

Designing transparent and accountable fundmanagement arrangement for REDD+ inCambodia

Cambodia, 2014



Disclaimer

This report was prepared by **Ms. Berta Pesti** and **Ms. Estelle Fach** (UNDP UN-REDD), with input from **Mr. Delux Chhun** (Forestry Administration) and **Dr. Timothy Boyle** (UNDP Asia/Pacific Regional Centre), and does not necessarily represent the views of the national REDD+ Taskforce, the Forestry Administration, or the General Department for Administration of Nature Conservation and Protection, the UN-REDD Programme, or the participating UN Agencies.

Contents

- Abbreviation and acronyms 4
- Executive Summary 5
- 1. Decision 1: Fund based approach or budget support 8
 - 1.1. Regular Budgetary Processes 9
 - 1.2. Extra-Budgetary Funds 11
 - 1.3. Cambodian context 13
- 2. Decision 2: type of fund 20
 - 2.1. Basic definitions..... 20
 - 2.1.1. Trust..... 20
 - 2.1.2. Trust Fund..... 20
 - 2.1.3. Types of Funds..... 21
 - 2.2. Comparison of options 24
- 3. Decision 3: Interim structures 25
 - 3.1. Rationale for developing fund management arrangements in 2 phases..... 25
 - 3.2. Interim arrangements: options and recommendations..... 26
 - 3.2.1. Steering Committee 26
 - 3.2.2. Secretariat 26
 - 3.2.3. Trustee..... 26
 - Options according to the types of entities with access: 27
 - Options according to oversight required 27
 - Options according to fees 27
 - Complexity of procedures 27
 - Conflicts of interest 27
 - Capacity development..... 28
 - 3.3. Identification of national arrangements following interim period 28
- 4. Decision 4: Legal capacity of the fund for phases 1 and 2 31
- 5. Decision 5: Role of the trustee for phases 1 and 2 32
- 6. Decision 6: Use budget support, create separate REDD+ fund or integrate into existing fund for phase 2 33
- 7. Steps in the design of national REDD+ fund management arrangements..... 35
- Annex 1: Summary of REDD+ fund management in other countries..... 39
- Annex 2 : Transparency and accountability in REDD+ fund management..... 43
- Bibliography..... 47

Abbreviation and acronyms

AA	Administrative Agent	PER	Public Expenditure Review
ACL	Anticorruption Law	PES	Payment for ecosystem services
ADB	Asian Development Bank	PFM	Public Financial Management
CDC	Council for the Development of Cambodia	PIU	Project Implementation Units
CDM	Clean Development Mechanism	REDD+	Reducing emissions from deforestation, forest degradation and the role of conservation, sustainable management of forests and enhancement of forest carbon stocks in developing countries
CG	Consultation Group		
COA	Chart of Accounts		
CPEIR	Climate Public Expenditure and Institution Review	RGC	Royal Government of Cambodia
DIC	Department of Investment and Cooperation	RTS	REDD+ Taskforce Secretariat
EPF	Environmental Protection Fund (in Lao PDR)	SIS	Safeguards Information System
ER(U)	Emission Reduction (Unit)	SOP	Standard Operating Procedures
FMIS	Financial Management Information System	T&A	Transparency and accountability
GCF	Green Climate Fund	tCO ₂ e	Tons of carbon-dioxide equivalent
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review	TF	Task Force
INGO	International non-governmental organization	ToC	Theory of Change
IPSAS	International Public Sector Accounting Standards	TSA	Treasury Single Account
KfW	Kreditanstalt für Wiederaufbau	TT	Technical Team
M&E	Monitoring and Evaluation	UER	Unit of Emission Reduction
MA	Managing Agent	UN	United Nations
MEF	Ministry of Economy and Finance	UNDP	United Nations Development Programme
MTEF	Medium-Term Expenditure Framework	UNFCCC	United Nations Framework Convention on Climate Change
NFMS	National Forest Monitoring System	WB	World Bank
NGO	Non-governmental organization		
NRF	National REDD+ Fund		
NSDP	National Strategic Development Plan		
ODA	Official Development Assistance		
PA	Protected Areas		
PEFA	Public expenditure and financial accountability		

Executive Summary

Steps in the national REDD+ fund management arrangement design process usually include the following:

1. Assessing options (on-going and completed with this report)
2. Develop a concept note or basic design document (during national REDD+ strategy development Q4 2014)
3. Establishment of the Fund
4. Develop detailed procedures for the fund
5. Fund-raising
6. Fund operational
7. Capacity building
8. Transfer to national ownership

Further details on the objectives and expected outcomes of each step will be provided in the last chapter of the report.

