Climate Change Department (CCD) and is expected to be ready by the end of 2012. This will be the first national policy statement on climate change and will be a critical document that will take over from the NAPA, and inform future action on adaptation.

3 Institutional Analysis

A wide range of government institutions and agencies are now engaged in efforts to address climate change within Cambodia. An important development is the establishment of a National Climate Change Committee (NCCC) which provides a forum for government wide coordination on climate change, and has high level political status as a result of the Prime Minister's participation in the committee. A technical team from across participating ministries supports the NCCC, which is primarily serviced and coordinated by the Ministry of Environment and its Climate Change Department. Yet, within government agencies and ministries attention to climate change within operational decision-making remains to be strengthened. There is significant interest in climate change related issues within civil society and NGOs in Cambodia, however, and on the part of the country's development partners.

3.1 National Committee on Climate Change

The main institutional responsibility for climate change coordination rests with the NCCC, which was established in 2006 (sub-decree 35). It is chaired by the Senior Minister of Environment and the Prime Minister was made honorary chair in 2009 (sub-decree 174). According to 2010 (sub-decree 99), the NCCC responsibilities include:

- Coordinating and cooperating with concerned ministries and institutions in the preparation of draft policies, strategies, regulations, plans and programs on climate change;
- Determining the national negotiation positions and strategies for participation in international negotiations on climate change;
- Reviewing and adopting reports to the UNFCCC;
- Managing and coordinating the CDM of the Kyoto Protocol; and
- Coordinating and monitoring implementation of projects, programs and activities related to climate change.

The NCCC's role is primarily focused on coordinating, monitoring and promoting in cooperation with concerned ministries and institutions of the RGC. The NCCC organizational diagram is presented in Figure 1, and includes 20 government institutions. MoE, MAFF, MoWRAM, MRD, MPWT and MoH have had leading roles in the committee.

The NCCC is also responsible for the establishment of the Climate Change Technical Team (CCTT) which acts as a technical advisor on climate change issues to support the NCCC and comprises representatives from government ministries and agencies. Climate finance has been identified as a core priority for the CCTT, and it has participated in many international programs to build capacity on climate finance. The CCTT has established a sub group to focus on climate finance, which also provided oversight for this study.

The NCCC is seen as important development for advancing attention to climate change in Cambodia. However, there is a need to strengthen its institutionalisation and influence over national policy processes. For example, it meets on an ad hoc basis in response to interest expressed by participating agencies or its co-chairs, rather than on a regular basis. The results of its deliberations could be better communicated throughout participating agencies. At present the minutes of its meetings are not always made publicly accessible, or disseminated.

3.2 Ministries

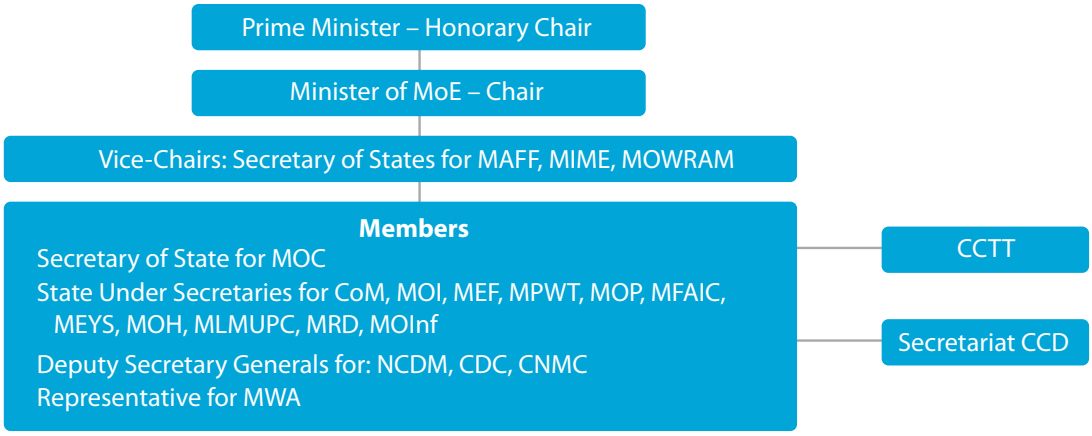
The Ministry of Environment

The Ministry of Environment (MoE) has been central to Cambodian efforts to respond to climate change, and is responsible for environmental issues.

The Climate Change Office was established in MoE in 2003 then upgraded into CC Department (CCD) in 2009 due to the fact that the CCD has increasingly been responsible for more tasks and roles. Current tasks include the following roles.

- CCD is the national focal point for the CDM and the Kyoto Protocol, as well as Cambodia's secretariat of

Figure 1: Structure of National Committee for Climate Change



the United Nations Framework Convention on Climate Change (UNFCCC).

- CCD supports MoE, as the chair of the Designated National Authority (DNA) for the Clean Development Mechanism (CDM). The CCD is responsible for assessing proposed CDM projects against national sustainable development criteria and is authorized to provide written approval for proposed CDM projects conforming to these criteria. The activities include technical and institutional capacity strengthening, CDM awareness raising, CDM project identification, and facilitation of host country approvals in accordance with the requirements of the Kyoto Protocol of the UNFCCC. A *sustainable development matrix* is used as a tool to assess the contribution of CDM projects in the four aspects of sustainable development: economic, social, environmental, and technology transfer.
- CCD supports MOE in supervising the management of the CCCA (see Box 4).

The CCD has five units: the Administration Office; the GHG Inventory and Mitigation Office, the Vulnerability and Adaptation Office; the Policy Coordination Office and the Education Office. While the CCD is seen as a well-resourced and competent department on its own terms, the influence of the MoE – and the CCD in particular – over economic policy in Cambodia as a whole remains modest. The MEF has a potentially substantial role to play in integrating climate change into economic development and financial management as a cross cutting issue in a meaningful and effective fashion. The role of the MEF is discussed further below.

The MoE is also responsible for protected areas in Cambodia, and has the mandate to approve Economic Land Concessions (ELC). 98 community protected areas (CPA) have been established so far. The CPA management strategy is seen by the government and donors alike as one means to reverse the trend of forest loss and the negative impacts that has on livelihoods of poor rural communities. In practice, there have been tensions between the ELC and community protected area establishment policies, as ELCs can lead to land conversion, which in turn often results in emissions from deforestation and degradation. The approval of ELCs has generally been faster than the approval of protected areas. The slow progress observed towards realisation of the Cambodia's MDG7 on achieving environmental sustainability, further confirms the need to strengthen the institutional and oversight capacity of the MoE, as well as some other ministries, and to strengthen its collaborations with other line ministries whose activities affect the environment.

Ministry of Economy and Finance

The Ministry of Economy and Finance (MEF) is playing an increasingly prominent role in Cambodia's efforts to respond to climate change, particularly as greater

volumes of international climate change finance and development assistance in support of climate change programming become available. Specifically, the MEF has been the lead agency in development of the Pilot Program on Climate Resilience (PPCR) in Cambodia, supported through the Climate Investment Funds in partnership with the Asian Development Bank and the World Bank. The mandate of MEF is to guide and administer the economy and finance of the Kingdom of Cambodia in order to support economic development and to improve the living standards of Cambodian people based on the principles of a free market economy, and social equality.[4] Its responsibilities include to:

- participate in the organization, implementation, and monitoring of the performance of economic and financial policies of the Royal Government of Cambodia
- administer and coordinate the structural reform of the economic and financial institutions of all government ministries
- promote good governance as to the administrative aspect of economy and public finance
- allocate and re-allocate national revenues through the collection of income and programming and budgeting of public expenses
- establish financial systems

There is increasing attention to climate change in the context of these agreed responsibilities in Cambodia, precipitated in part by the efforts of the NCCC, as well as the availability of international climate finance from development partners. The MEF is the focal point for the Pilot Programme on Climate Resilience, for example. There are many issues that the MEF has to grapple with, however, and work remains to be done to fully integrate climate change issues into its on-going roles and responsibilities.

Ministry of Rural Development

The Ministry of Rural Development (MRD) is a relatively new institution, established after the national general election in 1993. The MRD has the following roles and responsibilities that are relevant to the RGC's efforts to respond to climate change:

- coordinate, cooperate, monitor and evaluate rural development projects and programs in order to rehabilitate and help develop the country's rural areas by assisting the rural people
- coordinate the operational efforts of the various Line Ministries and assistance programs
- undertake independent research initiatives to support rural development

The MRD is one of the key participants in the NCCC and CCTT, and is also a recipient of funding through the Pilot Programme on Climate Resilience in Cambodia. To date its efforts have focused its efforts on district and commune level road development, while the Ministry of Public Works and Transport is responsible for road management at national and provincial levels. There is limited capacity within the MRD as a whole, however, to address climate change. These limitations must in turn be understood in the context of the on-going need to strengthen overarching attention to environmental and social impacts and within its operations as a whole.

Ministry of Agriculture, Forestry and Fisheries

The Ministry of Agriculture, Forestry and Fisheries (MAFF) consists of five departments: Agriculture, Livestock, Fisheries, Forestry, Rubber and Economic Land Concession. Representatives of the agriculture, fisheries administration, and Forest Administration (FA) are members of the CCTT.

MAFF is implementing a programme to Enhancing Climate-Resilient Agriculture and Food Security' in partnership with the Ministry of Environment with the support of the PPCR.

Since 'forest concessions' were cancelled in early 2001, the FA has increasingly focused on Community Forestry Development, and the development and implementation of projects to reduce emissions from deforestation and degradation. Under 2008 Sub-decree #188 (amending the 2000 Sub-Decree #17 on the Organisation and Function of MAFF). The FA is mandated to develop forest carbon and associated trading. In this con-

4 According to the Anukret (Sub-Decree) № 04/ANK/BK dated on 20th January 2000 of the Royal Government of Cambodia

text it is also empowered to conduct assessments to determine the quantity of national forest carbon stocks. It has developed a number of REDD+ pilot projects, and established a Climate Change Coordination Office (CCO). The activities of the FA CCO have been technically and financially supported by various sources include Pact, Clinton Climate Initiative (Foundation), Danida (TWG-F&E), and FAO. There may be tensions, however, between the efforts to respond to climate change by investing in new infrastructure, and efforts to reduce emissions from deforestation and degradation.

Management of Protected Areas is the jurisdiction of the Ministry of Environment; and flooded forest and mangrove areas fall under the jurisdiction of the Fisheries Administration of MAFF.

Ministry of Water Resources Management and Meteorology

The Ministry of Water Resources Management and Meteorology (MoWRAM) is mandated to be responsible for water resources management in the areas of the river basin, sub-basins, watershed run-off, groundwater and aquifers in collaboration with all concerned Ministries (article 10, Law on water 2007). MoWRAM was established in 1999 by Kram (Royal Legislation No. NS/RKM/0699/08 dated on 23 June 1999). Two departments, water resources management and meteorology, play important roles in improving water management for development. MoWRAM is coordinating programs on Climate Risk Management and Rehabilitation of Small- and Medium-scale Irrigation Schemes in the Tonle Sap Basin, and on the Enhancement of Flood and Drought Management, with the support of the PPCR. These programmes will be implemented in collaboration with MAFF, MOE, and the NCDM. These projects will be implemented in a few select provinces, and are intended to involve provincial, district, and commune level stakeholders – including NGOs, water user associations, and local community representatives.

MoWRAM is recognised as a key institution in Cambodia's response to climate change. World Bank program PPCR (RGC-c, 2011) proposed $33 million investment in irrigation systems and flood and drought management in partnership with MoWRAM. The programme will also seek to build MoWRAM capacity to address climate change. At the same time, the ministry has implemented skill enhancement and livelihood improvement programmes for farmers and women to increase their capacity to prepare for extreme climate events like floods and droughts and to participate in community-based disaster risk reduction and climate change adaptation. (MoE and UNDP, 2011).

Ministry of Industry, Mines and Energy

The Ministry of Industry, Mines and Energy (MIME) is responsible for policy formulation, strategic planning and technical standards for the energy sector Cambodia (see Annex 1). The Department of Energy Development is responsible for energy sector planning, consumption and data collection. To date MIME planning and strategy focus has been on electricity, including hydropower and renewable electricity to a small extent. MIME's draft Energy Sector Strategy (2004) includes increased attention to fuelwood sustainable management Private sector organizations also play an important role in the energy sector in Cambodia, as the regulatory framework allows private participation in energy generation and distribution.

Electricity of Cambodia (Electricité du Cambodge – EDC) is a semi-autonomous government-private enterprise that runs all electricity development in Cambodia with joint government institutions including MEF, MIME, and Electricity Authority of Cambodia (EAC). MEF provide national budget for all national electricity development while MIME takes part in technical aspects of electricity. The EAC, on the other hands, monitor all fee rates charged for electricity consumption. At MIME, the specific technical department in charge of electricity is General Department of Energy.

3.3 Cross Sectoral Commissions and Committees

National Committee for Sub-national Deconcentration and Decentralisation

The National Committee for Sub-national Democratic Development (NCDD) is the inter-ministerial

mechanism for promoting democratic development through decentralization and deconcentration reforms throughout Cambodia. NCDD was established by Royal Decree number NS/RKT/1208/1429, dated on 31 December 2008. The NCDD is working to strengthen institutions at sub-national levels, but integration of climate risks into sub-national planning is still limited. The Provincial Departments of Agriculture, Rural Development, and Water Resources Management allocate small budgets indirectly to cope with disasters but it the basis for such budgetary allocations are unclear at present. NCDD coordinates a program on natural resource management and livelihoods that has some relevance for environmental management and climate change.

National Committee on Disaster Management

The main institutional responsibility for coordination of activities related to Disaster Risk Management (DRM) rests with the National Committee for Disaster Management (NCDM). Established in 1995, the NCDM is chaired by the Prime Minister with membership from all ministries, as well as representatives from the Royal Cambodian Armed Forces, Cambodian Red Cross and Civil Aviation Authority. The strategic priorities and programmes of the NCDM as they relate to climate change were described in chapter 2.

Currently neither MEF, MoE, nor NCDM, maintains data on national expenditure on climate change adaptation or on disaster risk reduction and preparedness more narrowly defined (RGC-c, 2011). The NCDM, which falls under the Council of Ministers, receives a small annual budgetary allocation via the Council of Ministers for operational purposes, including to support post-disaster damage assessments. The allocation is currently set at CR 1 bn (approximately US$240,000). However, as in most developing countries, there are no specific lines anywhere across the budget for climate change adaptation or disaster risk reduction.

3.4 Donors

Donors are important actors in RGC efforts to respond to climate change.

Bilateral partners

Bilateral agencies have a number of relevant programs underway. The Swedish International Development Agency (Sida) has supported programmes to increase local Cambodian NGOs engagement on climate change with a focus on provincial level activities. The Danish International Development Agency (Danida) has supported Cambodia since 2002; in addition to its support for climate change issues through the CCCA and its associated trust fund, Danida has provided additional support to the MoE for climate change capacity strengthening and awareness raising. It has also actively supported the NCDD and decentralisation programs in Cambodia. Danida is expected to withdraw from Cambodia at the end of 2012. The Japan International Cooperation Agency (JICA) has also supported several climate change relevant programmes such solar energy, forest conservation, and strengthening capacity to cope with natural disasters caused by climate change. Germany has also been active on climate change in Cambodia, including through its development cooperation corporation GIZ.

Multilateral Institutions

Multilateral organisations, notably the World Bank and the Asian Development Bank (ADB), as well as the UNDP have been increasingly actively engaged on climate change issues as well. The World Bank's programmes in Cambodia have addressed governance, transportation, electricity, water supply, rural development, human development, trade facilitation, and public expenditure management. The World Bank is also supporting rehabilitation after Typhoon Ketsana. Both the Word Bank and the Asian Development Bank are partners in the PPCR programmes in Cambodia. The ADB Cambodia country partnership strategy prioritises transport, agriculture and water, which correspond to programming under the PPCR and have substantial links with climate change. The UNDP has been very active on climate change issues since 2006, starting with its support for NAPA development and National Capacity Self-Assessments. UNDP supported Cambodia's First and Second National Communication report to UNFCCC.

Finally the European Commission is also active in Cambodia. It has helped support the Disaster Preparedness Program European Commission Humanitarian Aid Department (DIPECHO) in partnership with the United Nations International Strategy for Disaster Reduction (UNISDR), to support the NCDM to develop its Strategic National Action Plan (SNAP) for Disaster Risk Reduction 2008 – 2013. The EC has also supported many international NGO programmes in Cambodia, including Oxfam's work on adaptation and food security. The EC has also supported the Forest Law Enforcement and Governance programme in Cambodia, aimed at helping to strengthen forest governance and reduce illegal logging, which should complement efforts to reduce emissions from deforestation and degradation although it does not contribute directly to climate change.

Cambodia Climate Change Alliance and Pilot Programme for Climate Resilience

The management of climate change policy is being led by the Pilot Programme for Climate Resilience and the Cambodia Climate Change Alliance.

Pilot Programme for Climate Resilience – US$86m (PPCR). The original request for the PPCR involved a grant of US$ 50m and soft loans of US$ 55m (RGC 2011). The latest budget involves $86m from the PPCR and is part of the Strategic Programme for Climate Resilience (SPCR) which includes a further $299m in support from other donors (RGC/ADB 2012). It is currently unclear whether all of this funding will be disbursed within the short timescale of the PPCR; if they are disbursed over the next three years, however, then the SPCR would increase climate expenditure by about 50%.

The PPCR for Cambodia will be implemented by the Asian Development Bank (ADB) and the World Bank (WB) in cooperation with government and other donors. The current plans identify seven investment projects and one technical assistance (TA) project.

Each investment project will have to be approved by the international PPCR sub-committee. Current proposals cover the following activities: small and medium size irrigation; flood and drought management; agriculture; forestry; water supply; coastal management; and climate-proofed infrastructure.

The objective of the TA project is to build capacity; to support the preparation of adaptation strategies in at least three sectors; and to ensure that at least 25% of all projects in water, agriculture, transport and sanitation are climate proofed. To achieve this, the TA will develop risk screening tools and methods for vulnerability assessments. The links between the technical assistance programmes supported by the PPCR and the "hard" investments in infrastructure are not clear. Concerns have been raised about the implications of having already programmed the majority of the PPCR funds for infrastructure programmes, given that the results of capacity building and mainstreaming efforts might result in government institutions developing different priorities for how to programme these funds. The governing committee of the PPCR trust fund in turn has also expressed concerns about the extent to which proposed programmes are really enhancing resilience and building adaptive capacity, making the case for clearer justifications of the contributions of programs to enhanced resilience, and more creative approaches to implementation including ecosystem based adaptation approaches to complement (or substitute for) concrete and construction based approaches.

Cambodia Climate Change Alliance – US$8.9m (CCCA). The CCCA has the overall objective of strengthening the NCCC, with four key results: improved coordination of policy and planning; improved access to information and knowledge; capacity to manage climate finance; increased resilience of coastal communities and ecosystems; and capacity building and small grants. The CCCA has assisted in the establishment of the Climate Change Technical Team (CCTT) and supported the establishment of climate change teams in line ministries. CCCA is supporting the development of the Cambodia Climate Change Strategic Plan (CCCSP). Members of the NCCC and CCTT have been supported in attending international negotiations and workshops and has supported the Second National Forum on Climate Change. According to the CDC database, the CCCA has involved expenditure to date of $3.1m, with planned expenditure of $5.8m in the current year.

Table 4: PPCR and CCCA Collaboration Matrix on Mainstreaming Climate Finance

	PPCR Focus	CCCA Focus
Capacity for CC policy		• Support focal points in LMs (R1) • Support MOE on international negotiations (R1)
Review of CC policies and planning	• Review existing national strategies (C1) • Workshops on mainstreaming (C1) • Integration of CC into NSDP and SNAP for disaster management (C1)	• Reviews of existing policy (R1/3) • Guidelines on sector CC policy (R1) • Preparation of the CCSP (R1)
Mechanisms for mainstreaming climate finance	• Review existing projects and systems (C1) • Developing and applying screening methods for new investments (C1)	• CCSP climate finance chapter (R3) • Climate financing modalities (R3)
Mechanisms for subnational CC planning	• Review of subnational systems (C2) • CC screening tools for local level (C2)	• CPEIR case studies (R3) • Piloting CCCA Trust Fund (R5) • CC sensitive Commune Plans (R4)
Gender considerations	• Review strategies/institutions (C3) • Master workplan on gender and CC (C3)	• Consultation on gender in CCSP (R1) • TF grant screening for gender (R3)
Field based resilience pilots		• CC resilient grants (R5) • Planning demonstrations (R4)

Note: C1,2,3 refer to PPCR tasks. R1,2,3 refer to CCCA results

Start-up of the CCCA was slow and there is now a major programme of work to complete in the current financial year.

Coordination. As the two main instruments for supporting climate policy, it is essential that there is good collaboration between the PPCR and the CCCA. Efforts are being made to achieve this formally through joint reporting to the NCCC and CCTT and, informally, through good bilateral working relations that have already been established. The collaboration between the PPCR and CCCA is currently guided by a matrix that defines three broad areas of collaboration: mainstreaming; engagement and communication; and information and knowledge management. The main interest for climate finance is in the coordination of activities in support of mainstreaming. This is to be achieved under 6 headings, as summarised in Table 4.

3.5 Civil Society and Private Sector

There are often formal opportunities for public participation in decision making related to environmental issues. However inclusive decision making is a new and challenging undertaking in Cambodia. The extent to which there are meaningful opportunities for civil society and other non-governmental stakeholders including the private sector to engage in deliberative decision making is unclear. There is, however, significant capacity, knowledge and commitment to integrating climate change considerations into developmental decision making within many segments of Cambodian civil society. Many groups reported good working relationships with government at an operational level in advancing attention to these issues, although many challenges remain to be resolved.

Non-Government Organisations

Non-government organisations (NGOs) and civil society organizations (CSOs) in Cambodia have engaged actively on climate change. An NGO Climate Change Network was established recently. The NGO Forum on Cambodia is a membership organisation for local and international NGOs working in Cambodia, which facilitates information sharing, debate and advocacy on issues affecting Cambodia's development. All NGO Forum projects seek to build NGO cooperation for advocacy by facilitating the activities of an NGO network.

The NGO Forum of Cambodia has developed a cross-cutting climate advocacy programme, with a focus on gender. It also seeks to raise the awareness of local communities of climate change and related policy developments, and to coordinate the expression of their concerns and perspectives as inputs into formal climate change related policy development processes.

NGOs such as Conservation International (CI), Wildlife Conservation Society (WCS), Pact, Non-timber Forest Products Exchange Programme (NTFP-EP), Wildlife Alliance, World Wildlife Fund (WWF), Fauna and Flora International (FFI), International Union for Conservation of Nature (IUCN), Groupe Energies Renouvelables, Environment et Solidarite (GERES), and other NGOs have worked on mitigation, with a strong focus on natural resources and conservation working in the forest, fisheries and water sectors. GERES Cambodia office has worked with MIME and FA and concentrated in three main programs: Improved Cook Stove; Integrated Sustainable Biomass Supply; and the Sustainable Forest Programme. GERES has also carried carbon audits studies and has run climate change studies.

WCS has been involved in the development of the REDD+ work programme, in implementing pilot REDD projects, and is participating in the TWG-F&E and TWG-Fisheries working groups. PACT is a long standing actor on environment and climate change issues in Cambodia, and was one of the first NGOs to initiate REDD+ pilot projects in partnership with the FA and MAFF.

Many local NGOs have been working on adaptation to climate finance. Oxfam has also engaged, and is working on adaptation and climate resilience in provinces where rice is dominant. The BBC World Trust Services were recently contracted to do a study on climate change awareness raising in Cambodia.

Research organizations and academia

A growing number of research and academic organisations are also engaged on climate change issues in Cambodia. The **Royal University of Agriculture** (RUA) obtained US$300,000 from CCCA Trust Fund to help build the capacity of institutions to support farmers to adapt to climate change in Cambodia. The **Cambodia Development Resources Institute (CDRI)** conducts policy research to support sustainable development in Cambodia, and has programs on governance and environmental sustainability, as well as poverty, agriculture and livelihoods. It has conducted research on water resource management and climate change highlighting the need for more adaptive integrated water management and the vulnerability of Cambodia to climate change, and documented the limited impact of policies aimed at reducing deforestation and promoting sustainable forest management to date. They are also supporting the development of the Cambodia Climate Change Strategic Plan. **The Learning Institute** (LI) is a non-profit, non-political Cambodian organization working with a wide range of civil society, public and private sector organizations so that they can contribute more effectively to the sustainable management of natural resources. LI has a program on adaptive management and climate change, and has also been involved in REDD+ activities.

Private sector organizations

There is some private investment in renewable energy, but this is limited for several reasons. Neither private companies nor government agencies have sufficient technical capacity in electricity development. There are less than one hundred family-scale hydropower stations in the country and these stations normally lack of water during at least two to three months of the dry season. RGC has decided to import electricity from Vietnam for the southern and eastern provinces of Cambodia, rather than invest in new renewable capacity. The administrative fees involved in establishing renewable energy generation capacity are high, risky, uncertain and not transparent. Furthermore, it takes considerable effort and time to obtain a permit.

Terra Global Capital (TGC, based in the US) has engaged in the REDD voluntary carbon market for the last few years, with FA/MAFF and Pact Cambodia has also engaged in REDD in Oddar Meanchey. However, the work has not yet succeeded and no Cambodia private company has engagement in REDD.

There is a general sense that private sector organisations in Cambodia have yet to engage actively on

climate change issues, although there are some examples of corporate social responsibility initiatives in this space. There have also been efforts to engage the private sector in clean development through the CDM. Furthermore, there are many examples of private investment in renewable energy.

An informal consultation was carried out with an experienced business working in the renewable energy market. This suggests that between 5000 and 15000 solar panels are installed in Cambodia each year. This investment is worth about $20 CRbn, with value added to importers, distributers and installers. This is therefore equivalent to about 2% of total public expenditure related to climate change. The panels should generate nearly 3m kWh, worth about $ 2 CRbn and reducing carbon emission by about 1.8m kgCO2, worth between $70 CRm (at 10 $/ton CO2) and $200 CRm (at 30 $/ton CO2).

The Cambodian Chamber of Commerce (CCC) was established in 1995 (http://www.ccc.org.kh). To date, climate change and environmental issues have not been identified as priorities for the Chamber. The CCC reports on its activities to the Ministry of Commerce (MoC).

3.6 Conclusions

The NCCC provides a good foundation for cooperation on climate policy formulation and monitoring. The Prime Minister is honorary chairman and it is chaired by the MOE, with vice-chairs from MAFF, MIME and MOWRAM. The CCTT collaborates on more technical work and includes a Sub-group on Climate Finance that has supervised the CPEIR. The CCD acts as secretariat to the NCCC. Whilst these arrangements are suitable, there is a need for the NCCC to meet more regularly and the new Climate Change Strategy and Plan should provide the focus for this, especially if the CCSP is complemented by a Climate Change Annual Monitoring Report, to be approved by the NCCC.

There are a range of arrangements for managing climate change in line ministries. MAFF are making good progress on this, but work in other ministries is still ad-hoc and informal and capacity to integrate climate change considerations into decision-making within key departments remains limited beyond a few designated individuals that are taking an active interest in climate change. The CCCA includes plans for strengthening the capacity of line ministries to introduce climate sensitivity into sector strategies and this should be pursued. The PPCR includes plans for supporting climate screening of all new investments and this is also a high priority activity.

The NCDM is responsible for responding to national disasters and has a similar composition and status as the NCCC. It supports some disaster preparedness activities in communities, mostly involving capacity building, but does not fund any investment in infrastructure that reduces or prevents the impact of future floods or droughts. As a result, it has limited experience with mainstreaming. Cooperation between disaster management and climate change is essential and needs to start with an explicit distinction in roles.

The current system of donor TWGs can be used to facilitate donor coordination on climate change. There are, however, blockages in this system, associated often with the practical need for a small number of TWGs and, hence, the need for each TWG to accommodate the interests of several government institutions. Some pragmatic guidance is required from senior government officials.

Any effort to understand the institutional dynamics of Cambodia's efforts to address climate change must be set in the context of on-going efforts to strengthen overarching governance within the country, which by strengthening the capacity and accountability of government institutions and decision-making processes (ADB 2010, CDRI, 2010). In this context the challenges of climate change add additional impetus to on-going efforts at reform, but may also add significant additional complexity to decision making around sectors that are central to economic development aspirations and attracting new investment.

They must also be set in the context of its overarching efforts to address environmental sustainability. Cambodia's Millennium Development Goals (CMDG),

include an aspiration to achieve environmental sustainability by 2015, as measured against a set of indicators focusing on forestry, fisheries, and water resources and sanitation, and land security. As of 2011, progress against these indicators was assessed as "off track" according to independent monitoring efforts coordinated by UNDP on behalf of RGC (MoE and UNDP, 2011). For example, the forestry indicator of the CMDG 7 aims to maintain forest cover of 60% of the country by 2015; current forest cover is 57.07% (FA, 2011) indicating a lack of progress in achieving this goal. The weak status of environmental and social governance in Cambodia reflects the challenges of both national and sub-national government, such as weak law enforcement, lack of institutional capacity, financial support and low salaries.

More inclusive decision-making processes and strengthened public debate over how to incorporate climate change into decision-making may help support more effective integration of climate change into Cambodia's governance more generally.

4 PFM Processes

The public finance management (PFM) system in place in the early 2000s was derived from the political systems of previous regimes. Before 1979, a centralised French colonial type of PFM system existed. Between 1979 and 1993, a new PFM system was introduced, also with strong centralised features. A mixture of these systems has been in place from 1994 until now. In the last decade the government has introduced a phased PFM Reform Programme (PFMRP) that has introduced some improvements and will continue until 2015.

Since 2005, with donor support, Cambodia's government has engaged in a comprehensive programme of reform through its PFM Reform Programme (PFMRP). PFMRP aims to transform the PFM system into one practicing accepted international best standards. The ten year timescale (2005-15) recognises the time required to achieve the reforms. The programme is framed as a Sector Wide Approach (SWAp), with thirteen donors coordinating their assistance (US$35 million), around an agreed MEF led programme. It is currently co-financed by a Multi Donor Trust Fund supported by four donors (AusAid, DFID, EC and Sida), a World Bank grant, and bilateral assistance from other donors including ADB, CIDA, France, IMF, JICA and GIZ. PFMRP consists of four platforms to be implemented over a ten-year period aimed at achieving a sequenced set of stages of: i) strengthening budget credibility; ii) enhancing financial accountability; iii) the progressive development of policy-based budgeting and iv) increased performance accountability.

Stage 1 primarily sought to improve budget credibility and drew to a partial close in December 2008, all though some activities were continued into Stage 2. The main area of progress in Stage 1 was revenue collection (MEF 2008). Improved revenue collection has helped improve the overall credibility of the budget through more timely and predictable fund release. Budget cycle management has improved, significant areas of expenditure have been integrated more closely with the budget process and a mid-year review process introduced. 2007 was a watershed year in terms of PFM reforms affecting the budget process. The Public Finance System Law was drafted and promulgated in 2008 and provided a new system of standardised spending procedures.

Stage 2 lasted until 2010, and has focused on strengthening accountability systems including improved budget execution and transaction processes. An ICT based budget and financial management framework including a computerised Financial Management Information System (FMIS) will be piloted to improve reporting, transaction processing efficiency, to provide the basis for effective control and strengthened resource management. The FMIS will help to improve the production of information that is needed for planning, budgeting, internal control, accounting and financial accountability.

Significant areas of both revenue and expenditure are now captured in both the budget and accounts of government. The Treasury Single Account and consolidation of bank accounts have been strengthened. A new chart of accounts and budget classification has been introduced and the BSP has been improved, to include public enterprises and off budget donor support. The functional (COFOG) classification has been introduced at ministerial level and plans are being discussed to develop a more detailed functional classification once the FMIS is sufficiently developed.

In the next step, PFMRP aims to improve and expand the implementation of program budgeting and budget comprehensiveness and integration. The evaluation procedures and action plan related to program budgeting in 8 line ministries were completed. The BSP was designed to support the 2012 budget preparation. Some of the solutions lie with donors. The desirability of moving away from projects towards more programmatic approaches is already appreciated by the donor community. This is reflected in the support donors have given to the preparation of the Strategy for Agriculture and Water (SAW), and its five programmes.

4.1 Budget Formulation

The Budget Cycle

Budget Coordination. The Ministry of Economy and Finance (MEF) is in charge of the recurrent budget

Figure 2: Budget Calendar

Budget Strategic Plan		
First week of March	MEF	Prepares mid-term macroeconomic and public finance policy, based on national development policy. MMPFP produced.
	CoM	Approves the mid-term macroeconomic and public finance policy.
First week of April	MEF	Issues a circular on preparation of the strategic plan, based on mid-term macroeconomic and public finance policy.
	Budget entities	Prepares Budget Strategic Plan for their central, local and entities under authorities, based on the circular.
		Budget Strategic Plans forwarded to Minister of Economy and Finance by May 15.
Budget allocation		
First week of June	MEF	Drafts circular on the budget preparation technique by specifying the conditions and procedures.
	CoM	Approves the draft circular, then forwards it to the budget entities.
	Budget entities	Prepares detailed revenue and expenditure estimates for central, local and entities under their authority, based on the circular.
		Submit the draft budget to MEF by July 25.
End July	MEF	Consolidate revenue and expenditure estimate from the ministries, agencies, and local authorities.
August	MEF	Invites the budget entities to negotiate the estimates and perform necessary adjustments.
September	MEF	Consolidates data and drafts the annual budget law.
Budget Adoption		
First week of October	MEF	Submits the draft budget to CoM.
	CoM	Discusses and approve the draft budget law, to be submitted to the NA.
First week of November	NA	Debates and approves the budget law, submitted to the Senate.
First week of December	Senate	Approves the budget law prior to December 25, to be promulgated by His Majesty the King.

and the domestically financed capital budget. The MEF Budget Department is in charge of the preparation of the recurrent budget (also known as the "current budget") and the MEF Department of Investment and Cooperation (DIC) is in charge of capital budget preparation and execution. The Budget Department is responsible for the consolidation of both the recurrent and capital budget into the annual budget document. It is also in charge of the Budget Strategic Plans (BSPs) which are prepared by the line ministries and which provide a medium term context for the annual budget preparation.

The budget calendar is summarised in Figure 2.

Budget Strategic Plan (March-May). The budget process starts with the preparation of a Budget Strategic Plan (BSP) in the first week of March, when MEF prepare the Framework for the Mid-term Macroeconomic and Public Finance Policy (MMPFP) in line with the national development policy framework. This Framework is be submitted to the Council of Ministers (CoM) for approval. A circular on preparation of the BSP is issued by MEF Budget Department, based on the Framework adopted by the CoM. Based on this circular, line ministries and local authorities prepare their submissions for the BSP and submit these to the Budget Department by May 15.

The BSP includes a Medium Term Expenditure Framework (MTEF) that gives three year projections of spending for each ministry. These were introduced in the first stages of the PFM Reform Programme in 2001. This is an important first step in making the budget more closely linked to policy. At present, the BSP includes limited debate on changes in the allocations to ministries and programmes. The MTEF and MMPFP have been substantially strengthened as key macroeconomic planning tools since 2007. The MMPFP is developed based on a prognosis of macro-economic variables (GDP growth and inflation, balance of payments, money growth and the exchange rate). It provides a forecast of likely resource availability (a global resource envelope) to government over the medium term.

The MMPFP and the MTEF provide a macroeconomic and inter-sectoral resource allocation planning framework, which plays a vital role in improving the predictability of resource availability for medium term planning. The MTEF allocates the global resource envelope between sectors or administrative units i.e. line Ministries, and between the wage and non-wage elements of Ministry budgets. The MMPFP and the MTEF are managed by the Economic and Public Finance Policy Department of MEF.

The Budget Department of MEF first circulated guidelines on the preparation of the Ministry Budget Strategic Plans (BSPs)[5] in 2007. At the line ministry level, the BSP process is managed jointly by the Departments of Planning and Finance.

The BSP is the bottom-up component of the MTEF system, which provides for intra-sectoral and intra-ministry resource allocation. The BSP is the tool for line Ministries to prepare their medium term and annual expenditure plans. The BSPs have a programmatic structure based on the identification of organisational objectives, budget activities, output targets and indicators for Ministry spending.

Despite some progress, the linkage between the NSDP, the MTEF/BSP and the annual budget remains weak. Part of the problem is that the budget is not fully integrated yet and externally financed spending is only partially captured in the government budget and is not classified using the government chart of accounts. The weaknesses of the current BSPs also relate to the inadequate specification of objectives, targets and indicators. This is due to a combination of inadequate guidelines and supervision from the centre, and to capacity constraints in line departments.

To be fully effective, BSPs should reflect all resource flows to functional areas i.e. they should capture all resource flows to a sector, both government and donor, in the decision making and planning process. At the moment, the BSPs only capture government resources, and this is a major weakness, given the high volume of donor flows. One of the difficulties in incorporating donor funds into the BSPs is associated with the parallel modalities which are used to manage many donor projects. There is a proliferation of PMUs which may be associated with ministries but do not come under the Departments of Planning and Finance in those ministries.

Budget Circular (June-September). Once the BSP has been approved, MEF drafts a circular on budget preparation, specifying the conditions and procedures to be followed. This is approved by the Council of Ministers and is then forwarded to line ministries and local authorities for drawing up detailed revenue and expenditure estimates to be submitted to MEF by July 25. In August, MEF consolidates the revenue and expenditure estimates and invites line ministries and local authorities to perform necessary adjustments before incorporating these into the draft Finance Law by September.

Adoption of Budget (October-December). MEF submits the draft budget law to the Council of Ministers during the first week of October, then to the National Assembly during the first week of November for approval. Finally, the draft budget law is submitted to the Senate by the first week of December and for adoption prior to December 25.

5 These were originally known as Ministry Strategic Budget Frameworks (MSBF)

Programmes

The conventional budget system in Cambodia does not define budgets or monitor expenditure at any functional level below the Ministry. To help government to align resources with policy priorities, a partial form of programme budgeting was introduced in the early 2000s, with the adoption of Priority Action Programmes (PAPs). These were replaced in 2007 by programmes. There are 33 budget entities, of which 8 currently have programmes identified. The programmes account for less than 15% of expenditure in the ministries, except for education, where programmes account for 30% of total ministry expenditure, and rural development, where programmes account for just over 50% These innovations have helped ministries to pursue policy priorities and encourage the integration of recurrent and capital budgets. However, there are practical difficulties particularly relating to capturing donor flows.

The World Bank/ADB Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) of 2003, recognised that PAPs had the potential to bring some order to improved spending management and to accelerate domestic resource allocation and spending. In practice, disbursement was slow largely because PAPs coincided with a period of lack of revenue and competition for funds from a programme to clear arrears. There were also some problems with a lack of explicit compliance rules for funding release. The slow implementation of PAPs was further restricted by unpredictable donor funding, as disbursements often lagged behind commitment schedules.

Investment

The Public Investment Programme. The budget includes a list of about 500 projects that comprise the Public Investment Programme (PIP), which is based on the National Socio-Economic Development Plan (NSDP). The PIP is prepared by line ministries, under the coordination of the Ministry of Planning (MOP), who are supposed to approve all projects and ensure that they are consistent with the NSDP. In practice, most of the capital budget is funded by donors and line ministries tend to deal directly with donors,

Box 1: Programme and Performance Budgeting

There has been a continuous evolution of experience with techniques that aim to link the budget with policy. At the heart of these techniques are the concepts of 'programme budgeting', in which resources are attached to programmes that deliver policy. 'Output budgeting' and 'performance budgeting' are extensions of programme budgeting in which outputs are defined and monitored for each of the programmes.

There is now widespread and long standing commitment to performance budgeting in developed countries. Many countries have been reporting performance criteria for more than ten years. A recent OECD review suggested that few countries practice 'direct' performance budgeting, in which resource allocation is linked directly to indicators of performance (Curristine 2005). Rather, ministries of finance use performance monitoring information more indirectly to ensure that line departments are focused on service delivery and to provide early warning of problems that need addressing.

During the 1980s and 1990s, there was widespread international interest in systems of programme budgeting that allowed policy objectives to be separated from organisational structures. Some of this work was built on the experience in Australia and in local government in the US. In theory, such systems assign budget resources to programmes and ministries and their component departments bid into these programme budgets and receive a share of the resources committed to the programmes. The system creates a matrix that maps programme budgets onto organisation budgets. Such systems are particularly suited to cross-sectoral issues, such as climate change. For example, in theory, the government budget can specify a set budget for mitigation or for different types of adaptation, and all contributing ministries can negotiate a share of that budget. This share might constitute their full budget or just a top-up to a budget that is mainly funded under a more routine programme.

In practice, the experience with systematic cross-sectoral programme budgeting has not proved sustainable, largely because the budget is negotiated as a political process with ministries as the main players in that process. Where these systems have been used, they have been maintained as parallel systems and then fallen into disuse when technical assistance has lapsed. As a result of this experience, most recent output budgeting initiatives have been implemented by aligning programmes with organisation units, so that few or no programmes cut across institutional lines. This suggests that there are major challenges in linking resources to outputs for programmes, like climate change, that cut across institutional responsibilities.

or with the Council for the Development of Cambodia (CDC), whose role is to coordinate external funding for projects as well as to maintain a database on these projects.

Currently, according to MOP, climate change related activities have not yet been mainstreamed in the PIP process, although some line ministries have identified their priority departments, activities, or subgroups related to climate change activities. Prioritisation in the PIP is done only by line ministries within their sectors of responsibility. Some sectors require Environmental Impact Assessments for certain types of project, but this is not done in a systematic manner. MOP compile line ministry submissions, without any prioritisation between sectors. Since 2010, the CDC database includes a tag to identify those projects that address climate change (see Figure 6).

Domestically funded capital spending is managed by DIC. This has traditionally been very low compared to externally funded capital spending by donors as loan and grants, but recent years have seen a marked increase, mainly in spending on national roads (MPWT), rural roads (MRD) and irrigation (MOWRAM). Domestically funded capital spending is generated from a one-line item in the budget law document titled unexpected expenditure, which is used for financial charges and unexpected expenditures due to unforeseeable events, and is later distributed to line ministries through MEF[6] to be approved of the Prime Minister. Generally, the available funds are allocated for capital spending according to the priority sector of the government, mainly roads and bridges and irrigation. Historically, the composition of this expenditure has not been reported and, even in recent years, it is still not linked with the MTEF or the PIP. Integration of capital and recurrent spending is poor, although some ministries are giving a higher priority to maintenance.

On Budget Donor Investment. DIC supervises externally financed investment projects that use project accounts in the National Bank of Cambodia. DIC are assigned to assist the Executing Agencies (EAs) and line ministries in managing the government's portfolio of externally assisted projects. These are mainly the loan and grant financed projects of the multilateral lending institutions, and appear in the budget under line item 99 as 'Capital expenditure outside NT' and 'External financing (Project aids)'. Total expenditure on these projects appeared in the 2011 TOFE accounts for the first time.

Another element of the capital budget[7] is financed by budget support (funds provided by donors administered through the National Treasury). Budget support funds can be used for both capital and recurrent spending. Since 2000, moves have been led by donors in the health and education sectors, to introduce Sector Wide Approaches (SWAps). These were motivated by the realisation that new and more comprehensive approaches were needed, both to provide more holistic sector planning, and to bring more donor resource flows under one coherent sector policy and strategy framework. The health and education SWAps are generally accepted to have been reasonably successful in term of providing sound policy and strategy frameworks. They have also been successful in positioning government as the lead partner, and in persuading donors to locate their resources within a common sector planning framework. Having donors adopt common implementation arrangements has been more difficult, though a degree of joint planning and monitoring activity has been achieved. However, channelling donor resources through government systems to save transaction costs, and to stop diversion of scarce skills to PMUs, has not yet been generally accepted by most donors because of fiduciary risk, despite the improvements being achieved under the PFMRP. Japan provides a form of commodity aid that generates revenue for the budget and the EC has recently started an education budget support programme that is under assessment.

Off Budget Donor Investment. Projects that are funded outside the NBC's treasury account are generally

6 According to the article 58 of the Law on Finance promulgated in 2008, "A sub-decree issued following a request by MEF can allocate budget appropriation recorded under unexpected expenditures in forms of additional appropriation beneficial to various chapters of ministries, institutions, or similar public entities".

7 See the capital section in the TOFE tables.

managed directly by line ministries and donors. These include many of the bilateral grant projects. These projects may be included in the budget, if they feature in the PIP. In theory, DIC monitors disbursement for these projects, but the flow of information is not as smooth as for the projects that are funded through the NBC. About half of all development expenditure is captured by DIC, either in the budget or through their systems to monitor off-budget support (see chapter 6).

Counterpart Funding. Government Counterpart Funds (GCFs) are required by many donor projects, including those working through the NBC and those working directly with line ministries. These GCFs may be provided in cash or in kind (e.g. in the form of staff or physical facilities or resettlement). DIC are responsible for managing GCFs.

Subnational Budgets. Budgeting structures at the provincial level are similar to those of line departments since departments in the provinces are effectively de-concentrated units of their parent central government line ministries. The provincial governor's office, in charge of administration in the province, represents the Ministry of Interior at the provincial level.

The central government, plus the deconcentrated entities in the provinces and districts, comprise 97% of total government expenditure, with the commune governments accounting for the remainder (RGC, Nov 2009).

4.2 Budget Execution

This section will describe the budget execution practices for local and external funds, which are still evolving and which provide the mechanisms through which the mainstreaming of climate change funding would be implemented.

Domestically Financed Recurrent Budget

Spending Commitments: At central and provincial government, the Executing Agency is required to prepare a set of documents including the description of the proposed purchases and their estimated market prices using a pro-forma invoice or requisition. This proposal is examined by the financial controller of MEF to check that: a) it is in compliance with the approved budget and the spending program sent from MEF; b) the cost is reasonable; and c) all procedural formalities

Box 2: Budget Support

International lessons on aid effectiveness stress the benefits of working with government systems and using budget support, wherever possible. The experience with budget support is still evolving. There is good experience with budget support in sectors where there are clear indicators of impact or output, such as in education and health. General budget support has also been successful in some countries, especially as a means of supporting government commitment to key policies, often (both always) on economic management. However, the experience also shows that there are some serious challenges.

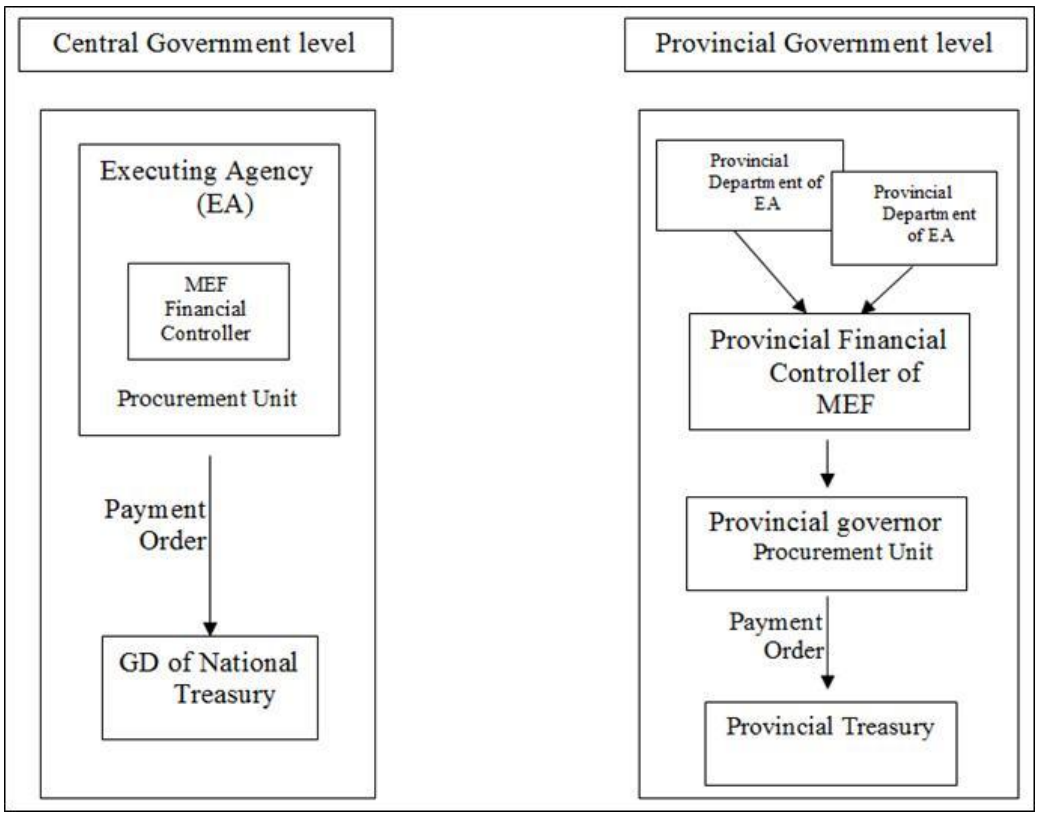
There appears to be a tendency for budget support to be used more to build institutions than to deliver services. In recognition of this, the EU, which provides the majority of budget support, globally, normally insists that the support is linked to indicators of impact, or at least outputs, rather than indicators of policy, process or institutional capacity.

At present, there are no examples of budget support being provided against indicators of adaptation and mitigation impact. There is a major initiative in Vietnam which aims to work towards this, but this initiative is still evolving. The EU does provide some support for climate change through the budget for capacity building activities, via the Global Climate Change Alliance (EU 2011). This funding is managed through the budget, but the programming takes place somewhat outside the budget and it is therefore not full budget support.

In addition to problems with above challenges, there are many countries where donors are reluctant to provide budget support because of fears about the ability of government to manage finances in a transparent manner. In theory, when budget support is linked to outputs, it is not necessary for donors to be concerned about financial management as the disbursement of each tranche is linked only to the delivery of outputs. However, in practice, donors do not want to risk being seen to support inefficient public finances.

In Cambodia, the EU is providing budget support to the education and health sectors. Both of these SWAps are considered to be relatively successful and have contributed to promoting improved impact of services.

Figure 3: Budget Execution for Central and Local Government Levels



Source: Anukret 82 on general regulation of public accounting

have been met. The principal initial document is the "commitment visa."

If approved, the commitment is forwarded to the Minister acting as the Principal Manager for central government, or to the Governor acting as the Delegated Manager on behalf of the line Executing Agencies for the provincial government.

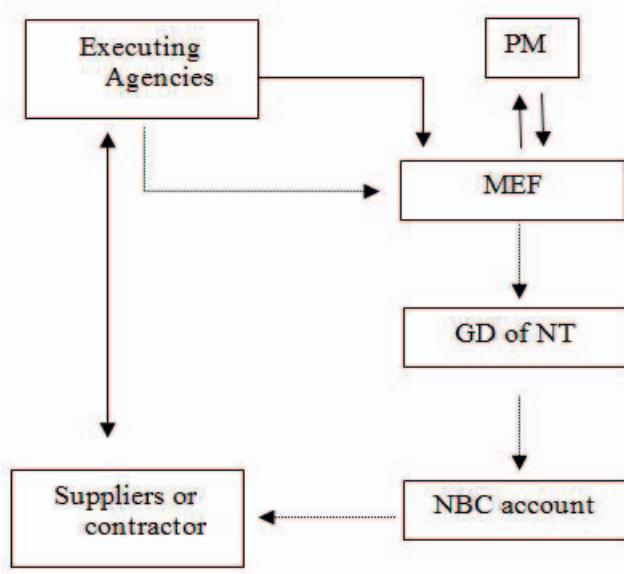
Procurement: Once approved by the managers, the spending commitment is sent to the Procurement Unit (PU) and then the Pre-qualification, Evaluation and Award Committee (PEAC), both of which are under the Executing Agencies or Governor's Office. For purchases above a certain threshold, Executing Agencies are required to seek approval from MEF's Department of Public Procurement (DPP) before entering into such contract.