The present report is the final product of the assessment of national REDD+ fund management options (step 1) based on government and stakeholder consultations. It is a continuation of a previous report commissioned by the RGC and the UN-REDD Programme exploring additional issues and providing further details to questions addressed in the previous work. It seeks to summarize these inputs and makes recommendations while leaving certain decisions for later stages of the fund design process. The reason for this is that these issues have been brought up during the consultations so they must be mentioned but at this stage not sufficient information, capacity and agreement have been achieved to make a decision on them.

The assessment of options for national REDD+ fund management arrangements involves a number of steps and requires several decisions to be made. The decisions and the recommendations are summarized below and further details for each decision are provided in later chapters of the report.

DECISION 1: FUND BASED APPROACH OR BUDGET SUPPORT

Recommended option: Fund based approach

Explanation:

- Advances in public financial management (PFM) in Cambodia in recent years but substantial capacity constraints remain and the complexity of REDD+ and the notion of results-based payments may result in sub-optimal performance if exclusive reliance on country system
- No other REDD+ country has used budget support to channel REDD+ payments
- But fund based approach should be completely separate from country PFM systems. It could use the government COA to report data and rely on regular ministry staff to undertake some of the functions of the fund.

DECISION 2: TYPE OF FUND

Recommended option: Revolving fund with large initial donor contribution

Explanation:

- The simplest modality is a **sinking fund** where the capital and eventual investment income of the fund is extinguished over time.
- **Revolving funds** are replenished regularly through taxes or other fiscal instruments and government revenues.
- With **endowment funds** the principal is kept in perpetuity and not consumed, but it is used to generate investment income. The latter is used to support the implementation of activities.

DECISION 3: INTERIM STRUCTURES

Recommended option:

Set up fund in two phases

- Phase 1: interim international trustee: Multi-donor fund
- Phase 2: budget support, national REDD+ fund or part of Climate Change Fund

Explanation:

Use a phased approach to:

- Ensure rapid resource mobilization
- Build capacities over the medium term to achieve full national ownership

Interim structures:

- Steering Committee membership
- Technical expertise and secretariat
- Trustee
- Entities with access

DECISION 4: LEGAL CAPACITY OF THE FUND FOR PHASES 1 AND 2

Recommended option

Phase 1: no legal capacity (use agents)

Phase 2: No recommendation at this stage – further analysis and consultations needed

Explanation:

- Legal capacity is important because it is necessary to enter into agreements (e.g., contribution agreements between fund and donors, grant agreements between implementing entities and the fund, staff contracts and service contracts, purchase agreements to procure goods etc.)
- The Fund either has legal capacity or it uses agents to perform its functions
- It is simpler to use agents in the interim phase than create legal personality (it can wait until Phase2)

DECISION 5: ROLE OF THE TRUSTEE FOR PHASES 1 AND 2

Recommended option

None at this stage – further analysis and consultations needed but must be decided before during Q4 2014 to be incorporated in the national REDD+ strategy

Explanation:

- There are two choices: trustee as only a bank account or trustee as managing agent as well (latter means more functions and higher costs)

DECISION 6: BUDGET SUPPORT, CREATE SEPARATE REDD+ FUND OR INTEGRATE INTO EXISTING FUND FOR PHASE 2

Recommended option

No decision yet (wait for policy evolution and further analysis)

Explanation:

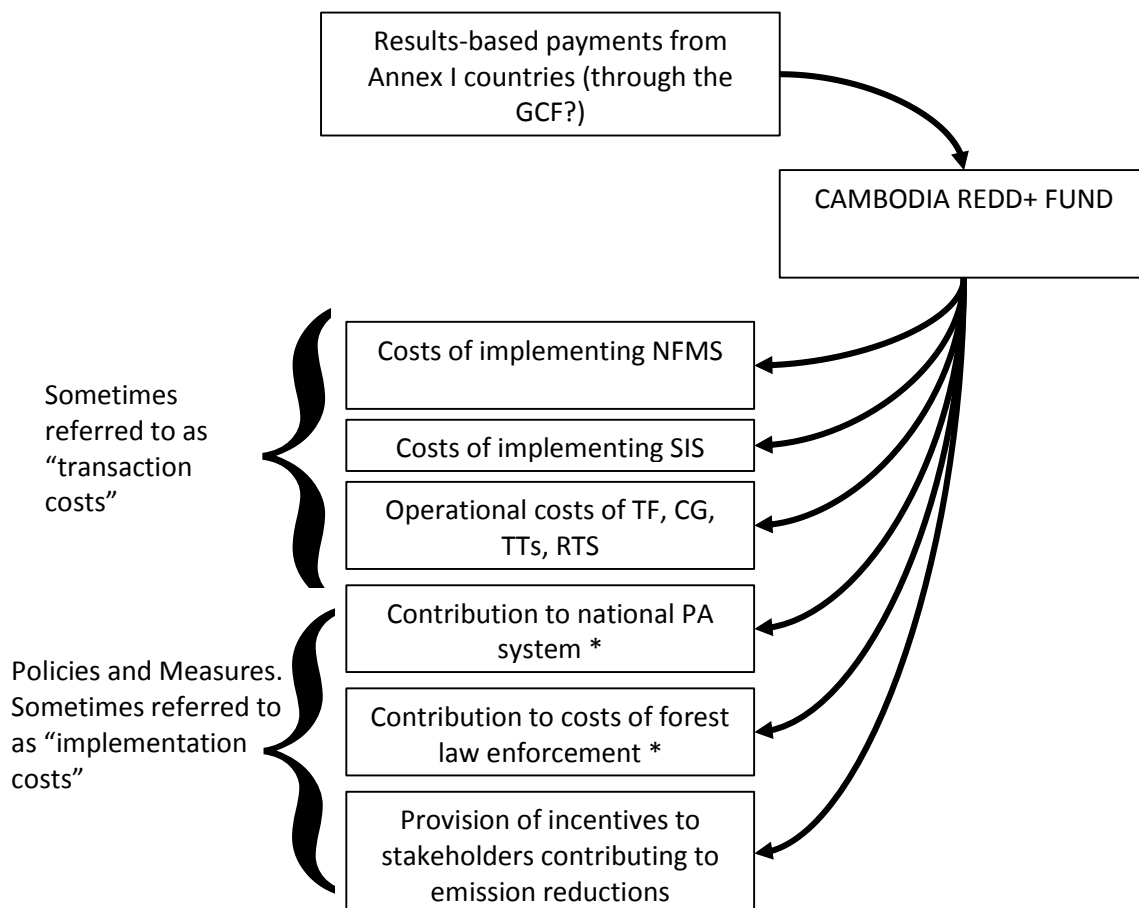
- Initial assessment of the fund-based options (REDD+ fund integrated into existing funds or separate REDD+ Fund) in the consultant's report presented to the TF in January 2014. But before decision can be made on this issue further analysis is required in light of the development of the national climate finance and forestry finance framework and stage 2 of the PFM reforms.

1. Decision 1: Fund based approach or budget support

Recommended option

Fund based approach

The diagram below represents the uses of results-based payments in a national REDD+ Programme, assuming that revenues received from Annex I countries are deposited in a Cambodia REDD+ Fund.



* Note that these are examples of programmatic policies and measures – there may be others that the country decides to apply

FIGURE 1: USES OF REDD+ RESULTS-BASED PAYMENTS

There are two main options to manage REDD+ payments: fund based approaches and budget support. Within each approach there are several variations. Some of the subtle differences stem from using the various components of country systems (such as procurement, planning, parliamentary approval, accounting, treasury etc.) to a different extent. However, the dividing line should be clear: if transactions involving public financial resources are not subject to the same legislative approval process as the annual budget, they are outside the budget¹.

Fund based approaches have several advantages and disadvantages compared to other solutions. The most important characteristic of fund based approaches is that they allow the earmarking of REDD+ payments from other streams of funding and centralize fund raising and disbursement procedures. The latter is a key tool to coordinate and align policies, programs and activities that all aim to implement national REDD+ strategies. So national REDD+ funds can be used as a coordination tool. The detailed pros and cons of the fund based approach versus other approaches are most

¹ (Schiavo-Campo 2007)

meaningfully analyzed in the context of a specific country and based on the attributes of the proposed fund design option.