Good/service deliveries and approval of payment orders: Once awarded, suppliers are required to deliver goods/services in accordance with the terms of the contract. A group of the above officials (procurement unit, financial controller, managers, Executing Agencies' official) is expected to conduct inspections of the deliveries to verify contractual requirements. Once the deliveries are approved, the Executing Agency or Governor's Office is required to prepare a payment order to be firstly approved by financial controller and then manager through the same process as the spending commitment approval request stage.

Supplier payments: Once approved, the mandate is forwarded to the General Department of the National Treasury (or to the Provincial Department of Treasury at the provincial level) for processing and payment.

For the Advance Regime, the approval processes have been lifted as the Executing Agencies become the Excise Agencies to execute the budget in accordance with the advance regime specified in the Anukret on General Regulation of Public Accountant. The ad-

Figure 4: Execution of domestically financed capital expenditure



Source: Law on Finance in 2008 and team drawing

vance regime allows the Excise Agencies to have cash advances during each semester to spend and later conduct the regularization of the actual spending with the Treasury in accordance with the normal approval procedures.

Figure 3 summarises the process of executing the domestically financed budget.

Domestically Finance Capital Expenditure

Domestically financed capital expenditure is recorded under Chapter 21 of the budget and the projects funded are called Direct Investment Projects. The execution process is summarised in Figure 4 and is as follows:

- line ministries submit proposals for investment budget credits along with supporting documents to MEF
- MEF submit a request letter to the Council of Ministers
- the budget credit appropriation is approved by subdecree signed by the prime minister
- line ministries submit payment orders approved by the financial controllers of MEF to DIC for processing the payment

Externally financed capital expenditure

DIC is assigned to carry out MEF's different roles and responsibilities through DIC's operational divisions assisting the EAs and line ministries in managing the government's portfolio of externally assisted projects. DIC is responsible for establishing and maintaining a management information system (MIS) for monitoring and evaluating the projects, collected from the EA and their project implementation team.

Some projects require government to share a portion of funds in the investment project, called government counterpart funds (GCF), which can include costs related to resettlement.

In terms of the executing process, Executing Agencies deal directly with the projects, and send the disbursement report (withdrawal application signed by the managers of the Executing Agencies) to be submitted to DIC of MEF. DIC processes the disbursement report and requests disbursement to ADB/WB and DIC arranges for any GCF to be released in conjunction with the Finance and Administration Department of MEF to the contractors or suppliers.

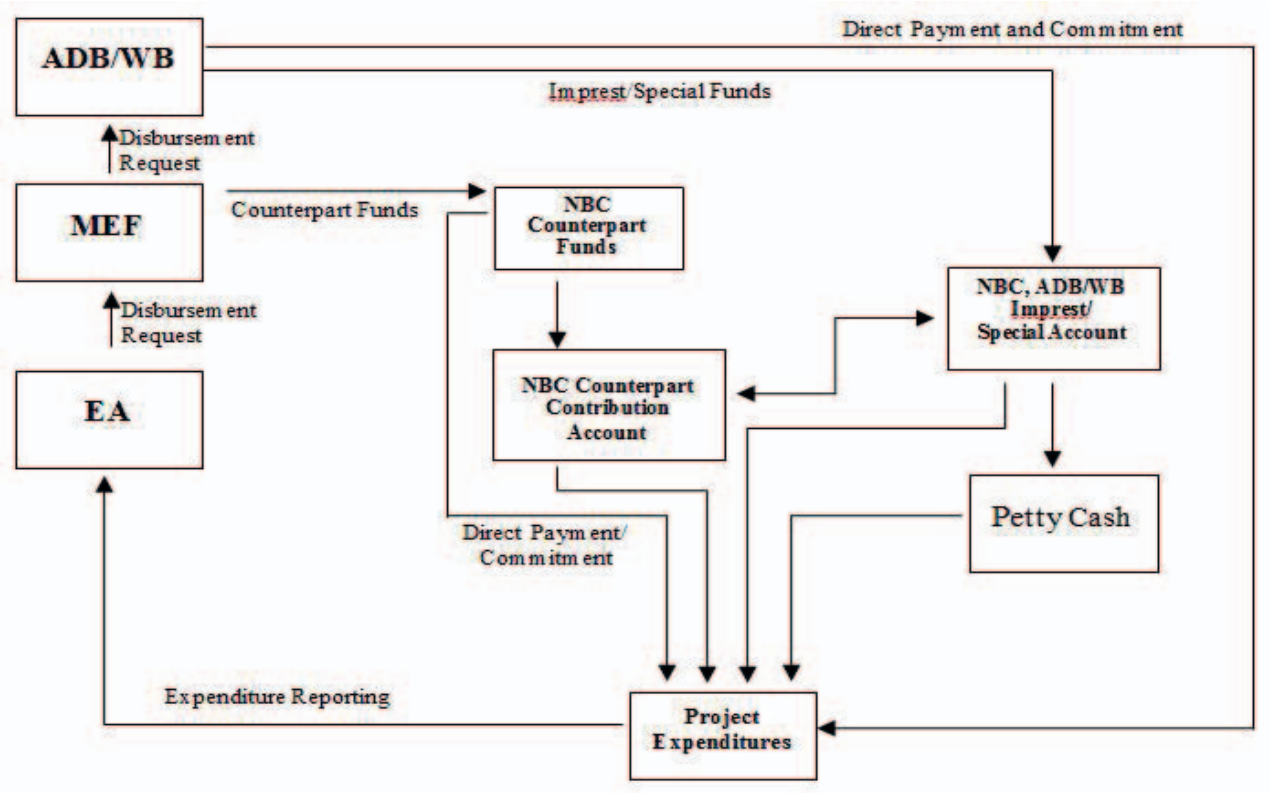
MEF can release funds directly or make a commitment (credit advice) to project expenditure, while ADB/WB can either release funds through direct payment or commitment methods or put through the imprest/special account of NBC, or other bank account agreed by the Minister of MEF.

The process is summarised in Figure 5.

4.3 Data Sources

While time series data for budgeted and actual recurrent expenditure are available by economic classification, they are not published routinely on a functional basis, below the level of ministry. A variety of sources have been used to build the data sets used in this study

Figure 5: Execution of externally funded capital expenditures



Source: Financial Management Manual

for the allocation and composition expenditure analysis of agriculture, irrigation and rural roads.

The budget law provides expenditure by ministry, broken down by economic classification and including the budget for the programmes, where these exist. The Budget Law also includes the Public Investment Programme (PIP). The rate of budget execution (ie the proportion of the budget actually spent) has been close to 100% for recurrent expenditure, but has varied greatly for investment expenditure. In general, the execution rate for programmes has been higher than for non-programme expenditure.

The Tableau des Operations Financieres de l'Etat (TOFE) are the main source of information on actual expenditure of government ministries and cover recurrent spending and domestically funded investment. Figures are provided for 33 budget entities, of which 8 currently have between two and four programmes (MoH, MEYS, MAFF, MRD, MWA, MoJ, MLMU and MLVT).

The TOFE can be used to provide a time series of budget and expenditure data, although there are changes in the way in which investment expenditure is treated. The TOFE are compiled by the Department of Economic and Public Finance Policy (DEPFP) of MEF, based on the expenditure records of the General Department of National Treasury (GDNT). GDNT is the body responsible for preparing Government's consolidated expenditure accounts and financial reports. These tables are available for the analysis period 2000 – 2011. However, a change in the budget classification introduced through a new Chart of Accounts in 2007, means that there is a discontinuity in the presentation by economic classification. Provincial expenditure, which was reported up to 2007, is not separated thereafter, when budgets are structured into a Non-Program and Program budget framework.

DIC provides data on loan projects disbursement and counterpart funding for investment projects that are managed through the budget. CDC compiles data on

overall development assistance, based on data provided by donors. CDC supervises the database and seeks to ensure that there is no double counting amongst donors. The database covers both on budget and off budget projects, so care is needed to avoid double counting with the DIC database. Where both CDC and DIC have data on a project, the expenditure data of DIC are used, because this is based on a single central sources. There is a major challenge in encouraging donors to maintain timely and accurate data, making the task of aligning development assistance with government priorities particularly challenging.

4.4 Conclusions

The national budgeting system has been substantially improved in recent years and the use of the BSP and the MTEF are key steps in ensuring that a strategic approach is taken from the outset of the budget cycle. The first objective of climate finance mainstreaming should be for the CCSP to influence the BSP and MTEF, both directly and through new versions of the NSDP and Rectangular Strategy, which are the key references documents for the BSP and MTEF. Because the BSP and MTEF take an aggregate view of the budget, their focus is on sectoral allocations and it is difficult to introduce cross-sectoral prioritisation at this stage. The proposal Climate Change Annual Monitoring Report should be the main tool to help cabinet assess the climate relevance of the BSP and MTEF.

The highly aggregated nature of the annual budget reflects the political reality that responsibility for managing budgets is delegated to ministries. Unfortunately, this means that it is difficult to influence or monitor expenditure on activities within ministries. The gradual adoption of programmes helps to isolate some activities related to climate change, but it is impossible to assess the climate relevance of the residual expenditure.

The current focus of reforms under IFAPER is on improving the treasury functions of government since, without this, more detailed budgets would be no more than political statements and would have little influence on actual expenditure. In particular, there is a basic first step to be taken to allow the disaggregation of ministerial expenditure into departments. There are, therefore, few immediate steps on PFM systems that can be taken to help improve the climate relevance of expenditure in the budget, until there is more progress on the current PFM reforms. Other countries have considered introducing a budget tag for climate expenditure, but this would be premature in Cambodia.

Development expenditure is easier to analyse because it is largely assigned to clear objectives, through programmes or projects. Domestically funded development expenditure is dominated by rural roads and MRD believe that the climate relevance of this expenditure is already at optimal levels, at least in general terms. Information on externally funded expenditure is well organised in Cambodia. The CDC database has recently introduced a tag indicating whether projects address climate change, but this is not yet being used in a consistent way. There is great scope for making improvements in the climate relevance of development expenditure by introducing improved project appraisal practices across government. Some sort of initial screening is needed and the PPCR is planning to support this. For the more important programmes, appraisal should include an assessment of the proportion of benefits that arise because of climate change. This can be assessed with varying degrees of rigour and may involve the use of benchmarks or yardsticks for different types of programme, if more precise evidence is not available.

There are a range of examples of modalities for mainstreaming climate finance. The main programmes that are dedicated to climate change (ie NAPA, PPCR, CCCA, UN REDD and the FCPF) are managed either as projects or trust funds, with planning and financial procedures that are largely separate from the budget, although informed by national strategies. At the opposite extreme, Cambodia does have some examples of pure budget support, where donors provide funds into the central revenue account of government without any earmarking or explicit programming of these funds. The main example of this is the EC support for the education and health SWAps. In these examples, disbursement of the international funds is conditional only on the achievement of agreed performance indicators. In theory, similar programmes could be contemplated for

mitigation, because there is a clear single monitoring indicator (ie reduced emissions). However, they would be more difficult to establish than in health and education because mitigation is a minority consideration for most of the sectors concerned. At present, the absence of clear indicators for adaptation means that it is even more difficult to see how this would function. There are very few examples, internationally, of budget support for climate change. There is a programme in Vietnam, but disbursement is conditional only on 'soft progress' with institutional improvements and is not linked to changes in emissions or climate resilience. There is some scope for using the CSF modality and this is being piloted by the PBCR programme, with funding from UNDP.

5 Expenditure Definitions

5.1 Definitions

The CPEIR has used the OECD definition for mitigation and adaptation as follows.

1. **Mitigation** – activities that contribute "to the objective of stabilization of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance CHG sequestration".
2. **Adaptation** – activities that aim "to increase the capacity and resilience of human or natural systems to the impacts of climate change and climate-related risks".

The methodology adopted for the expenditure analysis in the Cambodia CPEIR adopted three key stages, similar to those followed in other CPEIRs. Firstly, the key elements of climate change were identified. These included the increased frequency and severity of extreme events, the increased likelihood of floods and droughts and rises in sea level. Secondly, the impact of these climate changes on different sectors were considered so that key sectors and ministries could be identified. Thirdly, the approach to the classification of climate expenditure was determined. These three steps were undertaken under the guidance of the CPEIR Steering Committee, which included participation from the main ministries involved.

5.2 Focal Sectors for Climate Related Expenditure

The Climate Change Technical Team CPEIR Sub-Group identified six sectors as priority sectors for climate change, including: agriculture; water resources; rural infrastructure; energy; forestry and health. These sectors are managed by the following six ministries, on which the CPEIR has focused.

1. The Ministry of Agriculture, Forestry and Fisheries (MAFF) covers agriculture and forestry. In the current structure, MAFF has 5 general directorates, including Inspectorate General, Forestry, Fisheries, Agriculture, and Rubber. Each directorate consists of further departmental administrations.
2. The Ministry of Water Resources and Meteorology (MOWRAM) covers water resources. It is also responsible for meteorology which, although too small to be a priority CPEIR sector, nevertheless has some highly relevant policies and projects.
3. The Ministry of Rural Development (MRD) covers rural infrastructure and has a Department of Rural Water Supply and Sanitation and Rural Roads Department. It also has a Community Development Department, which, although not a priority sector for the CPEIR, does have projects that are relevant to climate change.
4. The Ministry of Industry, Mining and Energy (MIME) deals with energy policy and projects.
5. The Ministry of Health currently has four priority areas related to climate change: water stress/water-borne disease; malnutrition and food safety related to climate change; extreme weather events (disaster); and vector-born disease related to climate change.
6. The Ministry of Environment has a Department of Climate Change whose role is to coordinate with other line ministries in relation to climate change activities.

The analysis of expenditure covered all the programmes and projects in the budget and in the DIC and CDC databases, regardless of the responsibility for implementation. However, most of the assessment of policy and institutions was focused on these ministries.

5.3 Categories

The expenditure analysis builds on the classification used in the CPEIR studies in Nepal, Bangladesh, Thailand and Samoa. Three categories of expenditure were defined, using the following rationale.

- High relevance programmes have a clear primary objective of delivering concrete and visible out-

comes that improve climate resilience or contribute to mitigation.
- Mid relevance programmes either have secondary objectives related to building climate resilience, or are mixed programmes with a range of activities that are not easily separated but include at least some that promote climate resilience.
- Low relevance programmes are limited to indirect adaptation and mitigation

Table 5: Main Types of Climate Relevant Actions, classified as high, mid and low relevance

High	Renewable energy
	Forestry
	Disaster risk management and disaster response
	Infrastructure that has explicit climate proofing
	Water investment that has explicit climate proofing
	Health measures directly associated with climate sensitive diseases
	Planning and awareness for climate resilience
Mid	Irrigation
	Water investment without explicit climate proofing
	Biodiversity and conservation
	Eco-tourism
	Livelihoods targeted on people that are vulnerable to climate change
	Emissions (secondary objective)
	Road improvement programmes that may have some climate proofing
Low	Road investment with no particular climate proofing
	General infrastructure
	Water quality, except where there is explicit climate proofing
	Investment in general planning capacity
	Livelihoods improvement not targeted on the climate vulnerable
	Energy with no explicit objective of reducing emissions

The classification considered only the relevance of the objectives of the programmes and made no judgement about the impact of the programmes and about whether the objectives were achieved.

A typology was then developed that sought to define about 20 programme types into which programmes could be easily classified. Each type was either high, mid or low climate relevance and classifying a programme into a particular type therefore also defined its climate relevance. Table 4 presents the typology that was used in the analysis.

The following approach was taken for different types of projects.

- All work on rural, provincial and national roads takes into account climate proofing in the design, notably in raising the level of the roads. This applies across the country, but is especially true within the provinces around Tonle Sap in recent years because the 2009 Ketsana typhoon produced serious floods and raised the profile of climate change in road design. In general, rural and tertiary roads were considered mid relevance and provincial and national roads as low relevance, unless there was explicit evidence that the project supported climate proofing.
- Livelihood projects were assumed to include projects to promote agriculture and poverty reduction. These were assumed to be of low relevance, unless they were targeted in areas where there is high rural poverty and where households are vulnerable to climate change, in which case they were classified as mid relevance. In practice, this covers much of rural Cambodia.
- Health projects were classified as being high relevance if they referred explicitly to climate sensitive diseases. In practice, the only climate sensitive diseases referred to were malaria and diarrhoea. General primary health projects were considered to be of low relevance, because many of the diseases treated in primary health are climate sensitive.

There are 33 budget entities, including ministries and agencies. Most have only a single budget allocation, although 6 also have an investment allocation and 10 have some form of programme budget, usually

Box 3: International Experience with Tagging Expenditure for Climate Change and other Cross-sectoral Priorities

The OECD compiles the DAC database of Official Development Assistance (ODA), relying on donor countries to enter their data. Donors are required to put climate tags ('Rio Markers') on all their assistance (OECD 2011). Tags on mitigation were introduced in 1998 and adaptation tags were added in 2009. The markers define three categories: programmes that have a principle objective of mitigation or adaptation (similar to the high relevance category in the Cambodia CPEIR); programmes that have a significant, but secondary, objective (similar to the mid relevance CPEIR category); and other programmes with no relevance. There is no equivalent to the CPEIR low relevance category.

The OECD DAC figures suggest that mitigation expenditure has accounted for between 3% and 5% of total ODA from 1998 until 2007 and has since grown rapidly to 15% in 2010. The large majority of this funding has been provided by Germany and Japan. Adaptation or mitigation was the primary objective for about 60% of the climate tagged ODA and the secondary objective for the remaining 40%. About two thirds of the climate tagged aid was for mitigation and one third for adaptation.

There have also been initiatives to track expenditure on poverty and gender. In Bangladesh, all government expenditure codes are tagged with a percentage that indicates their contribution to poverty reduction, in accordance with the PRSP priorities. The combined spending on poverty reduction is seen as a Virtual Poverty Fund and this can be monitored by applying the appropriate percentage tags to routine expenditure reports. Nepal also manages a system for tagging expenditure in the budget, both for poverty reduction and gender. The Gender Responsive Budget has been produced for 3 years and shows a marked increase in gender responsible expenditure*.

* http://www.gendermatters.eu/index.php?option=com_content&task=view&id=572&Itemid=76

consisting of between 2 and 4 programmes, each of which may be considered a separate functional unit. Of these functional units, 25 were classified as having at least some climate relevance and 573 projects in the DIC and/or CDC database. Development programmes were classified on the basis of the following sources of evidence:

- analysis of programme documents, usually combined with personal experience
- personal experience of the experts with the programmes
- discussions with government officials familiar with the programmes
- the information provided by the project title, sector, sub-sector and 'thematic marker', or keyword

Table 6 shows that project documents were available for 28 programmes and that the experts involved in the CPEIR were personally familiar with the activities of a further 230 programmes. For the remainder of the programmes the CPEIR experts held discussions with government on 74 of the programmes that were larger and more difficult to classify on the basis of the title.

Table 6: Sources of Evidence for CPEIR Classification

	Number of programmes	Expenditure (CR bn)	Size (CR bn / programme)
Programme document and personal experience	28	1,681	60.0
Personal experience alone	230	7,526	32.7
Government discussions	74	8,419	113.8
Clear Title	241	7,294	30.3
Total / average	573	24,920	43.5

The 241 remaining programmes were considered either easy to classify on the basis of the title or to be too small to justify substantial further investigation.

The CDC database includes a facility to tag projects that are related to climate change. It is the donors who are responsible for entering data into the database and the climate tag is therefore filled in by the donors. The tag is titled 'Climate Change (Mitigation and adaptation)' and there is no more detailed guidance to donors about which programmes to tag.

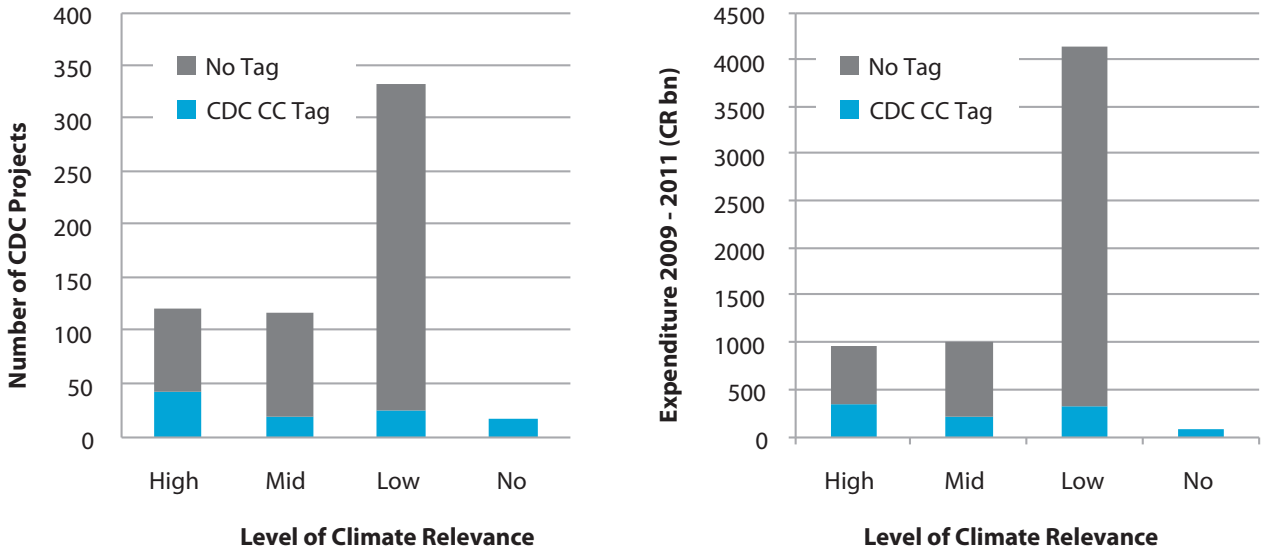
The latest database figures show that 105 projects have been tagged as being related to climate. Figure 6 compares the results of the CPEIR classification with the climate tagging in the CDC database. For programmes that are classified as high relevance by the CPEIR, about one third are tagged in the CDC database. As expected, the equivalent proportions are lower for mid relevance (about 15%) and low relevance (about 5%) programmes. There are 17 programmes that are tagged in the CDC database, but that were not classified as climate relevant in the CPEIR exercise. These are mostly associated with agriculture, water resources, health and education.

It would be necessary to consult donors directly to understand precisely why relatively few projects have been tagged in the CDC database. However, it is reasonable to assume that this reflects the fact that the tag has only recently and many of the programmes will have been entered in the database before the tag was available. In addition, there are no guidelines provided on how to use the tag and so donors are unlikely to classify low relevance projects.

5.4 Private and NGO Expenditure

Within the brief time frame for this study it was not possible to undertake a thorough assessment of private investment in climate change activities, or investment through non-governmental organisations. Section 3, however, discusses the important role that these actors play in Cambodia's efforts to respond to climate change and indicates some of the scale of investment that is associated with their activities and programmes. It also presents some indicative estimates of the scale of investment in solar power as one example of private investment in climate change mitigation. This initial analysis suggests that there may well be substantial private action on climate change, though it is difficult to quantify accurately. Some of the NGO investment is also captured in the DIC database as many development partners choose to work through nongovernmental organisations.

Figure 6: Comparison of CPEIR Classification with CDC Tagging



5.5 Conclusions

The classification system adopted for the CPEIR has provided a first estimate of the full range of climate relevant expenditure across government. There is some subjectivity in the system, but this is inevitable in a review that covers many hundreds of items in several months. Focusing more detailed assessment on the most significant programmes has helped to reduce the level of subjectivity. The analysis has revealed the importance of achieving more clarity on three key issues: the relevance of programmes that are designed to respond to floods and drought; the classification of disaster management and response; and the most appropriate way to classify programmes that promote livelihoods, especially in the areas that are most affected by climate change.

6 Expenditure Trends

6.1 Total Public Expenditure

Three main sources of expenditure data have been used: the national budget, the DIC database and the CDC database. Figure 7 presents the total expenditure recorded in each source. A summary table of the expenditure data used in this report is presented in Annex 3.

Expenditure managed by Ministries through the budget is recorded in the TOFE. This includes 33 budget entities, of which 8 have both programme budgets and non-programme budgets (see section 3). The figures for 2011 in the TOFE are provisional. Actual expenditure at department level was available for MOWRAM and for MAFF, but not for other ministries. To avoid confusion, this actual expenditure was not used in the analysis, except as a source of evidence for classifying the budget expenditure lines as high, mid or low relevance.

Some project expenditure is monitored and report by DIC. This is largely funded by donors, but with some GCF. The total number of projects reporting expenditure in the DIC records grew from 75 in 2009 to 110 in 2011.

A large part of donor funded expenditure is outside the budget and not recorded in the DIC, but is included in the CDC database. The numbers of projects reporting expenditure in the CDC database, but not in the DIC database fell from 608 in 2009 to 550 in 2011[8]. The CDC also includes data for projects that are captured by the DIC and these have been excluded from the CDC data in Figure 7.

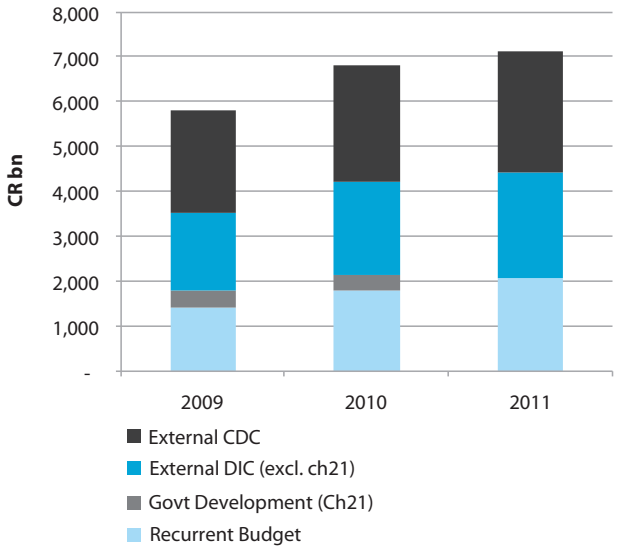
6.2 Climate Related Expenditure

Climate Relevant Projects and Programmes

Over the last three years, there have been between 450 and 500 projects and budget programmes with recorded

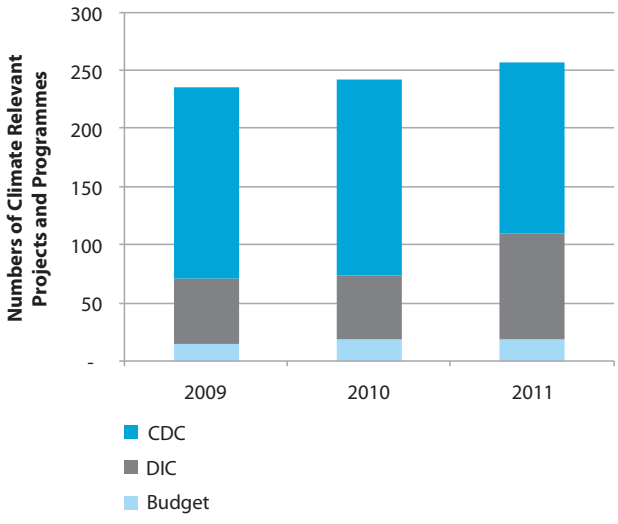
8 It is not clear whether the increase in the number of projects covered by DIC and the decline in projects covered only by CDC reflects improved capture of information in DIC or a change in the nature of projects, for example through an increase in loans.

Figure 7: Total Public Expenditure (CR billion)



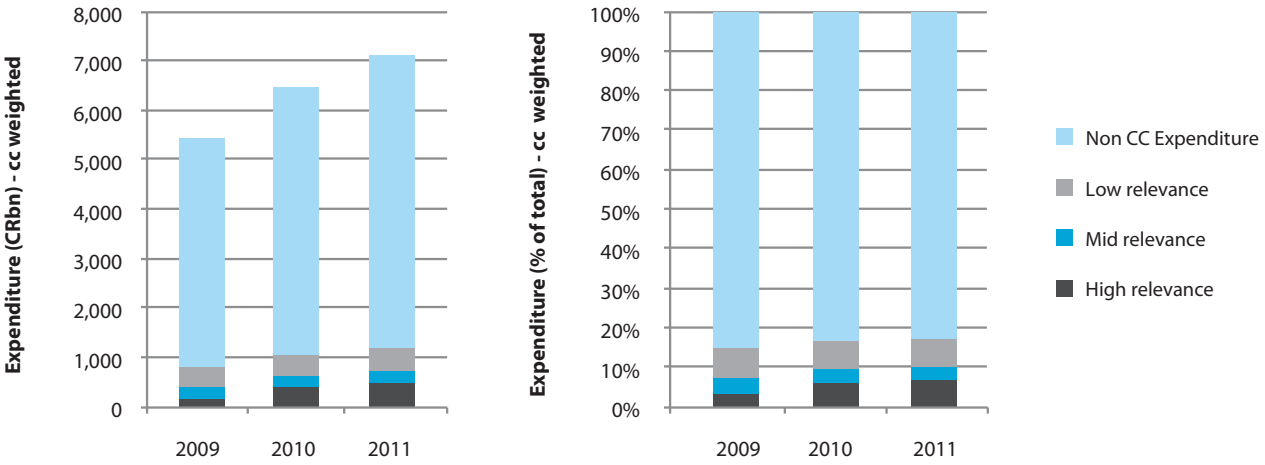
Source: TOFE, DIC and CDC database

Figure 8: Numbers of Climate Relevant Projects and Programmes



Sources: TOFE, DIC and CDC database

Figure 9: Climate Related Expenditure



Sources: TOFE, DIC and CDC database

expenditure for the year. Figure 8 shows that about half of these have some degree of relevance to climate change, with the majority of projects being funded by donors outside the budget and recorded in the CDC database.

Low, Mid and High Relevance Climate Expenditure

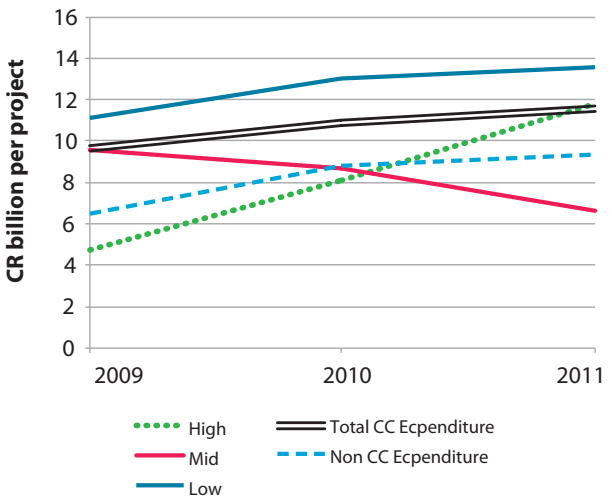
According to the above classification of expenditure, the proportion of public expenditure that is climate relevant has grown from 14.9% in 2009 to 16.9% in 2011. The growth has occurred largely because of the growth in high relevance expenditure (from 3.1% to 6.9%), which has more than offset the decline in mid relevant expenditure (from 4.3% to 3.0%) and in low relevant expenditure (from 7.5% to 7.0%). This is presented in Figure 9.

There is surprisingly little difference in the average size of projects and programmes with different degrees of climate relevance. High relevance programmes started as the smallest programmes in 2009, but their average size increased to a level that was above the average for all projects in the country and roughly equivalent to the average for all climate relevant projects. Mid relevance projects declined in size slightly, from just over CR 9bn to about CR 7bn, which mid relevance projects increased slightly in size. The average size of all climate relevant projects was about CR 2bn larger than the average for all projects in the country.

Categories of Climate Expenditure

The general patterns presented in Figure 9 are dominated by a few major categories of expenditure, as illustrated in Figure 11. General road expenditure accounts for 33% of climate related expenditure. The government argues that most road construction and rehabilitation work in Cambodia is designed to deal with more frequent flooding and therefore includes

Figure 10: Average Size of Climate Relevant Projects and Programmes



Sources: TOFE, DIC and CDC databases

Box 4: Selected High Relevance Climate Programmes

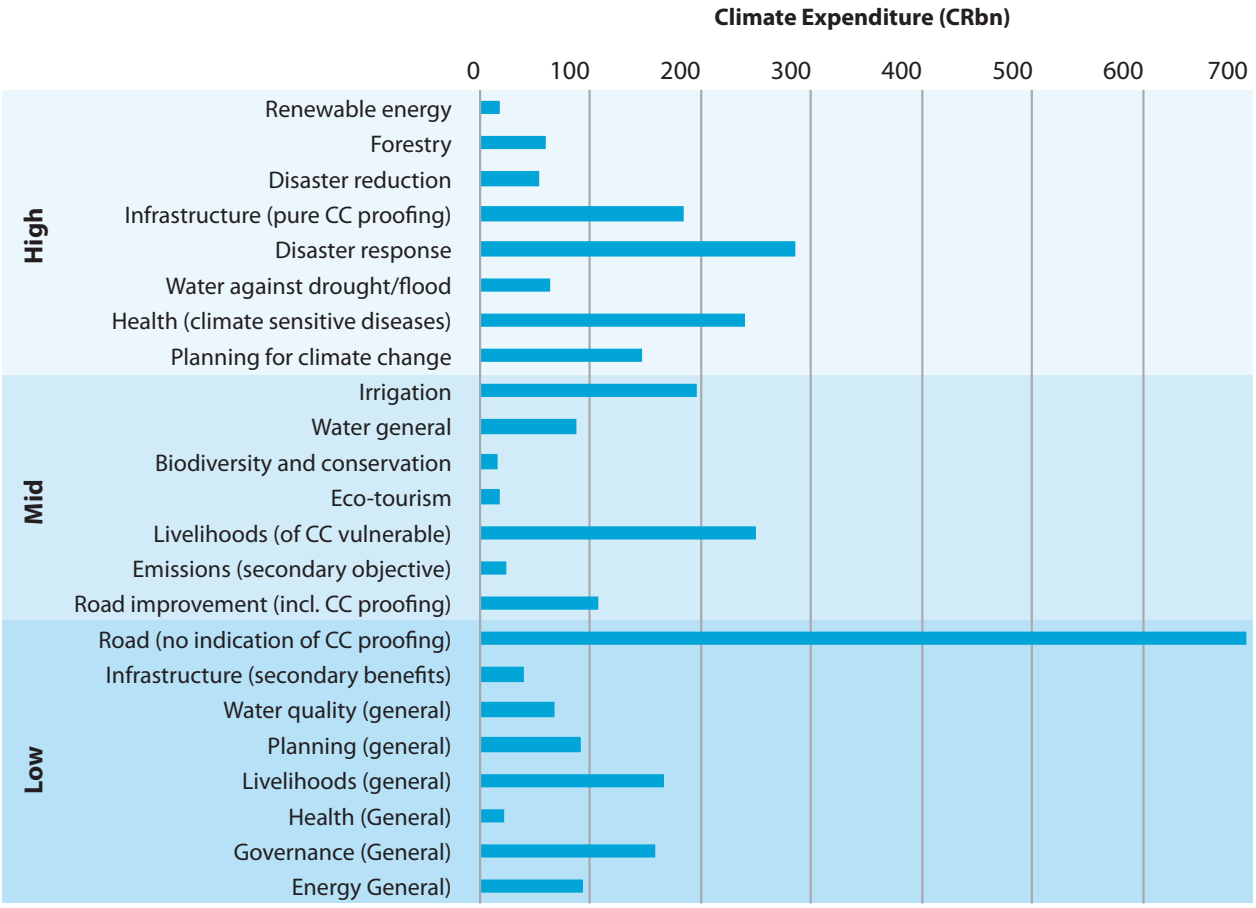
High Relevance Programmes. There are 123 high relevance programmes in Cambodia. Nine of these programmes have expenditure of more than US$10m between 2009 and 2011 and these account for 60% of the US$ 245m expenditure during that period. The largest nine programmes include: 3 for irrigation and flood control, 3 for malaria control, 1 forestry, 1 disaster management and 1 dealing with local governance and environment.

The **Pilot Programmes for Climate Resilience** (PPCR) is currently funding only start-up technical assistance and so does not yet account for a significant share of climate expenditure. When it is fully operational it will involve more substantial technical assistance and major investments. The PPCR and the associated climate finance in the SPCR should involve expenditure of about US$ 385m (CR 1540 bn) over several years, which would increase climate expenditure by about 50% and will be a major feature of public expenditure in Cambodia.

The **Cambodia Climate Change Alliance** (CCCA) involves relatively small total funding, of US$ 8.9m (CR 36bn), which funds both important technical assistance and small grants for climate resilient activities.

The PPCR and CCCA are described in more detail in section 3.4.

Figure 11: Composition of Climate Related Expenditure (2009 – 2011)



Sources: TOFE, DIC and CDC databases

an element of climate proofing. There are then eight categories of expenditure that account for between 4% and 8% of total climate related expenditure: one of these (disaster management and response) is of high relevance; two are mid relevance (irrigation and targeted livelihoods); and four are of low relevance (general livelihoods, health, governance and general energy).

Sensitivity Analysis on the Expenditure Classification

The philosophy of the CPEIR is that there should be some flexibility to interpret the principles that frame climate relevance to fit country context. This would allow the analysis to reflect the priorities for policy development in the country and also have the benefit of exploring a range of methodologies. Providing this flexibility has meant that the method of estimating the percentage relevance has left the following issues open for interpretation in each country.

- The extent to which climate expenditure is limited only to the element that deals with the increase in risks associated with climate change, rather than any element that addresses climate issues, such as floods, droughts and temperature. This concern applies to climate proofing of infrastructure, but also to agriculture and to health. According to the latest 2011 projections from the IPCC, climate change is likely to increase the frequency and severity of floods by about 25%. Thus, a programme that addresses floods in general could be considered to be 100% climate relevant if it were felt to be motivated primarily by concerns about climate change. Alternatively, it could be classified as only 25% if it was not primarily motivated by climate change but would generate 25% more benefits than without climate change. Finally, if there was no consideration of the increased frequency of floods arising from climate change and the programme were fully justified by current flooding patterns, then it could also be considered to be on no climate relevance.
- The extent to which improvements in livelihoods contribute to improved resilience. Many reviews of climate vulnerability stress that improving livelihoods is one of the most effective ways of reducing vulnerability. But there is no guidance on how to use this finding to assess the proportion of expenditure that is climate relevant. Classifications of less than 25% might seem reasonable for general livelihoods programmes and more than 50% for programmes targeted on climate vulnerable households.
- There is wide scope for interpreting disaster risk management and relief programmes. At one extreme, it might be argued that only the climate change element of disaster risk management should be included (ie 25%, following the argument above). At the other extreme, it might be argued that even relief operations are part of climate resilience, if occasional relief is considered as part of the most efficient response to risks.

To test the significance of these uncertainties, a separate exercise was undertaken to provide a rapid classification of each programme with the highest and lowest reasonable percentage scores, based on the range of possible values described above. The exercise was undertaken subjectively, based on the personal knowledge of projects and the project title and description provided in the CDC database. This exercise suggested that the overall percentage of expenditure over the last three years that is climate relevant might vary from 9% to 17%, depending on the approach taken to scoring. The more detailed classification undertaken for the CPEIR produced a result of 15.8%.

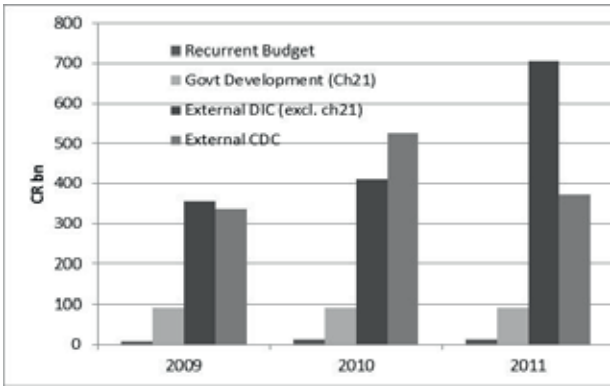
The Contributions of Domestic and Donor Financing

Figure 12 shows the proportion of total funding in each category of relevance that is financed from domestic sources. The figures suggest that there is very little high relevance funding that is financed from domestic sources. The share of mid and low relevance funding that was domestically financed was about 20% in both 2009 and 2010, but fell to 10% in 2011. In contrast, domestic financing accounts for about 45% of expenditure that is not relevant to climate change.

Climate Relevance of Recurrent Expenditure in Key Ministries

Only MRD were able to provide data on spending by department for all three years, either for programme

Figure 12: Proportion of Total Expenditure Funded Domestically



Note: Ch21 figure for 2011 is an estimate based on past trend as no data are available

Sources: TOFE, DIC and CDC database

or non-programme activity. The figures are presented in Table 7 and show the importance of the programme on rural roads, which MRD consider to be largely climate proofed.

Implementing Institutions for Climate Expenditure

Figure 13 presents the range of different institutions that have been responsible for implementing climate expenditure and gives the number of programmes and the expenditure between 2009 and 2011. The institutions with the largest expenditure are the Ministry of Public Works and Transport (with 27% of total climate expenditure), the Ministry of Water Resources and Meteorology (13%) and the Ministry of Health 10%). International NGOs implement about 5% of total climate spending and local NGOs about 1%. Most NGO projects are small and they are responsible for 18% of the total number of projects.

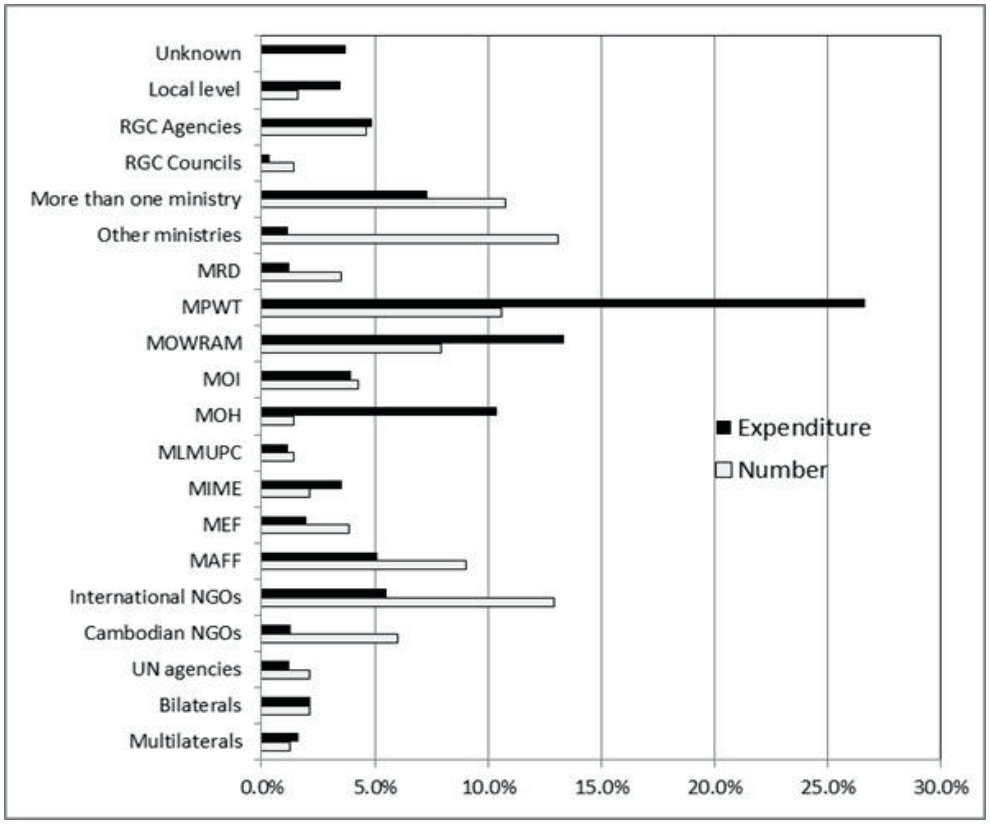
6.3 Impact of Climate Change Expenditure

There has been limited analysis of the impact of climate change expenditure. However, some indicative analysis has been done for agriculture and irrigation and for forestry. This work should be expanded and should

Table 7: Example of classification of budget by department for MRD (CR million)

No	Entity	Budget 2009	Budget 2010	Budget 2011	CC Relevance
Program 1		**1,214**	**4,576**	**3,279**	
1	Planning and Public Relations Dept	562	500	455	No
2	Procurement and Finance Dept		3,073	1,697	No
3	Adminstration & Personnel Dept		40	60	No
4	Training and Research Dept	320	447	528	No
5	Gender Dept	40	47	70	No
6	Secretariat		80	80	No
7	Internal Audit Dept		111	111	No
8	Ethinic Minority Development Dept	292	278	278	No
Program 2		**28,241**	**36,781**	**39,339**	
1	Rural Road Dept	28,241	36,781	39,339	Low
Program 3		**5,179**	**6,262**	**6,279**	
1	Rural Water Supply Dept	3,214	3,685	3,310	Mid
2	Rural Health Care Dept	1,087	1,188	1,380	Low
3	Rural Economic Development Dept	226	300	300	Low
4	Community Development Dept	652	1,089	1,289	Low
Total		**34,634**	**47,619**	**48,897**	

Figure 13: Number and Value of Programmes by Implementing Institutions



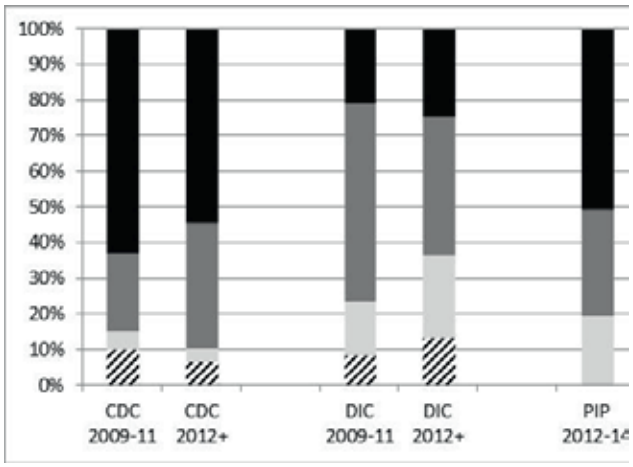
generate a library of case studies, from which can be development yardsticks or benchmarks for the impact of expenditure on different types of programme.

Agriculture and Irrigation. The Agricultural Sector Public Expenditure Review (ASPER) estimated that the average annual losses from flood and drought were 5.5% of total annual production, generating grow margins of about $80m per year (Mokoro 2010). Building on evidence from the Vulnerability and Adaptation Assessment, the ASPER considered a scenario where the losses from floods and droughts increased in frequency by 25% by 2035. However, climate models show wide variations in results, with some evidence that the south of the country will become wetter, whilst the north will become drier. The ASPER suggested that changes in the seasonality of rainfall may be more important that changes in the total annual rainfall, or changes in extreme events, in particular because they may limit the options for obtaining two crops. The ASPER concluded that the implications of climate change would be to increase greatly the benefits from agricultural research and extension, because of the options this would offer farmers for dealing with changing seasonality and predictability of rainfall. The benefits of irrigation projects would also be substantially increased, because of the increased importance of water storage to enable farmers to survive dry spells and extend the growing season. The implications of projected increases in the frequency of flooding was expected to increase the benefits from flood proofing rural roads, but these implications were considered to be smaller than for agricultural research and extension and for irrigation.

Forestry. CDRI conducted a study of the value of different forest uses and concluded that the Net Present Value (NPV) of evergreen forest as 3721 $/ha at a discount rate of 10%, which equates to about 372 $/ha/yr. About 45% of benefits come from sales of sustainable timber, 16% from carbon sequestration, 35% from

soil and water conservation and less than 5% from non timber forest products (CDRI 2006). Terra analysed the carbon value of forests and concluded that typical forests sequester 5 tCO2e/ha/year, worth 40 to 65 $/ha/yr at 8 to 13 $/tCO2e, which is similar to the CDRI estimate (Terra 2011). ADB conducted a similar study covering Cambodia, Lao and Vietnam, under the Greater Mekong Subregion Biodiversity Conservation Corridors project and concluded that the NPV of non-timber benefits from forestry amount to nearly 4000 $/ha, of which 45% are for carbon storage (which is much higher than in the CDRI and Terra studies), 25% for water quality regulation, 20% for watershed protection and 10% for soil erosion control (ADB 2010). Non timber forest products also make a very small contribution, but this may have been undervalued. The study assumed a carbon price of 5 $/t. This is in line with carbon market prices in recent years, but is at the low end of the range of prices in voluntary carbon markets for forestry and agroforestry and is below the rate of 10.5 $/t used for the Clean Development Mechanism. However, it is well below the price of 20 to 50 $/t suggested in IPCC 4AR (IPCC 2007) and below the prices in European carbon markets before the global financial crises.

Figure 14: Recent Expenditure and Completion of On-going Projects (CRbn)



Sources: DIC, CDC database and PIP data from MoP

Note: CDC expenditure excludes projects that are also included in the DIC

6.4 Future Expenditure

Completion of Existing Programmes

There is no systematic assessment of potential future climate relevant spending. Some indication of future trends can be given by analysing the expenditure involved in completing existing programmes, as identified in the CDC and DIC, assuming that the unspent budget is disbursed equally through the remaining life of the programme. The PIP also provides some indication of future trends. Figure 14 compares the climate relevance of expenditure over the period 2009-11 with the climate relevance of expenditure that is planned for on-going projects and for the PIP. This suggests that, for both the CDC and DIC projects, there will be a reduction in the share of expenditure for high relevance projects. There is little change in the mid relevance projects and the pattern for low and no relevance projects differs, with low relevance taking an increasing share of the CDC projects and a declining share of the DIC projects.

The figure also suggests that the PIP contains very little spending on high relevance projects. The proportion of spending on mid relevance projects is similar to the DIC portfolio and substantially higher than the CDC portfolio, whilst low relevance spending is similar to CDC but smaller than DIC. The proportion of PIP spending that is not climate relevant is twice that of the DIC portfolio, but similar to the proportion involved in completing CDC projects.

Scenarios for Future Funding

In the last two years, Cambodia has received between CR 388bn and CR 492bn of external high relevance climate funding. This is equivalent to about US$ 100m to US$ 125m.

The prospects for global climate funding are still unclear. The major new funding sources for targeted climate funding, such as the Fast Start Funds and the Green Climate Fund, are still evolving. International discussions are considering both the problems encountered with recent climate funding (notably through the slow disbursement of the GEF and PPCR in many countries) and the extent to which existing climate funding

Table 8: Indicative Future Scenarios for Climate Funding

	Dedicated global climate funds	Bilateral and regional climate funding	Climate components of development funding
Current (incl. PPCR)	$ 40m annually – high share (11%) of planned PPCR	$ 80m annually	$180m, of which about one third from mid relevance and two thirds from low relevance
Low increase – x2	Transition from high share of PPCR to a more normal share (1%) of FSF => additional $ 100m	New bilateral and regional commitments => additional $ 80m annually, in line	Low relevance from 25% to 30% relevant and mid from 50% to 55% => additional $ 25m
High increase – x3	As above, but with higher levels of global funding associated with GCF etc => additional $ 200m	As above, but higher increase => additional $ 80m	As above, but with 10% of no relevance becoming low relevance and 10% of low relevance becoming mid => additional $25m

is adequate to meet needs. The current discussions recognise the potential value of direct access by national entities to the global funds, whilst also recognising the role of innovative instruments, often involving the private sector. These could include, for example, support for extending insurance cover beyond the levels that can be provided by the private sector.

Internationally, actual disbursement of climate funding in recent years has been limited largely to the LDCF, including GEF, which has disbursed about $40m per year globally over the last 10 years. In the next few years, this is likely to be boosted substantially by the PPCR, which should disburse over $250m, if approved projects proceed as planned. Cambodia's latest commitment under PPCR is about $86m which is about 11% of the total US$ 800m so far approved under the PPCR[9]. If this is disbursed over 3 years, it should increase high relevance expenditure by 25% to 30%.