In the following, we compare the advantages and disadvantages of managing funds in the regular budgetary processes and through extra-budgetary funds. In general, it can be said that local conditions influence the choice. (Vatn & Vedeld, 2011) find that arguments for solutions within regular budgetary processes dominate in terms of accountability, democratic processes, transaction costs, coordination across sectors, capacity to avoid leakage and co-benefits. If REDD+ becomes large it seems problematic to establish a system outside state decision-making processes. In general, there has been a push by the World Bank or the IMF for a Treasury Single Account where all the revenues and expenditures are recorded. The main argument for this is that it is difficult for the Treasury to perform its main function of budget planning and allocation of resources to government agencies if it has no control and in some cases even information about the financial flows entering and exiting the ministries' accounts.

Solutions outside the state administration can be independent from rigid bureaucracies and potentially reduce corruption risks (but not necessarily eliminate them)² in countries where corruption is very widespread in state administration. If it also appears that the regular budgetary channel does not perform its functions well (such as inadequate budget planning and execution, delays etc.), then it can make sense to use a different funding channel. This is especially justified when these deficiencies are partially responsible for the inadequate management of the sector, for example forestry officials are not paid for months thus decreasing their dedication and increasing the incidence for corruption.

1.1. Regular Budgetary Processes

The fundamental principle of fiscal management in countries with good governance is that the executive branch of government can neither take money from the public nor make any expenditure from those monies, except by explicit approval of the legislature. Consequently, the budget should be the financial mirror of society's economic and social choices and thus at the very center of the country's governance. It is impossible for the budget to reflect these choices and incorporate principles of good governance if it includes only a small portion of the revenues and expenditures.³ In most countries ODA is considered as public money although it is not always properly reflected in the budget⁴. A large portion of results-based finance for REDD+ will most likely be ODA type of payments however the purchase of ER credits may not fall into this category⁵.

² See examples of fraud and corruption during the operation of the Indonesian Reforestation Fund as an example of an extra-budgetary fund.

³ (Schiavo-Campo 2007)

⁴ General government spending in Cambodia is comprised of domestically financed and externally financed (grants and loans) on or off-budget. Technical cooperation (about 1/3 of donor support) is not considered government spending even though may be implemented by government. Externally financed project follow either:

- MEF SOPs
- CDC SOPs
- Or specifically agreed SOPs between donor and line ministry

⁵ In many countries CDM type of transactions fall outside the remit of public finance since they are considered to be market transactions involving payment for an asset (ERU). Both the nature of the transaction (i.e. the exchange of an asset) and the legal nature of the buyer (i.e. a private company or the World Bank as Trustee of the Carbon Fund or of the GCF) may determine the whether the payment will be considered ODA (and thus ODA management rules apply) or a market transaction.

REDD+ funding can be channeled through regular budgetary processes by simply tracking the expenditure and income in the national budget or by creating a sub-account in the Treasury Single Account (TSA). Many so-called “funds” only exist as separate accounts in the budget of government ministry or agency. Specific income flows into the account and the laws limit the ways the government can spend it but the “fund” has no independent legal powers, standing or institutional structure behind it. In most cases, unspent money in such an account sits as a paper entry in the treasury’s books, which may even pay interest on unspent money as if it was a bank deposit.

The advantages of using country systems include:

- They engage all government agencies
- Require parliamentary oversight – a key aspect of accountability since according to a basic governance principle no funds can be mobilized from the public – or spent – without the explicit approval of the elected representatives
- Can disperse large amounts of finance⁶
- Can contribute to mainstreaming through topping up sector spending
- Contributes to budgetary discipline and centralized control over the nation’s resources. Only if all proposed expenditures are on the table at the same time does it become possible to review them in relation to one another and choose the one that has the highest benefit for the community.

In addition and most importantly, addressing forest loss will require not just an increase in expenditures dedicated to activities for forestry; but also a qualitative shift across government in the overall composition of expenditures, so that ‘harmful’ expenditures are reduced and potential synergies with developmental expenditures are maximized to achieve other government goals like higher employment, increased exports, improved food and energy security. This qualitative shift can be more easily achieved if REDD+ payments are part of the regular resource allocation processes.