The PPCR is intended as a temporary programme to prepare for the FSF and GCF. In theory, the targets for the FSF and the GCF mean that global funding for climate change will increase more than tenfold, compared to the levels provided by the LDCF and PPCR. However, Cambodia will probably receive a lower share of these funds than of the PPCR. Some indication of Cambodia's possible share of FSF and GCF funding is given by Cambodia's current share of total global overseas development assistance (ODA), which is about 1%. If this share was applied to the FSF, then Cambodia could expect to receive about $100m annually from the FSF. In theory, the GCF and other modalities involved in the $100bn could involve a further substantial increase in climate funding. However, the modalities for this are still very unclear and it seems likely that much of the funding will come through private sector sources and depend on innovative sources of funding (eg air transport levies, increases in carbon price and levies on trading schemes, CDM etc). Recent experience suggests that middle income countries will capture a large part of the GCF, so that Cambodia could receive a much lower share than its current 1% of total ODA.

Three scenarios for future funding are considered with assumptions presented in Table 8 below. The first scenario is a continuation of the current situation. Two different levels of increased expenditure are considered, the first involving a twofold increase in dedicated climate funding and the second involving a threefold increase. Both the low and high increase scenarios also involve some deepening of climate relevance of mainstreamed development programmes. Key features of the two scenarios for increase are as follows.

Low Increase. Access to dedicated global climate funds will move from the current provisional arrangements (ie LCDF and PPCR) to the new FSF funds. Whilst the new FSF will make much more available globally, the scenario assumes that Cambodia will attract a much lower proportion of the global total. The sce-

9 See http://www.climatefundsupdate.org/

nario also assumes new bilateral and regional commitments that are roughly equivalent to the levels anticipated in the non-PPCR element of the SPCR. In the mainstreamed climate element of development funding, it is assumed that the climate share of spending increases from 25% to 30% for low relevance and from 50% to 55% for mid relevance.

High Increase. Access to dedicated global climate funds is increased as the GCF takes over from the FSF. There is also a further increase in climate funding from bilateral and regional sources. Increases in climate relevance of development programmes are achieved by adding low relevance climate dimensions to 10% of non-climate programmes and by 10% of low relevance programmes becoming mid relevance.

6.5 Conclusions

The analysis suggests that, over the last three years, there have been between 450 and 500 programmes that have at least some degree of climate relevance, including both recurrent and development programmes. The proportion of public expenditure that has been classified as climate relevant has averaged 16% over the periods, increasing from 14.9% in 2009 to 16.9% in 2011. These levels of climate relevance are higher than might be expected and raise questions about whether the focus of future policy should be to improve the quality of climate expenditure, rather than the quantity.

A sensitivity analysis of the classification suggests that, depending on the interpretation of expenditure on climate proofing, disasters and livelihoods, the average climate relevance between 2009 and 2011 could range from 9% to 17%. Increased precision in classification is therefore required.

A large share of climate expenditure is used for the climate proofing of rural roads, which accounts for 33% of climate expenditure. There are then eight categories of expenditure that account for between 4% and 8% of total climate related expenditure: disaster management; disaster response; irrigation; targeted livelihoods; general livelihoods, health, governance and general energy. This suggests that climate relevance is spread relatively broadly across government programmes. The classification is based entirely on the objectives of the programmes and no attempt is made to assess whether the objectives have actually been achieved. This should feature in the routine monitoring and evaluation of programmes.

The large majority of climate expenditure is provided by donors. Very little high relevance expenditure is funded domestically, which reflects the fact that government considers that this is an area in which donors have a strong interest and a comparative advantage. The higher share of climate expenditure in donor funding reflects the structure of public expenditure in Cambodia and the fact that domestic resources are used primarily to provide routine services, including core functions that are unlikely to have significant climate relevance, such as education, justify, public order, defence and health. In contrast, donor expenditure is focus on development spending, where climate relevance features more strongly. The high levels of donor funding in Cambodia also mean that development expenditure is a very high proportion of total public expenditure.

Some evidence is beginning to emerge from case studies about the implications of climate change for the benefits from public expenditure. The SREX report on trends in extreme events offers evidence for assessing the increase in damages that can be expected from floods and droughts. And the experience with forestry is beginning to provide parameters that allow the benefits from sequestration to be assessed and compared with economic benefits from forest management. This evidence will be critical to future prioritisation of climate finance.

The work on costing the CCSP will need to make assumptions about future climate financing scenarios, in order to ensure that costings are realistic and that the arrangements for dealing with uncertain levels of resourcing are also realistic. The CPEIR considers three scenarios: the current levels; a doubling in climate finance; and a tripling in climate finance. The changes are expected to affect both dedicated climate finance and the mainstreaming of climate finance into mid and low relevance programmes that are primarily motivated by economic, social or environmental objectives.

7 Local Government

7.1 Introduction

The sub-national analysis within the CPEIR study aims to complement the national level analysis. The rationale for an explicit local governance component in the CPEIR is that while institutions, policies and financial resources need to be in place to undertake actions aimed to mitigate or adapt to the risks produced by climate change, most of the implementation will take place at the local level and involve local administration units. Moreover, the analysis of the sources of climate finance available at the local level can provide evidence of the strength of the linkages between national policy and local implementation and provide suggestions on how climate-related investments are currently translated into local expenditures and actions.

As for the other areas of investigation of the CPEIR, the analysis of climate change expenditures and institutional arrangements at the sub-national level is inspired and follows the general CPEIR methodology (Bird et al 2012). In doing so the relevant questions of the CPEIR methodology (ibid.) have been clustered in four areas, which are relevant for the sub-national, level analysis and which form the main sections of this chapter: 1) a review of policies that guide the decentralisation reforms in Cambodia; 2) capture through semi-structured interviews the understanding of local officials on what climate change activities and investments are; 3) map and classify the climate change expenditures in the two locations and assess the accessibility of data and information on climate change investments; 4) assess the level of support provided by technical line agencies to local administration institutions during planning processes and capacity building activities.

There are some limitations to the analysis presented here, particularly since the two case study areas are not representative for the whole country. However, they are useful examples to consider. In the case of Takeo there is donor support to include climate change in local planning through the Local Governance and Climate Change (LGCC) pilot project. In the case of Kampot there have been only few external interventions to help focusing on climate change investments. An additional point that is worth highlighting here is that while the classification of climate change activities is to some extent subjective, we have used the same classification guidelines at both national and sub-national level to ensure consistency in the Cambodian case.

The next section reviews the main elements of the decentralisation reforms in Cambodia, with a focus on the role and responsibilities of local administration institutions.

7.2 Decentralization reforms in Cambodia

The current decentralization reform has its origins in the historical events from the mid 1950s to the present. Cambodia's institutional architecture of is based on the structures and systems established during the French protectorate and subsequently, (after the civil war and the Khmer Rouge regime), the Vietnamese model during the People's Republic of Kampuchea period. Historically, provinces have played a substantial role at the sub-national level and were in practice quite decentralized. This was due to the limited capacity of the central government to reach out and control the provinces but also, as noted by Smoke and Morrison (2008), explained by the relatively good capacity of provincial governors to manage public sector functions in a poor country, with limited transportation and communication infrastructure.

Communes were created during the French protectorate, acted primarily as communication channels between the central and provincial governments and the rural villages and urban neighbourhoods. Until the direct election of commune councils in 2002, all sub-national levels were appointed by the central administration. This contributed to a strong sense of accountability to higher authorities and a weak sense of accountability to citizens.

The origins of the current public administration reforms in Cambodia can be traced to the 1992 Cambodia Area Rehabilitation and Regeneration Project

(CARERE), a joint initiative between the government, the United Nations Office for Project Services (UNOPS) and the United Nations Development Program (UNDP). Its purpose was to implement reconstruction projects at the local level (Rusten et al. 2004). A second phase of CARERE, implemented between 1996 and 2000, was followed by the Seila program, between 2001 and 2004. [10] Seila has been the basis for the design of the decentralization reform that officially started with the direct elections of commune councils and sangkats in February 2002.

Two significant pieces of legislation were passed after the 2002 elections and are still in place today: the Law for the Election of Commune Councils (2001) and the Law on Administration and Management of Commune Councils (LAMC) (2001). The commune councils' role and functions are stated in rather general terms in the law and include to: maintain public security and order; arrange for the provision of necessary public services.

In 2006, the government established the National Committee for the Management of Decentralization and Deconcentration Reforms (NCDD) which is chaired by the Deputy Prime Minister and is responsible for the inter-ministerial coordination for promoting democratic development through decentralization and deconcentration reforms in Cambodia.

In April 2008, the National Assembly passed the Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans. The law is commonly known as the Organic Law and has marked a new phase in the decentralization reforms in Cambodia. A key element of the Organic Law, which will have implications for local development and therefore also climate change investments, is that districts and provincial councils are expected to adopt a unified administration that will work closely with communes to coordinate public administration and public services within their territories.

The principles embedded in the Organic Law are to be put into practice through the National Program for Sub-National Democratic Development (NP-SNDD) which, for the period 2009-19, is mandated to create a framework of processes and polices for all government levels and, importantly, guide development partners to adopt coordinated and harmonised strategies and approaches to support the decentralization reforms in Cambodia under the NCDD. The NP-SNDD has an initial operational plan, the Three Years Implementation Plan (or IP3), launched in 2010.

Figure 15 below describes the local governance environment as envisaged by the Organic Law.[11] At the moment (Figure 16) the MoI chairs the NCDD and appoints provincial and district governors and commune clerks. Communes appoint village chiefs and elect district and provincial councils that, in future, will oversee line agencies in unified sub-national administration (SNA) levels. District and provincial councils are therefore indirectly elected through commune councils and not by citizens.

The LAMC (RGC 2001) does not spell specific roles for communes and sangkats on climate change, besides stating that commune elected authorities are *not* responsible for matters that concern forest areas. Article 45 states that 'A Commune/Sangkat administration has no authority over forestry, among other matters.'[12]

The Organic Law of 2008 does not mention in its text climate change. There is a reference to environment in Section 2 Roles, Duties and Authorities of the Council. Article 47 states that 'In the event that there is any abuse of power within its jurisdiction, the council shall report in writing immediately to the Minister of the Ministry of Interior.' Article 49 indicates, among others, illegal occupation or confiscation of public or private assets or natural and resources for his/her own individual benefit and the damage to the environment and

10 *Seila* is a Khmer name which means "foundation stone" and evokes the concept of local efforts as the "foundation" of all national development" (RGC 2000). Seila has been a joint initiative of seven ministries. It was managed by the Council for the Development of Cambodia (CDC) and the Seila Task Force with donor assistance coordinated through the Participatory Local Governance Project (PLG).

11 Figure 15 and 16 focus on the public administration structure that reaches out from the centre to rural areas. It does not include, for example, Sangkats which are basically sub-division of urban areas as the majority of the population in Cambodia lives in rural areas.

12 These are post and telecommunication; national defence; national security; monetary policy; foreign policy; fiscal policy; and other matters prescribed in laws and relevant regulations.

Figure 15: Local governance environment as envisaged by the Organic Law

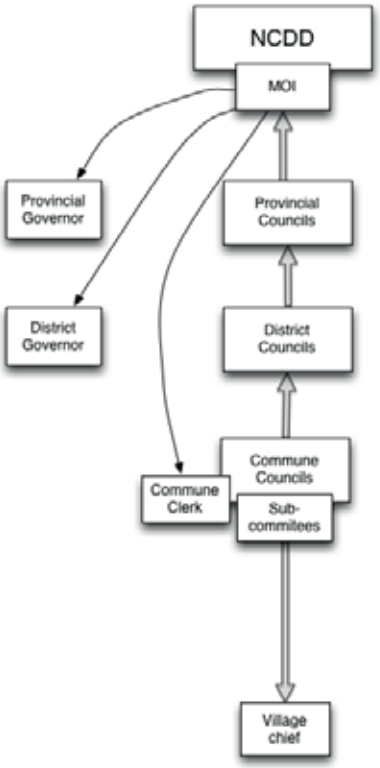
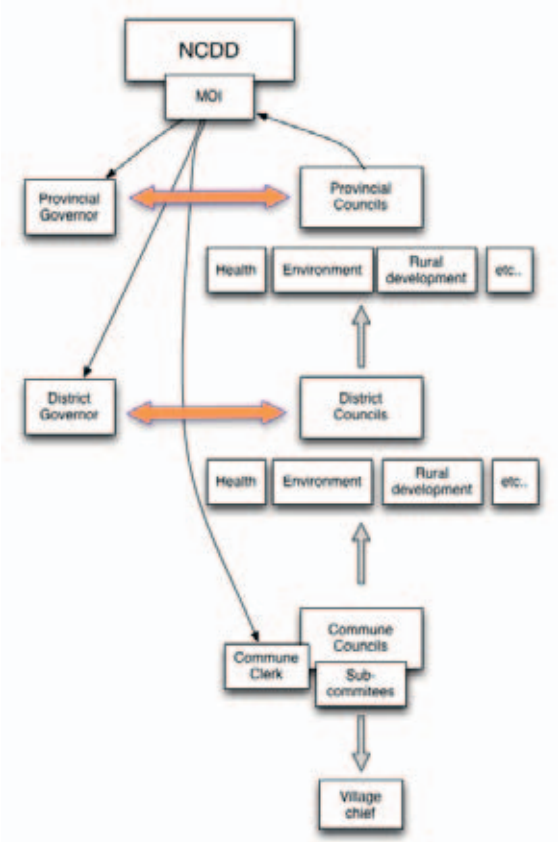


Figure 16: Current local governance environment



natural resources as examples of abuse of power. Article 215 in Section 2 states 'In the review of functions of the ministries, institutions, departments, units and the authorities at all levels, the National Committee for Democratic Development at Sub-National Level shall give priority to issues related to [among others] Forestry, natural resources and environment.'

7.3 Sub-national fiscal management in Cambodia

This section discusses the inter-governmental fiscal relationships in Cambodia, followed by key reform activities being planned for this area. It shows that overall, budgetary allocation in the country is still highly centralized. However, reflecting the broader trend in the decentralization reform, various initiatives are pushing for more budgetary decision making power to SNA.

A review of the national budget laws for 2008, 2009, 2010 and 2011shows that, Cambodia is still a very centralized country when it comes to inter-governmental fiscal relations. Allocations to the various levels of the SNA (i.e. provinces, districts and communes) and sectoral line departments together has remained constant at around 20 percent of total national spending (Table 9). It should also be noted that until the end of 2011 districts have not had a separate budget but received small budget allocations from the provincial level to cover its basic administrative cost. Starting from 2012, districts and municipalities are entitled to a dedicated budget from the central government, similarly to the budget allocated to communes so far.

Table 9: Budget Allocations across Tiers of Government (million KHR)

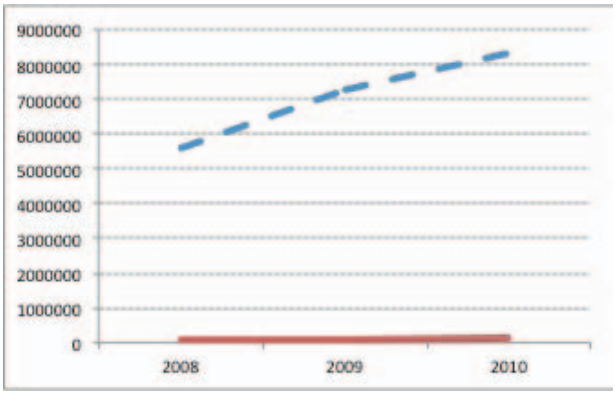
	2008	2009	2010
(1) Total national spending	5,573,383	7,259,566	8,299,773
(2) Provincial spending	206,776	356,950	326,370
(3) Commune Sangkat Fund (CSF) from national budget	91,000	107,000	142,424
(2+3)/(1)	5.34%	6.39%	5.65%
(4) Provincial line departments funds	857,645	1,059,122	1,209,431
((2) + (3) + (4))/ (1)	20.73%	20.98%	20.22%

Sources: Annual budget laws for 2008, 2009, and 2010

Source of revenues for Communes

In the absence of a clear decision making mandate to defining their own sources of revenues, commune councils have been relying since their first election in 2002 almost exclusively on an unconditional formula-based grant, the so called Commune/Sangkat Fund (CSF). The total amount of the CSF has gradually been increased over time but remains small to respond to the needs that communes have. In 2003, the CSF was set at 2 percent of state recurrent revenues. It was increased to 2.5 percent in 2004, 2.7 percent in 2008, 2.75 percent in 2009 and 2.8 percent in 2010 (RGC 2010).

Figure 17: Trend of total national and CSF spending 2009-2010 (million KHR)



Sources: Annual budget laws for 2008, 2009, and 2010

Currently, only about 20 percent of the total national spending (including development partners funding) is allocated to the sub-national level. Out of this 20 percent, roughly 15 percent is actually the budget of line departments and only less than 3 percent is the communes' unconditional grant, i.e. CSF (Pak 2011). The data in table 9 above show that while there is an increase in the total national budget spending over the period 2009 to 2010, the increase is not reflected in a similar increase in the CSF share of the national spending as shown in Figure 17.

As of 2011, the average CSF received by each commune was roughly USD 20,000. In addition to the CSF, selected communes have also received additional budget earmarked specific activities such as natural resource management, social services, and gender initiatives (See Table 10).[13]

Aside from general administration costs, the CSF has been used mainly for funding infrastructure projects: 65 percent on rural transport, 17 percent on irrigation, 6 percent on rural domestic water supplies (STF 2008). One area of commune activities that is relevant for our study and should be mentioned here are natural resource management interventions.

According to the Law governing the role and responsibilities of Commune councils (RGC 2001), communes do not have a clear mandate on this matter. In practice,

13 At the local level, the commune also received small fees for civil registration services and local contribution (in this case about USD 220 per commune per year). These amounts are clear too small to be considered as local revenue.

Table 10: CSF and additional grants allocation to communes

Year	Total CSF (ml KHR)	Total CSF (USD)*	Additional grant for targeted communes (ml KHR)	Additional grant for targeted communes (USD)
2007	89,550	22,149,394	24,582	6,080,139
2008	93,025	23,008,904	57,605	14,248,083
2009	113,340	28,033,638	60,629	14,996,043
2010	148,574	36,748,454	44,854	11,094,237
2011	159,400	39,426,169	0	0
Total		**149,366,559**		**46,418,501**

* 1 USD = 4043 KHR

Source: NCDD (2011)

however, 636 communes have received a total support of 12.82 Million USD for the period from 2007 to 2010 from a number of key donors including Danida, UK's Department for International Development and New Zealand to support activities and interventions in this area. In the same period, some communes who had not received donor funding have also allocated a total of 2.13 million of their CSF for natural resource management activities, e.g. community forestry, fishery, eco-tourism, etc. (NCDD 2011).

Source of revenues for Provinces and Districts

The indirect election of provincial and district councils which took place for the first time in May 2009 have introduced a change in the structure of the SNA in Cambodia. Before then, provinces and districts performed mainly as extension of the central government. The so-called "provincial authority" had actually been the *salakhet* and the appointed governor, whose limited power and resources made them rather like a line department of the Ministry of the Interior. The *salasrok* (district administration), on the other hand, was not even considered a budgetary level.

Despite the (indirect) election in May 2009, the introduction of the new planning process in 2010, and the recent adoption of the Sub National Administration Finance Law (in mid-2011), not much has changed in the fiscal management at the provincial and district levels and the Law on Provincial and Municipal Budgets and Asset Management of 1998 still applies (Pak 2011).

According this Law, the *salakhet* has some broad expenditure responsibilities over buildings and equipment, staff salary, travel, public lighting, garbage collection, sanitation, health, gardens, parks and roads, water canals and the like. The *salakhet* also has some authority over tax and non-tax revenues, and additional subsidy transfers from the centre. The revenues included tax on unused land, stamp tax and duty, patent and business licence tax, slaughterhouse tax, means of transportation tax, registration and purchase tax, street lighting tax, earmarked alcohol and tobacco taxes and hotel bed tax. Non-tax revenues could be derived from electricity supply, water supply and managing state assets (RGC 1998). These tax and non-tax provincial revenues were about 2.8 percent of general tax and non-tax revenue in 2002and rose to 6.9 percent in 2008 (RGC 2002; RGC 2007).

Besides the national budget (as indicated in Table 9 above), the province and districts (both the elected councils and line departments) have received donor supports through the NCDD (formerly known as PRDC/ExCom at the provincial level) to engage in various activities including infrastructure development, natural resource management, and social services (See Table 11 below). The fund that was transferred through the PRDC/ExCom, it should be noted, was subject to a separate management system and procedures from those used for the national budget allocated to the provincial level.

Table 11: Funds channelled through NCDD (Former PRDC/ExCom) (in USD)

	2007	2008	2009	2010	Total
Grant for targeted districts	3,817,895	6,051,264	6,312,193	5,843,402	22,024,755
Investment fund for provinces	4,704,930	3,867,151	4,128,000	2,253,515	14,953,597
Total	8,522,825	9,918,415	10,440,193	8,096,917	36,978,352
as % of annual CSF allocation	38%	43%	37%	22%	33%

Source: NCDD (2011)

7.4 Forthcoming reforms of sub-national financial management reforms

The immediate next step of the fiscal reform for SNA is to continue implementing the plans as set out in the IP3 – which in fact only just started. With the SNA Finance Law adopted, the next step is the development of the SNA fiscal transfers to provide in particular districts with resources to implement their newly adopted development and investment plans. The IP3 indicates four sub-national financing mechanisms to be developed (NCDD 2012):

- The District/Municipal Fund (DMF),, which will cover the costs of administration, operations, local service delivery, and the maintenance of public assets (general purpose functions)
- The Sub-national Investment Facility (SNIF), to be accessed by Provinces, DMs, and CSs and to have several 'sector' windows through which SNAs can build large infrastructure, respond to sector strategies (like climate change) and undertake multi-year projects
- A provincial transfer mechanism to cover administrative and developmental costs
- The Commune/Sangkat (CS) Fund which continues to be used to finance CS administration, services and investments under their general mandate.

The establishment of the DM Fund represents important progress in the reform process. The administrative component of the Fund is expected to be around $10 Million while the development component totals $7 Million ($4 Million of which is contributed by Swedish International Development Agency). Implementation of activities financed through the DM fund will be periodically monitored. A review at the end of 2012 will make recommendations upon its improved design (NCDD 2012).

Overall, and despite these reforms, the perception is that Cambodia remains a centralized country which has achieved some results in the area of administrative decentralization (or deconcentration) but has move slowly in the direction of democratic decentralization as defined by James Manor (1999): the transfer of political power, decision making authority, and accountability to lower level authorities which are largely or wholly independent of higher levels of government and which are democratic in some ways and some degrees.

Local government organizations such as Commune Councils have limited resources (and limited legislative space and ability to collect resources locally) to implement plans and programs freely. The largest share of the local administration revenues is from government grants while locally generated revenues are still very limited. External funding while able to promote local ownership and innovation are only a small proportion of the local administrations' overall revenues.

As stated in the Organic Law, the district councils are now in place and represent the next big step of the Decentralization and De-concentration (D&D) reforms in Cambodia. The Organic Law states that district line agencies will become accountable and will respond to the district councils. The councils will receive funding through conditional grants and a Sub-National Investment Facility. These are still early days though it is pos-

sible that this planned change will have implications on the transfer of responsibilities from commune to district councils with an effect on climate change planning at sub-national level.

In the next section we enter into the analysis of the data collected through the field visits in the two case study areas, starting with the understanding of climate change related issues.

7.5 Understanding of climate change at the sub-national level

Overall, our respondents in both provinces have shown a considerable clarity about the effect on agricultural production and people's health of long droughts and high temperatures.

The results of fieldwork interviews show that there are similarities in the understanding about climate changes in Kampot and Takeo. In both provinces, the impact of climate change is linked to the occurrence of floods and droughts. During our interviews it was also clear that the words climate change cannot be translated directly from English to Khmer. Weather change (in Khmer *bamrebamruol akasatheat*) was a more correct term in our conversations.

In the case of Kampot, a coastal province located 148 km South West from the capital Phnom Penh (Figure 18) and with a population of about 634,000 people, an additional element of concern highlighted during interviews was the increase salinity in the agricultural fields and mangrove areas. The coastal area extends over 75 km and key economic activities in the province include rice farming, plantation, trading, salt fields, and fishing.[14]

The second case study location is the province of Takeo (Figure 19). Takeo is located 77 km South of Phnom Penh. The province covers 3,562 km^2 and is divided into 10 districts and 100 communes. The population is 980,000. Takeo is a flat land, sharing no border with

Figure 18: Map of Kampot

Figure 19: Map of Takeo

the sea. A large majority (90 percent) of the population is dedicated to rice farming as their main source of income.[15]

Stakeholders in Kampot mentioned that the increase in sea level and temperatures are related to weather

14 Source: Kampot Development Plan (2011)

15 Source: Takeo Development Plan (2011)

changes. In a few instances, climate change was mentioned as environmental protection and linked, in particular, to clean air. Our interviews suggest that the staff of the Provincial Agricultural Department were relatively more informed about climate change and adaptation issues, including with reference to specific crops.

The level of clarity that we encountered in Kampot seems to be largely the result of the participation of government officials in trainings and workshops discussing and explaining the topic of climate change. For instance, early this year, a workshop was held in Kampot city and participated by government officials at different SNA levels about the need to consider climate change and how to integrate it into development planning processes. An outcome of the training, mentioned by several respondents, was that in 2011 the topic of climate change and its impacts was discussed during provincial and district planning activities. However, most government officials felt that they have much more to learn about the topic and its implications for livelihoods and development, and to struggled to give examples of climate change related activities (both mitigation or adaptation).

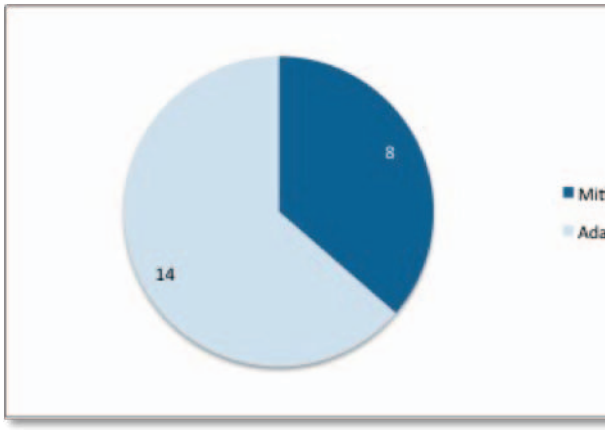
Our respondents indicated that during the last three years (i.e. 2009-2011), different line departments and communes have engaged in a number of activities that can be considered climate change related. Two things should be noted about these activities: 1) they were initiated without a clear definition of climate change in mind, 2) most of limited funding for activities were projects funded by development partners.

This pattern reflects the limited budgetary decentralization to sub-national elected bodies and line departments. The characteristics of the budgetary allocation pattern suggests that, to better understand climate change activities and expenditures in line departments and local government institutions, a better approach is ask information about different 'projects' that they have been engaged with. It seems also that a relatively large number of those projects have been directly implemented by NGOs. Table 12 below lists different climate change related projects/activities in Kampot and Takeo between 2009 and 2011.

The analysis of the classification in Table 12 shows for the provincial and district level a total of 22 project/activities, with eight that are in the area of mitigation and 14 that are in the area of adaptation (Figure 20).

Among the mitigation activities six have a high relevance. Examples are: tree planting, reforestation, and bat rising to produce natural fertilizer. Two activities have a medium relevance to mitigation like waste management in provincial towns and training on compost fertilizers (Figure 21).

Figure 20: Climate change projects at provincial and district level



N=22

Figure 21: Relevance of climate change mitigation projects at provincial and district level

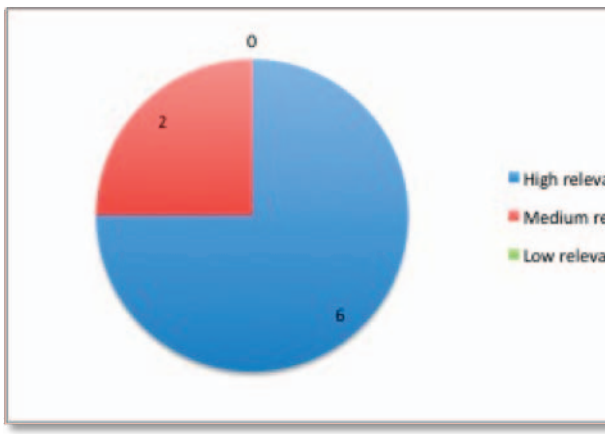


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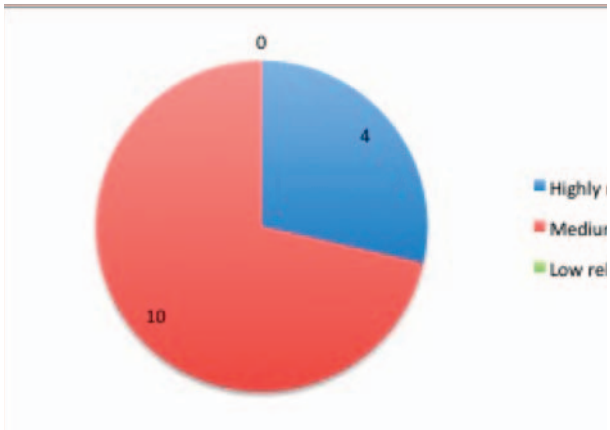
Table 12: Climate Change Related Activities Identified in the case study areas

Provincial and district level		**Climate Change Relatedness**
Agencies	Activities	3 = high, 2 = medium, 1 = low A = Adaptation M = Mitigation
Salakhet (Provincial authority)	Waste management in provincial town	2/M
	Provincial road repair and maintenance*	2/A
	Irrigation system repair and maintenance*	2/A
Salasrok (District authority)	Rural roads construction and maintenance*	2/A
	Rural water supply*	2/A
	Irrigation system repair and maintenance*	2/A
	Tree re-plantation	3/M
Provincial Agriculture Department	Rice intensification training and seeds provision	2/A
	Awareness raising on shorter-period seeds which require less water	3/A
	Integrated agriculture system	2/A
	Testing of climate change resistant seeds	3/A
	Bat raising to produce natural fertilizer	3/M
	Training on composting	2/M
	Provision of biogas stoves	3/M
Provincial Rural Development Department	Rural road construction and maintenance*	2/A
	Rural ponds/wells digging and maintenance *	2/A
Provincial Forestry Administration	Tree re-plantation	3/M
	Establishment of community forestry	3/M
Provincial Water Resource Department	Meteorology / Weather Forecasting	3/A
	Irrigation canal maintenance/rehabilitation*	2/A
Provincial Mine and Energy Department	Provision of biogas stoves	3/M
Provincial Health Department	Prevention and cure of communicable diseases e.g. dengue fever, malaria and influenza	3/A
Commune level		**Climate Change Relatedness**
Commune councils	Rural road construction and maintenance*	2/A
	Rural ponds/wells digging and maintenance *	2/A
	Support to community forestry	3/M
	Agricultural training	2/A
Political parties	Rural road construction and maintenance*	2/A
	Rural ponds/wells digging and maintenance *	2/A
NGOs	Rural road construction and maintenance*	2/A
	Rural ponds/wells digging and maintenance *	2/A
	Support to community forestry	3/M
	Agricultural training	2/A

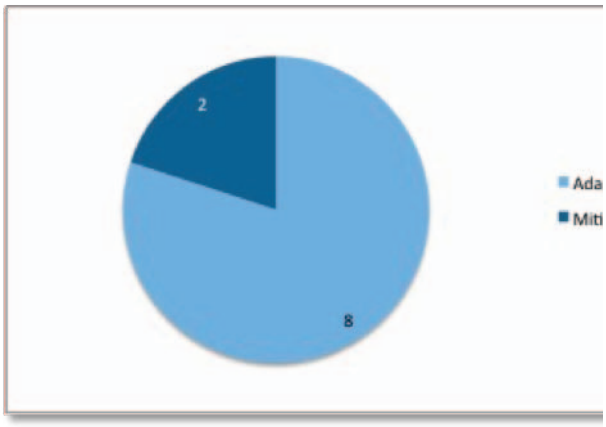
***Note:** the ways that roads, ponds, wells, and canals got built, maintained or repaired in last three years did not take into account climate change related impacts, i.e. their technical specification did not change to make them better suited to respond to floods.

Figure 22: Relevance of climate change adaptation projects at provincial and district level



N=14

Figure 23: Climate change projects at provincial and district level



N=12

Among the adaptation activities three have a high relevance: testing of climate change resistant seeds, awareness raising on shorter-period seeds which require less water, prevention and cure of communicable diseases (e.g. dengue fever, malaria and influenza). Ten activities have a medium relevance with climate change adaptation (Figure 22). Examples refer mainly to rural infrastructures such as irrigation systems' repair and maintenance, rural water supply systems, rural roads construction and maintenance. The reason these projects are conducted with medium relevance is that their technical specifications have remained the same over the last few years and have not changed in response to climate change.

With regard to projects at commune level, the analysis of the data received from Kampot and Takeo and summarized in Table 12 shows that over the period 2009-11 there have been only 10 climate change relevant project: eight are on adaptation and two on mitigation (Figure 23). All mitigation projects have a high relevance, while all the adaptation projects have a medium relevance to climate change.

In addition to the findings presented above, some interesting findings were identified from Takeo where the LGCC project is being implemented and which aims at creating a mechanism for the inclusion of climate change interventions (adaptation and mitigation) in local development and planning processes. Activities eligible for LGCC funding have to meet five criteria: 1) they have to be in the existing commune and district priority list, 2) they have not received any funding support, 3) they have to benefit people's livelihood directly, 4) they are located in areas affected by climate change, 5) they address climate change-related problems.

At the time of the field visit in April 2012, the communes and districts involved with LGCC had already prepared a list of projects to be submitted for LGCC funding. Communes proposed mainly infrastructure projects and the districts mainly non-infrastructure (i.e. service projects). The reason for this should be investigated further. Based on our evidence we can speculate that it may reflect a difference in budget availability with communes that have traditionally focused their development plans on infrastructure and districts that are expected to plan and implement non-infrastructures projects. All of the proposed projects meet the first three criteria. The fourth criterion was met as most projects are related to drought issue. The fifth criteria seem to be the most challenging as most of the proposed infrastructure projects on water resources management relate to the construction of ponds and wells which have traditional (i.e. as usual) technical specification and not really project any feature that relates the

change in the climate and therefore not be considered as adaptation projects.

7.6 Mapping of climate change investments at sub-national level

The aim of the present section is conduct a mapping exercise of climate change investments to understand how easy/difficult it is to identify climate change expenditures at the sub-national level and therefore complement the national level analysis.

The field visits attempted to collect budget data from the provincial administration (*salakhet*), selected line departments (including Provincial Department of Agriculture, of Rural Development, of Water Resources and Meteorology, of Mine and Energy, of Health, and Forestry Administration), communes, any related donor, NGOs and other types of budgets. The key finding from the two provinces is that, there have been several funding sources and channels for the investment of development activities at the sub-national level, some of which, according to the classification criteria applied in this study, are climate change related. It is important to highlight here that it was not an easy task to gather the necessary data for our analysis on climate change investments. While this is a finding in itself, the analysis remains incomplete and would require a longer and in depth research.

The data received from the two provinces have allow us to identify ten main sources of funding for climate change investments which can be clustered into state budget and projects, budget and projects from donors and NGOs, and other budget/projects:

A. State budget and projects

1. Provincial (salakhet) budget (as allocated from the National Budget)
2. Line department budget (as allocated from the National Budget)
3. Commune Sangkat Fund (CSF)

B. Donor and NGO budget and projects

4. Donor fund and projects channelled and implemented through the NCDD system
5. Line department projects funded by donors/NGOs
6. Central ministry budget/projects implemented in collaboration with line departments
7. Donor funded central ministerial projects implemented in collaboration with line departments
8. NGO standalone projects

C. Others

9. Political party projects
10. Private sector projects

Among these, only item 1, 2, 3, 4, and 5 can be considered as funds allocated to the sub-national level. Item 6, 7, and 8 can be categorized as central budget/projects which are implemented with the participation (not ownership) of sub-national level stakeholders. The evidence from our field visits suggests that the overall coordination between all these sources of funding is not very good.

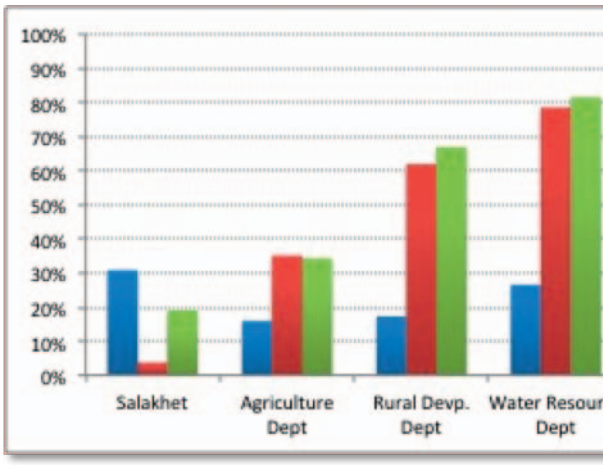
In term of data, those under Group A (i.e. State budget and projects) and item 4 under Group B (i.e. Donor fund and projects channelled and implemented through the NCDD system) have the most complete and readily available data. Information and data on expenditures relative to donors and NGOs climate change projects implemented at the sub-national level (in some case complementing government budgets) are not easy to map. This does not mean that the information does not exist. The problem is that these data are not stored in organized databases at provincial level. The same applies for data about political party's funding and private sector projects which are even more incomplete.

Following the classification method adopted by this study, Figure 24 below shows the trends in the percentage of the national budget transfers to Kampot allocated to climate change activities over the period 2009-2011 in Kampot. For the *salakhet* there has been a considerable decrease in 2010 with are cover of budget for climate change in 2011. The Provincial Department for Rural Development and the Provincial Department for Water Resources have had in 2010 and 2011 the largest share of their annual budgets allocate to climate change activities. The investments have been mainly in infrastructures such as rural roads and rural irrigation systems that we have classified as hav-

ing a medium relevance for climate change, though we have been told during interviews that the technical specification of these infrastructures has remained the same during the last years.

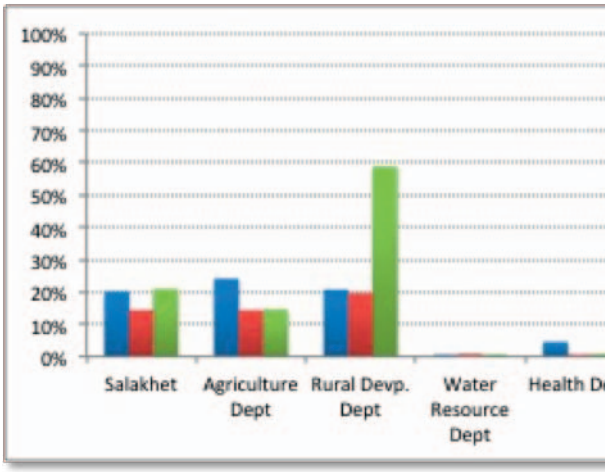
In the case of the province of Takeo (Figure 25) the data on national budget transfers are more complete as they cover also the Provincial Department of Health, which in Kampot could not provide us with the data. The

Figure 24: Percentage of national budget allocate to climate change activities in Kampot (2009-2011)



Source: National Budget (2009, 2010, 2011) Volume 3 & 4

Figure 25: Percentage of national budget allocate to climate change activities in Takeo (2009-2011)



Source: National Budget (2009, 2010, 2011) Volume 3 & 4

Provincial Department of Rural Development has on average the largest allocation on climate change due to the fact that they are responsible for building rural roads. The expenditures of line departments of Water Resources and Heath are negligible, the reason is that most of the budget of these departments is allocated to cover administrative costs such as salary of staff.

In both provinces we found evidence of projects and activities funded by development partners and NGOs either as standalone projects or through collaboration with line departments and/or commune councils. Data and information about these projects are not well documented which make the analysis difficult and would require a more in depth investigation to be presented here. We found that only the data about development partners and NGO support to the NCDD system were complete enough to analyse. In the case of Takeo, a number of projects have been implemented through this mechanism. The main initiative is the LGCC project. Table 13 below shows the share that can be called climate change related of these types of projects: e.g. investment on rural infrastructure projects (road, pond and canals), forestry conservation, and agricultural technique trainings.

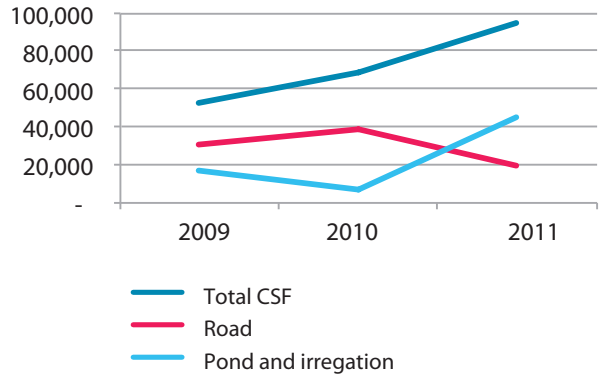
Table 13: Climate change project fund channelled thorough NCDD in Takeo (USD)

	2009	2010	2011
ExCom project budget	$348.677	$478.287	$135.512
Climate change allocation	$259.576	$340.106	$105.467
Climate change as %	74%	71%	78%

Source: Data provided by NCDD, Takeo

The Commune Sangkat Fund is also well recorded. Between 2009 and 2011, the CSF received by the four communes visited for our study (two in Kampot and two in Takeo) has on average has almost doubled. The average CSF amount for 2011 for the four communes was roughly USD 24,000, an amount which is slightly higher than the national average for the same year (which was estimated at USD 20,000). The largest investment in all four communes has been roads (rough-

Figure 26: CSF and its Spending From the Four Communes Combined



Source: Respective Commune Annual Investment Plan (2009, 2010, 2011)

ly 45%) and water related investment, e.g. canal and ponds (30%). According to the classification method used for this study, the spending on these activities are considered as having medium relevance to climate change. Figure 26 below shows the trend of total CSF (in USD) in the four communes.

In the next section we move to the third area of analysis of the CPEIR sub-national analysis and look at local planning processes in the two case study areas to assess the characteristics of the technical input and support provided to local administration by line agencies.

7.7 Local planning processes, elected sub-national bodies and line agencies

The aim of this part of the local governance analysis is to assess the level of involvement and technical support provided by line agencies to local development processes and planning which, according to the Organic Law, are under the responsibility of elected bodies at sub-national level. The technical inputs are to be provided by line agencies mainly at provincial level. In doing so we looked at what is mentioned in the law and compared with what we found in the two case study areas.

A close look at the Organic Law, shows that the planning processes at sub-national level in Cambodia can be divided into two categories: commune level planning and planning of provincial/district levels. Commune planning has followed since the first commune election in 2002 the so-called Commune Investment Plan (CIP), a participatory process designed to involve local people so that they can raise and contribute to prioritize specific needs and problems. The CIP has been subject to many analysis and evaluation exercises and we do not discuss it at length in this report.[16] Instead, we want to focus on the new planning process that involves provincial and district levels as in these levels (particular districts) are becoming more central following the introduction of the Organic Law and the indirect election of district and provincial councils.

The quality of planning and budgeting and the linkages between the line agencies and sub-national institutions can be assessed through three lenses: 1) the fragmented fund flows and the highly centralized/concentrated nature of budget allocation in Cambodia, 2) the efforts to integrate (and thus reduce fragmentation between) planning and budgeting at provincial and district administration which started in 2011, and 3) commune planning referred here as the CSF.

In 2011, following the introduction in 2009 of the 'Sub-Decree on the Development and 3 Year Rolling Investment Plan for the Capital, Provinces, Municipalities, Districts, and Khans' (RGC 2009), and in 2010 of the 'Technical Guideline on the Preparation of the Development Plan and Investment Plan for Capital, Provinces, Municipalities, Districts, and Khans' (NCDD 2010), the provincial and district councils prepared their 5 Year Strategic Plans (or 5 Year Plans) and 3 Year Rolling Investment Plans (or 3 Year Plan). According to the Sub-Decree (RGC 2009), these plans of the provincial and district level, if well developed, will serve as the basis for provincial and district councils to define their development priorities and link them to the required resources. This in turn will allow sub-national institutions a higher autonomy in shaping their development direction, although they would still be legally subject to the control from the central government.

16 See for instance, Dom (2008), STF (2008), and World Bank (2012)

According to the 2010 Technical Guideline, the process to develop both the 5 and 3 year plans is participatory, involving four key actors: (i) communes, (ii) line departments (for provincial level) and line offices (for district level), (iii) NGOs, and (iv) private sector.

In Takeo and Kampot we interviewed provincial and district officials who have been involved in the planning process. They mentioned that, during both 2011 and 2012 planning processes there have been discussions about climate change, focusing mainly on the issues of disaster management and specific natural resource issues such deforestation, fishery stock preservation, and agricultural adaptation. The 2011/2012 plans, useful as they were, were subject to a number of challenges; some are circumstantial and some systematic. For example, we have been told that the time allowed for the planning was only too short to ensure a good discussion among key stakeholders. Limited information and data sharing as well as the level of consistency of data used to develop the plans were among the key constraint. Sub-national elected bodies and line department officials were not always in agreement as to which kind of information to be shared and discussed in specific parts of the planning process. In addition, the capacity of the provincial and district level staff in preparing comprehensive plans is considered to be still limited. As these processes have been introduced only in 2011, line departments have still need to learn how to prepare plans and how to integrate them into that of the provinces and districts, whereas before, they only prepared plans to be submitted to their line ministries.

Besides these circumstantial challenges found in our discussion in Takeo and Kampot, a number of institutional challenges exist. The current Guideline on developing the Plans focuses more on the needs for the SNA to follow a bureaucratic process (e.g. filling in various tables) rather than conducting a more independent strategic analysis of local needs and opportunities. Related to this, two other shortcomings have been identified in our discussions at local and national level: 1) the current Guideline makes no distinction between the planning process intended for the Capital, provincial, district and municipal level, and 2) the integration of the plans of different tiers of the SNA has not been well defined. The outcome is that so far the process has mainly focused on compiling what is proposed from lower levels of the administration.

A second institutional challenge is represented by a disconnect between planning and budgeting processes. As a reflection of the still limited fiscal deconcentration in departments such as agriculture, rural development and water resources, the departments' plans are often limited to: (i) a short list of the projects that continue from the previous year, (ii) projects that already have funded committed from the previous year, and (iii) a long (wish) list of projects without committed fund. The disconnection between plans and the budgets suggests that the plans prepared by line departments were not based on information about budget availability and are therefore used as a 'bait' for possible funding which in the current arrangement can come from three different sources: (i) specific ministry budgets, (ii) donor projects through respective ministries, and (iii) NGOs.

Currently, line departments expect funding to come mainly from donors funded projects and NGOs. Specific ministries have very limited budget availability because of the little state budget allocated and the usually concentrated arrangement of the fund within each ministry. As for budget from *salakhet*/ExCom our respondents mentioned that funds have been available under the so-called Provincial Investment Fund (PIF) and Danida's Natural Resource Management and Livelihood (NRML) initiative. These initiatives however no longer exist.

The outcome of this situation is that in the absence of sources of funding, line departments do not seem to have an incentive to take the provincial and district planning process seriously and provide technical inputs to the planning processes. The result is the loose connection between the plans of the line agencies and that of the *salakhet*.

Another systemic shortcoming that we want to mention here is the limited engagement in the current provincial and district planning processes from the (local and international) NGOs and private sector. We have seen earlier that NGOs' budgets and support are

a key source of funding for SNA, however they are not very well engaged in the provincial and district plans. Firstly, many NGOs as of now still see the district integration workshops and commune level planning as the main entry point for them, and thus, see less need to participate in the new planning process at the provincial and district level. Secondly, participating NGOs are usually reluctant to have their planned activities included in the provincial and district planning, unless they are assured of funding availability from their respective donors.

Private sector investment is even less captured in the current planning and budgeting processes at the provincial and district levels. In 2011 and 2012 we expected to receive information about private sector funding by the provincial Chamber of Commerce in Kampot and Takeo. However, the information included in the plans was insufficient, possibly for two reasons. Firstly, many private businesses at the provincial level are mainly involved in the informal sector. Secondly, those businesses considered as part of the formal sector (i.e. registered) are usually large companies that require registration and approval at ministerial level. In other words, those businesses are considered out of the scope of provincial/ district jurisdictions.

Provincial and district officials interviewed were well aware of the circumstantial and systematic challenges and indicated the leadership at the national level (the NCDD, in particular) had also discussed how to address them. As a solution, capacity building on planning has been provided to SNA levels[17] and the Guideline itself is being assessed and expected to be revised by the end of 2013.

7.8 Conclusions

Our research suggests that climate change is still a new topic in Cambodia, particularly at sub-national level. Local officials seem to understand climate changes more in terms of weather changes, which in turn, is closely associated with floods and, more importantly, droughts. SNA government officials that were interviewed are unsure about what constitute an adaptation or a mitigation climate change activity. This lack of knowledge leads local officials to either classify none of their existing activities as climate change related or else to claim that most of their local development activities are having something to do with climate change adaptation and mitigation. This finding was true also in the selected communes in Takeo where a project on climate change (i.e. the LGCC) has been recently implemented.

Despite the classification problem, this CPEIR study was able to identify a number of local investments and development activities that were categorized as having high, medium and low relevance to climate change. Only very few can be graded as highly climate change related activity, key examples of which are tree plantation and forest preservation (e.g. through community forestry). Most of the activities that were identified fall in the area of adaptation with medium level relevance. Example are mainly infrastructure (especially rural road and ponds) development and maintenance, livelihood support (including training), and prevention and cure of selected communicable diseases (e.g. dengue fever, malaria and influenza). On the mapping of sources of funding, the study found that, while many of above activities were implemented on the ground, only a small number of them have actually been funded by budget from/of SNA and line agencies. This reflects, as we have seen, the over-centralized nature of the current intergovernmental fiscal relations in Cambodia and the limited amount allocated to the SNA through the CSF.

In addition to the state budget, we have found other types of funding which have been channelled to support local development activities. For instance, there have been local development projects supported by donor agencies that channelled their funds through the NCDD system, standalone development partners and NGO-projects implemented at sub-national level, and political parties funded projects. The budget data on these different types of projects however varies significantly and we found that records have gaps. For instance, it was easy to retrieve data of budgets that were channelled through the NCDD system. It was,

17 One example is the PILAC2 funded by JICA (See http://www.ncdd.gov.kh/en/projects/ncddprojects/pilac2).

on the other hand, difficult or not possible to receive during the budget data collection period data on standalone projects and about political parties' support. The outcome is that: 1) it is difficult to find up to date and complete data on climate change activities and expenditures, 2) is it difficult to conduct comparative analysis between provinces, 3) it is difficult to develop an evidence based decision making and policy making environment.

As a part of the overall decentralization reform process, however, the Government, with support from various development partners, has been implementing some key reforms aiming at promoting SNA's autonomy in planning and budgeting for local development activities. For instance in 2011 and within the framework of the 10 Year National Program and the IP3 the provinces and districts have adopted their 5 Year Development Plan and 3 Year Investment Program that identify their development priority and financial needs. The issue of climate change, while also included in the Plans, was mentioned only in passing and without any indication of how it will be developed into projects and how they can be funded. This is due to the fact that a lot of attention if currently going to learning the new planning process and procedures. Other important reforms areas are the establishment of a new unconditional grant for the district and municipal level (District/ Municipal Fund (DMF)) and the so-called Sub-National Investment Facility (SNIF).

Despite this progress, it is important to remember that reforms are still at an early stage and the resulting subnational planning and budgeting system (especially those relating to the DMF and SNIF) and corresponding capacity to implement the new systems is still limited. Moreover, while the SNA are being reformed and strengthened it is expected that in the foreseeable future line agencies will still play key roles especially in local development and service delivery (including those classified as relating to climate changes). The challenge with line agencies' role is that, in some of the relevant sectors under focus (e.g. agriculture and water resource), the level of sectoral de-concentration is still limited.

8 Conclusions and Recommendations

Policy

R1 **High Level Engagement.** The government has shown some leadership on climate change through the establishment of the National Climate Change Committee (NCCC), with the Prime Minister as honorary chair. One of the nine parliamentary Technical Commissions deals with environment, as well as planning, investment, agriculture, rural development and water resources. Some symbolic statements are made and actions taken. There is however, limited public debate amongst politicians and in the media about the importance of climate change. *In view of the importance of climate change to Cambodia, the country could benefit from more public debate on the subject. This is included in the work programme of the CCCA.*

R2 **National Policy.** Until recently, climate change has been treated as a subcomponent of environmental policy in national strategies. However, this situation is improving and the current NSDP includes some specific actions addressing climate change as well as frequent references to climate change in sectoral chapters. The Rectangular Strategy also refers to environment in relation to safe water, hydropower and population policy. *The next Rectangular Strategy should build on the progress made in the NSDP and include specific actions on climate change as part of a section dealing with cross sectoral policies. It should also include statements of policy on climate change within sectoral chapters. The Rectangular Strategy should also build on the Green Growth Roadmap and stress the potential for climate friendly economic development through instruments that engage the private sector in mitigation and adaptation.*

R3 **Climate Policy.** The new Climate Change Strategic Plan (CCSP) will be the first national policy statement on climate change and, as such, will be an important document. *The CCSP should guide climate relevant expenditure and other policy across all the key sectors identified in the CPEIR. Whilst the CCD should lead the preparation of the CCSP, MEF should be involved in the costing, working with the finance departments of line ministries. Key principles for the CCSP include the following.*

- *It should cover mid-relevance expenditure (including rural roads and irrigation), as well as high relevance expenditure.*
- *It should be costed, with the costs referring to total needs, whilst also recognising realistic resource constraints. The costing of national strategies is a complex task that requires good leadership and engagement by all ministries. Given the intersectoral nature of climate change, it will be difficult to do the CCSP costings in isolation of other costing work. It may be that the initial costing in the CCSP is presented as provisional, to be revised and strengthened as part of the costing activities in the work of the next NSDP and Rectangular Strategy.*
- *Some degree of prioritisation and phasing should be provided. This could be done, for example, by defining several costing scenarios with different assumptions on the future levels of funding available, or through the definition of contingency programmes that can be accelerated if additional funding becomes available. The best option will depend on the nature of uncertainty about future revenue and the extent to which programmes are divisible and can be easily accelerated or slowed down without reducing effectiveness.*
- *The CCSP should aim to become the Cambodian National Adaptation Programme (NAP), as defined by the UNFCCC. As such, it will take over from the NAPA*
- *The CCSP should refer to the possibility of a National Climate Fund to facilitate implementation (see below).*

The NAPA has provided guidance to donors and government in identifying projects to support. However, it is now out of date and it is not clear that the projects that remain unfunded are still the priorities. *The NAPA should be superseded by the CCSP.*

R4 **Sector Policies.** Cambodia has a large number of sector strategies that address climate change, including, in particular: forestry, water and other natural resources; energy; and agriculture. All the ministries with some climate relevant expenditure have climate change focal points, but only MAFF have a climate change committee that engages senior officials. *The NCCC, working through the CCTT and sector focal points, should ensure that any new sector policy work should in-*

clude a climate change section. As the Rectangular Strategy is based on sector strategies, this will help to ensure that climate change is recognised in future versions of the Rectangular Strategy.

Sector policies should include a diagnosis of the implications of climate change for the benefits derived from government expenditure and policy in the sector. This should include a review of the economic benefits of any contributions to mitigation (ie through reduced emissions or sequestration) and the implications for expenditure if climate change is ignored and expenditure is wasted as a result of the effects of drought or floods that could have been prevented. This analysis can draw on growing international experience.

Any efforts to address climate change must be considered in the context of wider efforts to strengthen environmental and social governance, and particularly to improve systems to manage the environmental and social impacts of development efforts more broadly. Many activities to address climate change – particularly infrastructure projects which constitute a significant share of interventions – also have environmental and social impacts that need to be managed effectively.

R5 **Donor Coordination.** The CCCA and PPCR provide a good basis for promoting more specific cooperation amongst donors on high relevance climate issues and for encouraging resources to be pooled. *Donors should continue to seek greater collaboration between the CCCA and PPCR. The provision of technical assistance should be linked, wherever possible, with the provision of funding for investment, if necessary through pilot schemes that test new modalities.*

R6 **Links with Disaster Reduction Policy.** The National Committee for Disaster Management (NCDM) is responsible for responding to national disasters. It has a similar composition and status as the NCCC. It does some activities of disaster preparedness in communities, mostly involving capacity building, but does not fund any investment in infrastructure that reduces or prevents the impact of future floods or droughts. *To avoid any confusion, the relative roles of the NCDM and the NCCC should be made clear. It may be efficient for investment in adaptation to future climate disasters to be coordinated by NCCC, and implemented by relevant agencies. NCDM and NCCC should cooperate over programmes of capacity building for disaster preparedness, which provide one of the best mechanisms for building awareness about climate change.*

Institutions

R7 **Coordinating Climate Institution.** The NCCC provides a good foundation for cooperation on climate policy formulation and monitoring. The arrangements for having a CCTT at a more technical level are also appropriate. *The next major task of the NCCC is to guide and approve the preparation of the CCSP. It will then be responsible for ensuring that the CCSP is used as the guide for future climate spending, and the basis on which access to international climate finance is accessed in the future The NCCC will also be responsible for ensuring that arrangements are made for mainstream sectoral programmes to be climate relevant.*

The NCCC is created by government sub-decree, which gives it an appropriate status. *There does not seem to be a near term need for new legislation covering climate change.*

R8 **Climate Change Annual Monitoring Report.** There is currently no coordinated monitoring of climate expenditure in Cambodia. This CPEIR provides a baseline for starting this task. *To give focus to the monitoring of the CCSP a Climate Change Annual Monitoring Report (CCAMR) should be produced providing an update on policy and on climate expenditure and some indication of future prospects for policy and funding. The CCAMR should be compiled jointly by the MoE and by MEF, with contributions from relevant line ministries. MoE should deal with the policy sections and MEF with the expenditure sections. It should be approved by the NCCC. The CCAMR will help to improve the collaboration between MoE and MEF and to clarify their respective roles. This will require political commitment from both ministries.*

R9 **Climate Change in Line Ministries.** There are a range of arrangements for managing climate change in line ministries: MoE have a Climate Change Department; MAFF have a Climate Change Committee; and MOWRAM, MRD and MIME rely on climate change fo-

cal points, established to collaborate with NCCC. Capacity to integrate climate change considerations into decision-making within key departments remains limited beyond a few designated individuals that are taking an active interest in this issue area *MOWRAM, MRD and MIME should create Climate Change Committees to provide higher level input and approval on climate policy in their sectors. The CCCA includes plans for strengthening the capacity of line ministries to introduce climate sensitivity into sector strategies and this should be pursued. The PPCR includes plans for supporting climate screening of all new investments and this is also a high priority activity.*

R10 **Donor Technical Working Groups.** The current system of Technical Working Groups (TWGs) can be used to facilitate donor coordination on climate change. *The number of donor TWGs should continue to be limited, in the interests of operational efficiency. This means that climate change will probably need to be included in a TWG that also covers other issues, such as environment and forestry. Government needs to show leadership in defining a pragmatic solution to this, which may involve some form of subgroup that comes under another TWG. This should allow operational efficiency in scheduling meetings, whilst also allowing a range of issues to be considered in each meeting.*

R11 **NGOs and CSOs.** NGOs and CSOs implement a large number of programmes and are often independent of government. *NGOs should also be invited and encouraged to cooperate with the TWG, the NCCC and the CCCA, to avoid ensure inclusive approaches, and avoid duplication.*

Local Governance

R12 **Dissemination of relevant information and capacity building initiatives.** In order to ensure meaningful participation in the discussion and planning for climate change related activities, key officials at the sub-national level (including those in relevant line departments) should be equipped with basic knowledge and capacity in order to:

- Have a clear understanding of the meaning and difference between climate change adaptation and migration
- Distinguish (and see overlaps) between regular local development activities (especially local infrastructures and economic development) and climate change adaptation and mitigation interventions
- See the need to approach climate change as an inter-sectoral (i.e. inter-ministerial and inter-departmental) issue and translated this into a more integrated local planning process
- Conduct climate change vulnerability assessments of local communities and integrate this knowledge and evidence in local planning process.

We want to highlight here that capacity and skills development has limited value if it is not accompanied by an increase of financial resources to invest in climate change related activities at sub-national level. Limited or absence of resources for new investments means that the knowledge and skills acquired cannot be translated into concrete and practical interventions and will therefore fade over time. We therefore recommend that capacity-building exercises should accompany and complement discussions on local development planning and strategies as well as the implementation of the plans. In other words, the awareness raising and capacity building for sub-national level staff should be part of a national plan which in turn requires a broad participation and decision making by an inter-ministerial body on devolving more resources and decision making power to communes and districts over climate change spending. The involvement of NCDD in these discussions is therefore very important.

R13 **Mapping of local expenditures on climate change to inform planning at national/sub-national level.** In our study we found two key challenges to mapping of local expenditures on climate changes at the sub-national level: (i) lack of clear classification of what constitute climate change related spending, and (ii) limited budget data availability of central government, donor, NGO, political party and private sector fund and projects at the sub-national level.

For the first challenge, it is recommended that a National Guideline be developed under the guidance of a national body and technical support of key donors to classify the types of projects that are related to climate change relevant as well as a categorization of their rel-

evance as, for example, the one proposed by the CPEIR methodology. With regard to the sub-national level, the Guideline should address a number of specific points:

- The classification to be developed should be practical and allow climate change activities or projects to be integrated into the sub-national planning process in a way that would not obscure and complicate the existing process of prioritizing development projects.
- The classification should pay special attention to local infrastructures and economic development activities and provide clear distinction as to when these are related to climate change related and when they are not
- The classification will be a the first step toward a more comprehensive discussion about which level of sub-national level should be given which responsibility relating to climate change activities and interventions. This is particularly important as district councils are currently seen to be the central institutions where the D&D effort will focus in the near future.

With regard to the second challenge (i.e. limited data availability), the solution lies in the on-going decentralization and sub-national planning reforms. As the D&D reform continues and data on general development activities and budget improve, this will result in more and better data management which will help the mapping of climate change spending of not only SNA and line departments but also of central ministry, donor, NGO projects and others.

R14 **Establishing and strengthening funding modalities for climate finance to sub-national level.** Given the early stage of the SNA financial reforms (with the exception of the communes) this study cannot provide specific recommendations on the funding modalities. However, it offers a few points in term of broad direction and next steps:

- We feel that there is need for more in depth studies to better understand if and how to integrate climate finance within the existing and planned transfer mechanisms, namely, the provincial budget transfer, DMF, SNIF and CSF. However, and whenever possible and useful, we recommend to embed studies and assessments into the design of pilot interventions that would then test and document the integration of climate change activities into local development as illustrated by the experience of the UNCFD project in Takeo. More projects (and learning) such as the one of Takeo would contribute to the growth of the body of evidence and knowledge about the integration and funding of climate change interventions (mitigation and adaptation) in local development processes both at commune and (more and more so) district level.
- The establishment and strengthening of funding modalities for climate finance should take into account the ongoing inter governmental fiscal reforms to avoid creating additional administrative burden and distracting the current fiscal reform. The CSF and DMF represent a tested and well monitored (though still limited in terms of overall figures and amount) channel that could be used to transfer climate change funding to complement local development activities of communes and districts.
- As the SNA financial management system being developed, donor and NGO standalone projects on climate change should consider using the existing coordinating mechanisms such as that of the NCDD as one of the options. On this point, the experience of the LGCC project will be useful for future sub national level climate change projects.

R15 **Line agencies support to local planning process.** Given the limited deconcentration within the relevant climate change sectors agencies (e.g. rural development, agriculture, water resource management, forestry) in addition to the weak horizontal links between line departments, there is still need for considerable work before relevant line agencies can be expected to assist SNAs in local planning process relating to climate changes. Our recommendations are:

- Relevant line departments need to receive training so that climate change at sub-national level is perceived as an inter-ministerial issue. This should lead to the more regular undertaking of vulnerability assessments which are to provide the research evidence to develop more climate change sensitive

local development plans. This will require, among others things, the need to provide technical capacity building on climate change to relevant line agencies.
- Opportunities for discussion and sharing should be created to debate to role/mandate of relevant line agencies on climate changes. The discussion should lead to the definition of deconcentrated functions and the necessary budgets
- While it is necessary to discuss the support that line agencies should provide to SNA, it is equally important to raise the issues of horizontal accountability between the two. This accountability question is relevant not just to the climate change, but to the architecture of the SNA planning and financial management system as a whole.

Public Financial Management

R12 **Classification.** The classification of climate relevant expenditure has provided a useful overview of trends in the climate relevance of expenditure at a national level. It has the great benefit of being relatively simple. However, it presents some challenges, notably relating to the interpretation of projects that involve livelihood improvement, rural roads and other infrastructure. At present, the classification does not give sufficient guidance on the proportion of expenditure that should be considered as climate relevant. In particular, it is not clear whether this is limited only to climate proofing expenditure and, if this is the case, whether it applies only to the element of climate proofing that deals with the increase in risks associated with climate change, rather than all climate risks. Clearer guidance is also required on the extent to which improved livelihoods contributes to resilience in different locations and household types.

There is an opportunity to refine the classification system, which can be pursued through the work being supported by the PPCR to introduce screening methods that determine the contribution of programmes to mitigation and adaptation.

R13 **The Budget Strategy Paper (BSP).** The BSP and the Medium Term Expenditure Framework (MTEF) are the first steps in enabling government to change resource allocation patterns. At present, there is no assessment of climate expenditure in the BSP and MTEF. *MEF should work the MOE to ensure that every BSP and MTEF includes an assessment of the expected level of climate expenditure for the coming year and where the sectoral contributions to this expenditure are expected to come from.*

R14 **Recurrent Budget Classification.** The PFM systems in place at present do not allow a thorough analysis of the climate relevance of domestically funded expenditure. The first problem is that data on budgets at department level in line ministries are not readily available and data on actual expenditure are even more difficult to access. However, even if more detail were available, it is not clear that the classification system would make it possible to monitor changes in climate relevance because it cannot be used to track changes in climate relevance within a budget unit, however detailed that unit is. *Budget systems are being improved to provide more detailed definitions of functional expenditure within ministries and this will help to monitor the expenditure of the most climate relevant departments. However, as allocations between departments (and ministries) are made largely on the basis of economic and social grounds it will be difficult for climate change concerns to influence changes in these allocations. Of greater importance is the need to ensure that whatever expenditure is undertaken by departments is done in a climate relevant manner. This requires occasional reviews and capacity building rather than changes to budget processes. This approach is similar to that adopted for mainstreaming poverty reduction into the budget.*

R15 **Development Expenditure.** Externally funded project expenditure is easier to analyse, although there are some concerns about the data. The CDC database now includes a tag indicating whether projects address climate change. *A brief study should be undertaken of existing projects to improve the accuracy of the way the tag on climate change has been used. This is being planned under the PPCR.*

R20 **Project Preparation and Appraisal.** The project approval process is not coordinated, with MOP and MEF both involved, as well as the CDC. The project approval practices used across government could benefit

from greater standardisation, although the best way of achieving this is outside the scope of the CPEIR. *Whatever project approval processes are in place should include a requirement to demonstrate that climate change has been taken into consideration. This can involve a simple qualitative project screening question for smaller programmes, or programmes that do not claim to be climate relevant. For larger climate relevant programmes, it should involve a more rigorous analysis. The introduction of improved climate analysis in project appraisal should be coordinated by the CCTT, with joint input from MOE (on climate issues) and MOF (on economic issues). It should be introduced in a phased manner, and will require modest technical assistance. The PPCR is already planning to support this.*

R21 **National Climate Fund.** There are a number of programmes dedicated to climate change, including: the NAPA, PPCR, CCCA, CDM and REDD+. These programmes are limited in that they are mostly implemented without using the budget. In addition, they tend to focus on high relevance activities and are more limited in their support for mid and low relevance climate programmes, with the possible exception of the PPCR which is supporting a variety of investments, some of which could be assessed as mid relevance. NSDP II includes a priority action to create a National Fund for Climate Change and the ASEAN Ministers of Economy and Finance have discussed the possibility of creating a Climate Fund for the region.

The possible creation of a National Climate Fund is one of the most challenging elements of the Climate Fiscal Framework. The principles of aid effectiveness suggest that a National Climate Fund should be integrated with the government planning systems as much as possible. The experience with the SWAps in the education and health sectors suggest that this may be possible in Cambodia, in theory. However, the challenges referred to in Box 2 on page 36 suggest that this will not be easy. The success of the education and health SWAps depends, to a large extent, on the ability to define indicators of outcomes or impact, so that donors can be comfortable in leaving the detailed implementation responsibilities to government. In theory, there are indicators of emissions that could be used for an 'inter-sectoral SWAp' for mitigation. However, performance on emissions is already subject to international treaties and are dominated by economic concerns and it is likely that any programme that was conditional on emissions reduction would be non-compliant at the first review. There are no equivalent indicators of adaptation that could be used in a SWAp programme. Until impact indicators for adaptation are developed, a full budget support programme seems impractical. Cambodia will also need to continue to demonstrate that it has made real progress in strengthening overarching PFM and budget management processes if contributors of climate finance are to feel confidence that these resources will be spent well if channelled through national systems.

Instead of full budget support, the government should consider the possibility of establishing a National Climate Fund (NCF), as a transitional arrangement. MEF should lead on financial management and CCD should lead on technical analysis to ensure that all activities funded contribute to mitigation or adaptation. The NCF should provide support to some high relevant programmes not already covered by existing climate funds, especially if these involved investment in physical assets. It should take over the roles of the CCCA and PPCR and act as the main vehicle for coordinating funding from the Green Climate Fund. It should implement the CCSP and intersectoral priorities should be guided by the priorities in the CCSP. It should also provide top-up match funding to activities already covered in the budget to ensure that they are made more climate relevant. This funding would be related to monitoring indicators and so encourage improved reporting.

Priority could be given to no/low regret options that promoted economic development as well as adaptation and mitigation. Examples of this funding could include:

- *community forestry programmes to reward them for carbon sequestration as part of the transition arrangements to encourage the emergence of CDM and REDD+ activities*
- *agricultural research to look at the potential benefits of conservation agriculture in maintaining soil moisture during drought*
- *adjustment to irrigation and drainage schemes to allow early draining of paddy rice to improve yields and reduce methane production*

Box 5: Budget Reimbursement: the Commune Sangkat Funds Modality

The Commune Sangkat Fund (CSF) is considered a success in Cambodia and is sometimes referred to as a possible model for partially budgetised external climate financing. The suggestion is not necessarily that the CSF itself could be used to improve climate financing but rather that the modality could be used for climate finance, even if it were operating at a national scale.

The CSF was established in 2001 and has become an important feature of the Deconcentration and Decentralisation policy, accounting for nearly 2% of all public expenditure in 2010, amounting to about US$ 36m. The funds are used to implement local investments in Commune Investment Plans prepared by communes and sangkats. The majority of the funds are used for rural roads (65%), irrigation (17%) and rural water (6%), most of which have at least mid relevance to adaptation. This means that the CSF probably accounts for about 7% of all climate expenditure.

CSF funds are made by a direct transfer from the central government budget, based on a formula that takes into account the population and conditions of the commune or sangkat. The funds are disbursed through the budget of the NCDDS and channelled through the national treasury system. Whilst there have been issues associated with disbursement rates, the CSF is widely believed to be transparent and successful at reflecting local priorities. About half the CSF funds have been provided by the RILGP, funded by the World Bank. The RILGP funding has been provided as reimbursement to the NCDDS for all investments undertaken under the CSF that meet certain criteria (URS 2010). This approach will continue through the Sub-National Democratic Development Reform Program (SNDD-RP), also funded by the World Bank.

Although the RILGP works as a form of budget support, there is some conditionality included in the eligibility criteria, which cover financial management, land acquisition, environmental assessment and participation of minorities. Another form of influence is being introduced by allocating a proportion of the SNDD-RP funds to a new line of CSF funding that is reserved for recurrent costs. Financial management is generally considered good, although there are problems with disbursement rates (Dom 2008). The use of environmental assessment has been varied and generally disappointing (Ashwell, undated). However, the RILGP reimbursement method is seen to have been an effective method of building capacity and helping to address these challenges, contributing to the general success of the CSF and to building national capacity (URS 2010). There seems no obvious reason why the budget reimbursement modality of the RILGP could not apply to national level funding.

Any plans to use the CSF modality for climate finance should build on the experience of the PPCR pilot for this approach, which has been started in three districts.

- *increased specification of culverts and road drainage to protect from the probability of increased rainfall intensity*
- *generation of electricity from biogas, which creates both economic benefits from reduced costs and mitigation benefits*
- *programmes for prevention of climate sensitive diseases*

The NCF should consider operating through a reimbursement system similar to that used for the CSF but not limited to local funding (see Box 5 *below). This would mean that all activities are implemented fully through national budget systems. As with the CSF, some form of independent verification should be provided.*

R 22 **Impact of Climate Expenditure.** There is little work in Cambodia on the impact of expenditure on mitigation and adaptation. Although rigorous work on this is detailed and requires good data, it is possible to provide indicative back-of-the envelope estimates very rapidly, based on estimates of emission and sequestration and the latest evidence of the increase in frequency and severity of extreme precipitation events (eg from the 2011 SRES report). *A brief study should be undertaken to provide yardstick indicators of the relative size of climate related benefits from projects, compared with non-climate benefits for all the main sectors, including economic, social and environmental benefits. The implications of this for overall climate change policy should be considered This initiative should encourage the increased use of climate impact analysis as part of an increased use of cost benefit analysis more generally.*

R 16 **Future Prospects.** Based on the evidence of the last three years, the share of total domestic spend-

ing that is relevant to climate is likely to stay roughly at current levels. However, there are likely to be significant increases in international funding available for climate expenditure. In order access this, Cambodia needs a new emphasis in national policy and some adjustments in budgeting. *The CCTT Climate Finance Sub-group should work to refine the scenarios of possible future climate finance contained in the CPEIR.*

Readiness Plan

The current arrangements for coordination on climate finance are provided by the collaboration matrix for the PPCR and CCCA (see Table 4 on page 25). Thus, support for many of the elements of the Readiness Plan is already in place.

Immediate Actions. The first priority is to complete the CCSP and to ensure that it includes costing estimates that are realistic and provide guidance on the priorities between and within sectors. This is already being supported by the CCCA and is expected to be completed by the end of 2012.

The future management of climate finance requires improved techniques for defining climate expenditure. There is no explicit responsibility for this in the PPCR and CCCA collaboration matrix. Some of the activities supported by the PPCR and CCCA will help to contribute to this task, but an early focus on this challenge is required. This should be combined with an initiative to improve the guidance provided by CDC to donors in using the climate tag in the CDC database.

Mid-term Actions. The key tasks for the Readiness in the medium term are to support improved programme preparation and to define new modalities for coordinating climate finance, to take over from the PPCR and CCCA.

In practice, most of the work in making programme climate relevant will be done by line ministries. The analysis done for the CPEIR considers the relevance of the objectives of a programme and makes no judgement on the extent to which these objectives are actually met. The quality of line ministry work in building climate relevance into programme design will help to ensure that sectoral programmes are not just theoretically relevant, but actually achieve their objectives. The PPCR is already planning to support this work, by working with the line ministries on project preparation and appraisal techniques and through the development of climate screening guidelines.

The second major mid-term priority is to develop the modality for coordinating climate finance that will take over from the PPCR and CCCA and will be available to help manage increased funding from the Fast Start Funds and Green Climate Fund. The CCCA is planning to support this task and the experience of the PPCR and the CCCA TF modalities will help to refine the task. It may be useful to pilot the CSF modality of budget reimbursement for climate finance.

The NSDP and the Rectangular Strategy will be revised by the new government in 2013. The climate sensitivity of these documents has improved considerably in recent years but there are opportunities to make further progress, particularly in managing the cross-sectoral nature of climate change. The PPCR is already planning to support this activity.

As part of the revision of the NSDP and Rectangular Strategy, the CCTT Climate Finance Sub-group should work on the scenarios for future climate finance contained in this report.

In the mid-term, the government should take the lead in determining a pragmatic solution to how the system of Technical Working Groups should be used to guide the coordination of climate change.

Continuous Actions. There are a number of on-going activities that can start immediately and will continue throughout the period.

The preparation of an Climate Change Annual Monitoring Report (CCAMR) is a central element of the Climate Fiscal Framework and this should be produced annually as an input into the BSP and MTEF. No specific support for this has yet been organised.

The preparation of new sector strategies will continue to take place intermittently, in response to evolving

needs in each sector. The Readiness Plan requires that, whenever new strategies are being prepared, support is provided to line ministries to ensure that the new strategy takes into account the challenges and opportunities related to climate change. Support for this is already being provided by both PPCR and CCCA.

Public and political awareness of climate change in Cambodia is still patchy and there is an on-going task to improve information and awareness about climate change. This is not a central concern of the Climate Fiscal Framework, but it an important supporting activity and is dealt with in the second and third broad areas of the PPCR and CCCA collaboration matrix.

Table 14: Readiness Plan

		2012				2013				2014				2015				2016				Lead RGC	Milestones	Cost
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	Institution		US$'000
R1	Higher profile for CC in media																					NCCC	Media output	
R2	Recognise CC in next NSDP and RS																					NCCC	NSDP/RS	
R3	CCSP																					CCD	CCSP	
R4	Climate sensitisation of sector policies																					CCD/MEF	Sector policies	50
R5	PPCR and CCCA																					CCD/MEF	Project docs.	
R6	CC and DRM policy consistency																					RGC	Regulations	
R7	NCCC strengthening																					NCCC	Minutes	
R8	Produce CCAMR and approve by NCCC																					CCTT	CCAMR	50
R9	Strengthen CC focal points in line ministries																					LM	LM Declaration	
R10	TWG meetings on CC																					RGC	Donor statements	
R11	NGO and CSO collaboration																					NCCC	Minutes	
R12	Strengthen local technical appraisal teams																					NCDD	Workshop/guide	10
R13	Refine classification of CC expenditure																					CCTT	Guidelines	
R14	Include CC in BSP and MTEF																						BSP/MTEF	
R15	Climate screen recurrent expenditure																					CCU/MEF	Guidelines	30
R16	Tagging study on existing database																					CCU/MEF	CDC database	5
R17	Upgrade project appraisal techniques																					CCU/MEF	Guidelines	10
R18	Establish NCF																					MEF	NCF accounts	100
R19	Review of climate impact on expenditure																					CCD	Study report	20
R20	Refine future climate finance scenarios																					MEF	Study report	

Note: dark shaded cells refer to discrete time-bound tasks, whilst light grey shading refers to tasks that take place over a longer period.

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Annex 1. Tables on Sector Policies

Table A1.1: The National Forest Program (NFP)

B. Our Challenges	B.1 Limited forest contribution to poverty alleviation, livelihoods and to the economy
	B.2 Climate change will affect forest based livelihoods
	B.3 Sectoral land-use planning
	B.4 Illegal activities and weak collaboration
	B.5 Forest conflicts
	B.6 Low capacity and insufficient knowledge
	B.7 Forest degradation
	B.8 Suitability of management models
	B.9 Financing
C.1 Strategic Objectives	Objective 1: Maximise sustainable forest contribution to poverty alleviation, enhanced livelihoods and equitable economic growth
	Objective 2: Adapt to climate change and mitigate its effects on forest based livelihoods
	Objective 3: Macro land-use planning that allows for holistic planning across sectors, jurisdictions and local government borders
	Objective 4: Forest governance, law and enforcement at all levels
	Objective 5: Develop a conflict management system
	Objective 6: Raise awareness, capacity of institutions and quality of education to enable sustainable implementation of the National Forest Programme
	Objective 7: Ensure environmental protection and conservation of forest resources
	Objective 8: Apply modern sustainable management models adaptive to changing context
	Objective 9: Develop sustainable financing systems
D. Strategic Direction for Sustainable Forest Management	D.1 Strategic direction for objective 1: Improved livelihoods, employment and economy
	D.2 Strategic direction for objective 2: Addressing climate change (including REDD+)
	D.3 Strategic direction for objective 3: Cross-sectoral landscape planning
	D.4 Strategic direction for objective 4: Forest governance
	D.5 Strategic direction for objective 5: Conflict management
	D.6 Strategic direction for objective 6: Capacity development
	D.7 Strategic direction for objective 7: Environmental protection and conservation of forest resources
	D.8 Strategic direction for objective 8: Forest management regimes
	D.9 Strategic direction for objective 9: Sustainable financing

E.3 Operational Framework	1. Forest Demarcation, Classification and Registration • Sub-programme 1.1 – Forest Demarcation, forest classification and Registration • Sub-programme 1.2 – National Function-based Forest Classification 2. Forest Resource Management and Conservation • Sub-Programme 2.1 – Forest Management Plan • Sub-Programme 2.2 – Development and Management of Production Forests • Sub-Programme 2.3 – Monitoring, Assessment and Reporting for SFM • Sub-Programme 2.4 – Biodiversity and Wildlife Conservation • Sub-Programme 2.5 – Conservation and Development of Genetic Resources and Seed Sources • Sub-Programme 2.6 – Tree planting and Development of Forest Plantations • Sub-Programme 2.7 Development of Forest Product and Market Promotion • Sub-Programme 2.8 –Wood Technology Development and Forest Product Processing • Sub-Programme 2.9 – Forest Certification. 3. Forest Law Enforcement and Governance • Sub-Programme 3.1 – Legal and Administrative Reform • Sub-Programme 3.2 – Law Enforcement and Forest Crime Monitoring and Reporting • Sub-Programme 3.3 – Rapid Response on Forest Crime Information • Sub-Programme 3.4 – Conflict Management System (to be developed and implemented from 2010). This programme will address conflict management capacity needs within forestry authorities, in order to prevent and respond to destructive forest based conflicts • Sub-Programme 3.5 –Monitoring, Reporting and Learning System (to be developed in 2010). A monitoring and reporting system will provide detailed programmatic implementation, checks and balances and learning, for efficient and sustainable performance. 4. Community Forestry Programme • Sub-Programme 4.1 – Community Forest Identification and Formalisation • Sub-Programme 4.2 – Community, Institutional and Livelihoods Development • Sub-Programme 4.3 – Community Forestry Development Support. 5. Capacity and Research Development • Sub-programme 5.1 – Institutional and Human Resource Development • Sub-programme 5.2 – Extension and Public Awareness • Sub-programme 5.3 – Research Capacity Building Development. 6. Sustainable Forest Financing • Sub-programme 6.1 – Government Financing • Sub-Programme 6.2 – Income from Forest Sector • Sub-programme 6.3 – Income from the Private Sector and Community Forestry • Sub-programme 6.4 – Financing via Donors • Sub-programme 6.5 – Innovative Financing from Payments of Environmental services and Carbon Credit

Table A1.2: Cost of the NFP

1. National Forest Demarcation, Classification and Registration	
1. Forest Demarcation and Registration	2,340,000
2. National Forest Classification	443,000
Total (US$9 million over first 10 years)	**2,783,000**
2. National Forest Resource Management and Conservation	
1. National Forest Management Plan	1,500,000
2. Development of Management Systems for Production Forests outside Community Forestry areas	2,000,000
3. Monitoring Assessment and Reporting – Sustainable Forest Management	2,250,000
4. Development of Biodiversity Management for Protected Forests	2,000,000

5. Conservation of Genetic Resources and Establishment of Seed Source	2,000,000
6. Development of Multi-purpose Tree Plantations	2,000,000
7. Local Forest Product Development and Market Promotion	200,000
8. Timber Processing and Wood Technology Development	100,000
9. Forest Certification	200,000
Total	**12,250,000**
3. Forest Law Enforcement and Governance	
1. Legal and Administrative Reform	488,000
2. Law Enforcement and Crime Monitoring and Reporting	944,000
3. Rapid Response on Forest Crime Information	568,000
Total (US$4,000,000 for eight years)	**2,000,000**
4. Community Forestry	
1. Community Forestry Identification and Formulation	6,350,000
2. Community, Institutional and Livelihoods Development	1,450,000
3. Community Forestry Development Support	1,200,000
Total	**9,000,000**
5. Capacity Building and Research Development	
1. Institutional and Human Resource Development	8,050,000
2.Extension and Public Awareness	2,350,000
3. Research Capacity Building Development	2,600,000
Total	**13,000,000**
5a. Conflict Management Scheme To be developed and implemented from 2010	**1,000,000**
6. Sustainable Forest Financing	
1. Government Financing and Cost (accounting systems and procedures)	20,000
2. Income from National Forestry (accounting systems and procedures)	20,000
3. Private Sector and Community Forestry (accounting systems and procedures)	20,000
4. Financing via Donors and NGOs (accounting systems and procedures)	30,000
5. Innovative Financing Sources (accounting systems and procedures)	10,000
Total	**100,000**
7. Monitoring and Reporting To be developed and implemented in 2010	**1,000,000**
Grant Total all programs 2010 – 2014	**41,133,000**

Strategic Planning Framework for Fisheries (SPF, 2010-2019)

Table 2.2.2: Summary of Expenditure on Agriculture for 2009-2009

Public Expenditure	**NSDP costing**	**National expenditure**				
	2009-2010	**2006**	**2007**	**2008**	**2009e**	**2006-2009**
Total expenditure (US$ million)	…	1,047	1,499	1,742	1,843	6,131
Total recurrent expenditure (US$ million)	…	611	956	1,190	1,152	3,909
Total capital expenditure (US$ million)	2,500	436	543	551	691	2,222
NSDP 2006 – 2009	**Costing (%)**	**National expenditure**				
	2006-2010	**2006**	**2007**	**2008**	**2009**	**2006-2009**
Total agriculture (% of total expenditure)		6	5	3	5	4.8
Agriculture recurrent expenditure (% of total recurrent)	2.7	3.2	2.1	2.0	2.3	2.4
Agriculture capital expenditure (% of total capital)	10	10	10	6	9	9
RGC agriculture capital expenditure (% of agriculture capital		47	36	52	49	46
Agriculture recurrent expenditure (% of total agriculture)		30	27	41	30	32
Agriculture Sector Strategic Development Plan (ASSDP) 2006-2010	**Costing (%)**	**Aid for MAFF (% of total aid)**				
	2006-2010	**2006**	**2007**	**2008**	**2009**	**2007-2009**
Food security, productivity, diversification	64	…	8	32	29	25
Agriculture research and extension services	11	…	11	11	4	7
Market access for agricultural products	9	…	11	19	2	8
Institutional and legislative framework	9	…	25	15	39	30
Fisheries reform	3	…	15	5	11	10
Forestry reform	4	…	29	18	15	19
Total (US$ million)	149	…	38	44	87	168
SAW 2006-2010	**Costing (%)**	**Aid agriculture (% of total aid)**				
	2006-2010	**2006**	**2007**	**2008**	**2009**	**2007-2009**
Institutional capacity building and management	14	…	15	11	34	23
Food security	14	…	3	18	23	16

Agricultural and agri-business support	29	…	7	13	2	6
Water resource, irrigation and land management	29	…	68	50	38	49
Agriculture and water research, education and extension	14	…	7	8	4	6
Total (US$ million)	350		61	62	98	221
Aid to agriculture by regions	**% of households (2008)**	**Aid for agriculture (% of total aid)**				
		2006	**2007**	**2008**	**2009**	**2007-2009**
Plains	41	…	25	15	11	17
Tonle Sap	30	…	24	30	26	27
Coastal	7	…	8	4	4	6
Plateau/mountain	13	…	14	9	7	10
Nationwide		…	29	41	52	41
Total (US$ million)	n/a	…	61	62	98	221

Note: e = estimate. The table is excerpted from NGO Forum (2010)

Annex 2. General Budget Process

I. Budget Preparation

1. Budget calendar:

The Finance Law for the 2007 fiscal year amends the 1993 Law on finance laws and the financial system with regard to the budget preparation timeline (Article 26). **According to the New Article 26 of Law 93-1 as amended by the Finance law for the 2007 fiscal year,** "The Minister of Economy and Finance draws up an annual draft finance law for management according to the following calendar:

- Preparation of the Budget Strategic Plan from March to May:
  - During the first week of March, the MEF draws up the framework for the mid-term macroeconomic and public finance policy consistent with the national development policy framework in order to submit it to the Council of Ministers.
  - During the first week of April, the MEF issues a circular on the preparation of the strategic plan based on the mid-term macroeconomic and fiscal policy adopted by the Council of Ministers. Ministers, heads of government agencies, provincial and municipal governors, draw up the budget strategic plan for their central administrations, their provincial and municipal departments and entities under their authority, using as a benchmark the circular for the preparation of the budget strategic plan, prospects, priority goals, programs and action plans of ministries and agencies serving the sector priority policy and of the national development policy. These budget strategic plans are forwarded to the Minister of Economy and Finance by May 15.

- Preparation of budget allocations (June to September)
  - During the first week of June, the Minister of Economy and Finance draws up a draft circular on the budget preparation technique by specifying the conditions and procedures, as well as notification and supporting documents, then sends the draft budget to the Council of Ministers for approval, after which he forwards it to ministries, agencies, provinces and municipalities so that can draw up their detailed revenue and expenditure estimates.
  - Ministers, heads of government agencies, municipal or provincial governors draw up their detailed revenue and expenditure estimates for their central administration, the municipal and provincial departments under their authority, using as a benchmark the technical circular for preparation of the draft budget and their policy priorities. Draft budgets are to be transmitted to the Minister of Economy and finance by July 25.
  - The Ministry of Economy and Finance consolidates revenue and expenditure estimates from the ministries, agencies and provinces and municipalities.
  - During the month of August, the Ministry of Economy and Finance invites the ministers as well as the municipal and provincial governors to discuss their draft revenue and expenditure estimates in order to perform necessary adjustments, in accordance with the guidelines of the budget directive, by cutting down expenditures deemed to be inequitable and by increasing revenue estimates.
  - During the month of September, the Ministry of Economy and Finance consolidates data in order to establish a balance of revenue and expenditure and then draw up a draft finance law together with a statement on this draft law.

- Adoption of Budget (October to December)
  - During the first week of October, the Ministry of Economy and Finance submits the draft budget law to the Council of Ministers; then to the National Assembly during the first week of November, for discussion and approval. Finally, the draft budget law is submitted to the senate

during the first week of December for adoption prior to December 25.

- This calendar could include an additional step between late May and early June, which would be a debate on the direction the budget should take. Such a debate would enable an agreement between the executive and legislative powers on allocations by "functional classification" of the government and would thus speed up the budget adoption stage.

Public Investment Program (PIP)

In 1995, the first Public Investment Program (PIP) for 1996-1998 was entrusted to a team of consultants from the Asian Development Bank (ADB). The National Assembly approved the first PIP and the data included therein thus became the data for drawing up the capital budget. However, the PIP remained a wish list of projects (a shopping list) as the Ministry of Economy and Finance was unable to grant the corresponding appropriations. In Particular, if foreign financing of a project is entered in the budget while the donor has only issued a pledge, this financing will probably not take effect within the fiscal year.

That is why the issue regarding figures to be calculated and entered in the Investment Program is a major issue that the MEF must carefully consider in order to avoid pushing up the budget unnecessarily by increasing its possible need for financing. If this issue is properly resolved, the legal nature of the PIP will not present any more new constraints to the budget as a whole. Law No.93 -1 N.S of December 28, 1993 respecting finance laws and the budget system makes a distinction between three categories of appropriations related to capital expenditure:

(i) Program appropriations concerning the total cost of a program or project that the government may launch in the course of a year and which should make it possible to cover expenditures for full implementation of the project or, at the very least, for a coherent and functional part of it which can be begin operating without any additional investment.

(ii) Commitment appropriations made available to an authorizing officer so that he can cover (in terms of law and accounting every year) the expenditures required by the implementation of investments provided for in the finance law.

(iii) Payment appropriations intended for annual authorization of amounts underwritten by the government within the framework of the corresponding commitment appropriations.

(iv) During the entire implementation period of the project of program, there is the relation ***{Program Appropriation > Commitment Appropriations > Payment Appropriations}*** but when the project implementation is completed, this relation becomes the following: ***{Program Appropriations = □ Commitment Appropriations = □ Payment Appropriations}***.

In other words, (i) program appropriations correspond to the total amount of the project that the government is authorized to launch; they do not concern any legal commitment to any provider; they may be increased, for instance to enable a price revision or an unpredicted increase of the project volume, (ii) Commitment appropriations correspond to the amount that the authorizing officer in charge of the project is authorized to incur within a fiscal year; they are deducted from the amount of program appropriations; they may be consumed over a period going beyond the horizon of the budget they belong to, mainly in cases of procurements the implementation of which will be spread over several years. (iii) Payment appropriations correspond to the treasury expense that the budget shall underwrite over the year (therefore, in principle, they may not be carried over).

The MEF usually enters in the PIP only projects for which funding has accrued and is covered, i.e.:

- Ongoing project implementation will continue throughout and beyond the fiscal year.
- Ongoing locally-funded projects and new locally-funded projects that do not require a very large financing package from the government and that are not therefore put forward for external funding.
- Externally funded projects with a binding obligation and the implementation agreements of which have been signed by both parties concerned, i.e. Cambodia and the donor. Funding from the donor may be take place through release of funds (which are remitted by the Treasury into an account at the National Bank of Cambodia) of through payments made directly by the donor who duly informs the Treasury, either as they are made or upon completion of the project.

Classification of the functions of the government budget

The government's structure varies over time and in space (from one country to another), which makes it difficult to draw comparisons in time for one country, and in space between countries. To cope with this difficulty, the IMF has developed a Classification of the Functions of Government, known as COFOG, reviewed and elaborated by the United Nations. This classification of the functions of government involves organizing in a universal and permanent manner the functions of public administrations.

The Treasury Operations

In Cambodia, the Treasury is composed of "all available credits held by public accountants in the form of cash on hand and deposits in one current account open at the National Bank of Cambodia." (Article 74 of Sub-decree 82) "State public accountants only are authorized to handle Treasury funds." (Article 72 of Sub-decree 82)

"Public institutions are to deposit their funds at the Treasury, unless waivers have been granted by the Minister of Finance." (Article 71 of Sub-decree 82)

"The National Bank of Cambodia shall be the sole depositary of the funds held by the Treasury's direct accountants" (Article 78 of Sub-decree 82)

"Authorizing officers and other State officers who do not have the capacity of public accountant cannot open an account in the banks or in public or private credit institutions." "However, the heads of the units in charge of the management of projects financed by foreign aid may open an account to meet the needs of the projects under the terms set by the agreements signed with the donors. The opening of these accounts shall be subject to prior authorization of the Minister of Finance." (Article 73 of Decree 82)

The opening of private accounts and the handling of funds through these accounts (or handling cash) are the "de facto management" situation previously referred to.

Treasury operations

"Treasury operations refer to all flows of cash, cashable share, deposit accounts, current accounts and transactions concerning short-term receipt and debt payable accounts." (Article 68 of Sub-decree 82)

"Treasury operations are described by nature for their entire amount and without any offsetting between them." (Article 69 of Sub-decree 82)

"Expenses and revenues resulting from treasury operations are to be charge to budget accounts". (Article 69 of Sub-decree 82)

"Expenses for cash flows required by cash payments made to or releases made by accounting officers, all settlements between public accountants shall be carried out through account transfers." (Article 80 of Sub-decree 82)

Counterparts of the Treasury

"Treasury counterparts are bodies and individuals who, either pursuant to laws and regulations, or in accordance with agreements, deposit Treasury funds, on a mandatory or optional basis, or are authorized to carry out revenue or expenditure operations through Treasury accountants.

Unless an authorization been granted by the Minister of Finance, only one account per counterpart can be open at the Treasury…" (Article 81 of Sub-decree 82)

"Treasury accountants may be authorized by the Minister of Finance to set up a special fund deposit service." (Article 83 of Sub-decree 82)

Annex 3. Expenditure Data

Table A3.1: Budget Expenditure and Classification

CC Code	CC%	Budget Data	Billions of Riels			
			2008	2009	2010	2011
		TOTAL EXPENDITURE	**5,673,384**	**7,259,567**	**8,299,773**	**9,849,652**
		12.1 ML PUBLIC HEALTH	**404,804**	**503,847**	**600,056**	**694,331**
		A. Investment Expenditure	0	0	0	0
		B. Current Expenditure	404,804	503,847	600,056	694,331
HG	5%	Non Budget Programing	365,948	464,222	558,067	653,804
		Programme budget	38,856	39,625	41,989	40,528
HG	0%	Programme 1: Maternal/child	7,369	7,515	7,963	7,686
HG	20%	Programme 2: Communicable disease	17,418	17,763	18,823	18,168
HG	5%	Programme 3: Non-communicable disease	1,005	1,025	1,086	1,048
HG	10%	Programme 4: Health systems	13,063	13,322	14,117	13,626
		13.1 ML INDUSTRY, MINE AND ENERGY	**13,306**	**15,898**	**17,414**	**18,957**
ENG	10%	A. Investment Expenditure	0	0	0	0
ENG	10%	B. Current Expenditure	13,306	15,898	17,414	18,957
		17.1 ML AGRICULTURE FISHERY AND FC	**66,267**	**76,987**	**87,485**	**98,791**
		A. Investment Expenditure	0	0	0	0
		B. Current Expenditure	66,267	76,987	87,485	98,791
LVT	25%	Non Budget Programing	55,022	65,688	72,985	84,299
LVT	50%	Programme budget	11,245	11,299	14,500	14,491
		19.1 ML ENVIRONMENT	**16,314**	**19,540**	**19,562**	**24,941**
BC	75%	A. Investment Expenditure	0	0	0	0
BC	75%	B. Current Expenditure	16,314	19,540	19,562	24,941
		20.1 ML RURAL DEVELOPMENT	**47,976**	**63,758**	**83,156**	**86,068**
		A. Investment Expenditure	0	0	0	0
		B. Current Expenditure	47,976	63,758	83,156	86,068
LVG	10%	Non Budget Programing	23,973	29,124	35,537	39,716
		Programme budget	24,003	34,634	47,619	46,352
		Programme 1: Management		1,214	4,576	3,279
ROC	20%	Programme 2: Roads		28,241	36,781	39,339
WG	30%	Programme 3a: Water		3,214	3,685	3,310
HCC	30%	Programme 3b: Health		1,087	1,188	1,380
LVG	30%	Programme 3c: Economic Development		226	300	300
LVG	20%	Programme 3d: Community Development		652	1,089	1,289
		21.1 ML SOCIAL AFFAIR	148,558	181,477	215,671	258,249
LG	10%	A. Investment Expenditure	0	0	0	0
LG	10%	B. Current Expenditure	148,558	181,477	215,671	258,249

Notes: CPEIR codes refer to the types of expenditure, as in Table 5.

Table A3.2: Expenditure from the Budget, DIC and CDC database

		Total (CRbn)				Budget (CRbn)			DIC (ch21+Loan/Grant+IMF) (CRbn)			CDC excl DIC (CRbn)		
		Total	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
High	Renewable energy	22.7	1.0	11.9	9.8	-	-	-	-	-	-	1.0	11.9	9.8
	Forestry	73.1	7.6	58.9	6.6	-	-	-	-	-	-	7.6	58.9	6.6
	Disaster reduction	66.4	9.6	55.4	1.3	-	-	-	-	-	-	9.6	55.4	1.3
	Infrastructure (pure CC proofing)	229.6	58.2	104.6	66.8	-	-	-	11.5	76.3	63.1	46.7	28.3	3.8
	Disaster response	356.0	15.8	30.1	310.1	-	-	-	9.9	25.3	299.1	5.9	4.9	11.0
	Water against drought/flood	79.5	0.7	4.2	74.7	-	-	-	-	-	41.5	0.7	4.2	33.2
	Health (climate sensitive diseases	299.1	51.8	143.4	103.9	-	0.1	0.1	6.6	1.8	5.0	45.2	141.5	98.8
	Planning for climate change	182.4	64.2	76.9	41.4	-	-	-	0.1	-	1.0	64.1	76.9	40.4
Mid	Irrigation	368.9	84.8	167.6	116.4	6.1	7.8	9.2	69.9	150.3	98.7	8.8	9.5	8.6
	Water general	173.4	24.8	35.4	113.2	-	0.2	0.3	24.0	34.3	111.2	0.8	0.8	1.8
	Biodiversity and conservation	21.2	3.7	4.7	12.8	3.1	3.7	3.7	0.2	-	7.6	0.5	1.0	1.5
	Eco-tourism	36.0	22.0	11.7	2.3	-	-	-	20.6	8.8	-	1.4	2.9	2.3
	Livelihoods (of CC vulnerable)	482.6	199.7	149.7	133.2	4.8	5.5	6.4	102.5	42.8	60.0	92.3	101.4	66.8
	Emissions (secondary objective)	47.2	0.1	31.1	16.0	-	-	-	-	-	-	0.1	31.1	16.0
	Road improvement (incl. CC proof	212.0	115.6	78.2	18.2	-	1.4	1.8	114.5	76.8	16.3	1.1	-	-
Low	Road (no indication of CC proofin	2,770.3	721.5	1,011.7	1,037.1	-	-	-	627.9	828.5	788.9	93.6	183.2	248.2
	Infrastructure (secondary benefits	154.6	7.0	52.9	94.7	0.5	0.6	0.7	4.9	51.6	91.1	1.6	0.8	2.9
	Water quality (general)	269.3	67.6	59.4	142.2	-	-	-	40.2	34.8	65.3	27.5	24.6	76.9
	Planning (general)	368.0	184.1	141.4	42.4	-	-	-	19.8	-	-	164.3	141.4	42.4
	Livelihoods (general)	638.1	303.2	129.2	205.7	2.4	3.4	3.9	161.9	5.3	96.0	139.0	120.4	105.8
	Health (General)	25.3	6.3	7.7	11.2	5.8	7.0	8.3	-	-	-	0.6	0.7	2.9
	Governance (General)	629.8	226.6	175.7	227.5	-	-	-	98.3	68.8	129.8	128.3	107.0	97.7
	Energy General)	368.6	98.5	87.4	182.6	0.3	0.4	0.4	92.7	70.0	120.8	5.5	17.0	61.4
	Total CC Expenditure	7,873.9	2,274.5	2,629.2	2,970.2	23.0	30.2	34.7	1,405.5	1,475.3	1,995.4	846.0	1,123.7	940.0
	High relevance	1,308.8	208.9	485.3	614.6	-	0.1	0.1	28.1	103.4	409.7	180.8	381.8	204.9
	Mid relevance	1,341.2	450.6	478.5	412.1	14.0	18.7	21.4	331.7	313.0	293.8	105.0	146.8	96.9
	Low relevance	5,223.9	1,615.0	1,665.5	1,943.5	9.0	11.4	13.3	1,045.7	1,058.9	1,291.9	560.3	595.1	638.2
	Total All Expenditure	19,023.0	5,443.3	6,459.8	7,119.9	1,418.3	1,814.9	2,074.9	1,728.6	2,073.1	2,352.1	2,296.3	2,571.9	2,692.8
	Non CC Expenditure	11,149.2	3,168.8	3,830.7	4,149.7	1,395.3	1,784.7	2,040.2	323.1	597.8	356.8	1,450.3	1,448.2	1,752.8