Potential problems with using regular budgetary processes may be:

- Lengthy negotiation process
- Potential less priority given to climate change and REDD+ issues (forests are typically undervalued economically and have weak political constituencies which play an important role in the fight for scarce resources during the budget formulation processes).
- There may be concerns about the disbursements (timeliness, transparency, earmarking etc.)
- Implementation problems beyond timeliness and transparency such as carrying over expenditures to the next fiscal year or transfers between line items
- Limited outreach to non-governmental beneficiaries
- No commercial banking capacity so any debt type of instruments need to be outsourced to commercial banks
- National budgetary processes are often by design and by practice poorly equipped to accommodate the long term investment needs of forests since forest cycles are a lot longer than political cycles (yearly budgets or several years of parliamentary majority).⁷

⁶ Preliminary estimates in Bangladesh CPEIR conducted with the Ministry of Finance estimate that Bangladesh is spending as much as \$1 billion annually or about 6% of its total annual budget on climate related expenditure. Taking the total of government and donor funds, Bangladesh government expenditure makes up 77% of the total. This is quite impressive since Bangladesh is one of the least developed countries.

⁷ The annuality rule is justified both by the need for legislative control of the executive and by fluid economic circumstances.

Interestingly, the CPEIRs conducted by UNDP in the Asia Pacific region⁸ show that, in practice, the majority of additional climate finance is currently being disbursed outside of national budgetary procedures, through extra-budgetary funds or project finance. In the area of forest finance, (Fowler, Abbot, Akroyd, Channon, & Dodd, 2011) found similar phenomena. In the PERs conducted in the forestry sector a significant amount of development partner finance was off-budget in special accounts with their own disbursement, accounting and reporting procedures and not captured by the PERs.

1.2. Extra-Budgetary Funds

A number of different funds have been created in the past decades with the aim of protecting natural resources including forests. Forest funds, conservation trust funds, environmental funds and more recently climate change funds provide a wealth of information about the advantages and disadvantages, the success factors and pitfalls of creating national funds.

In general for extra-budgetary funds, the following advantages have been identified

- Funds can pool different sources of finance (public, private, international, domestic)
- They can protect priority expenditures from budget cuts
- They can disburse by blending different kinds of instruments (grants, debt)
- Ensure better earmarking (but earmarking can be done in the regular budget as well, by setting aside a specific government revenue or a portion of it for a specific purpose by law)
- Channel funds easily to beneficiaries outside the administration. Funds should not duplicate the Treasury/Ministry of Finance's function of allocating funds to government agencies unless the Treasury cannot perform this function well (corruption, lack of capacities etc.).
- In countries with weaker institutions, funds can be allocated with less undue influence from politics and elites⁹.
- Provide a platform for multi-stakeholder coordination by having different stakeholders participate in the different governance bodies of the funds. Note however that proper representation, as opposed to e.g. stakeholder committees being hand-picked by powerful actors (through manipulation, fraud, nepotism etc.), is necessary. Independence and transparency of the selection processes here is paramount. Only then should multi-stakeholder coordination platforms be considered as providing more checks and balances than other type of oversight, such as this provided by elected parliamentarians.
- Sustain funding beyond the yearly budgetary cycles (money will not be forfeit if unspent at the end of the budget cycle)
- Greater flexibility and independence. For example, if the fund does not hire civil servants, their pay can be adjusted (i.e. higher than civil servants' thus attracting talent and can be based on performance as opposed to seniority)
- Possibility for separate auditing
- Where the ownership of forest land is split among many owners, management of environmental values and services becomes complex. Funds can be tools to encourage coordinated management.
- When normal budgetary arrangements are unsuitable to manage certain types of transactions such as derivative contracts in support of creating carbon markets for REDD+. However, in this case, the optimal policy recommendation is to improve budgetary procedures or set up specific

⁸ (United Nations Development Programme 2012a)

⁹ Note however that one of the reasons for creating extra-budgetary funds in the past has been to sidestep some appropriation management rules in the interest of powerful politicians and lobbies and hiding transactions from legislative scrutiny.

procedures for those particular transactions, or both instead of placing the transactions outside the budget process.

- Funds are more appropriate to intermediate results-based finance since they can receive commitments and payments *ex ante* from donors or the market and disburse *ex post* after verification of the performance to beneficiaries. They can thus act as risk mitigation tools: ensuring stakeholders that if they perform, funding will be available but also reassuring donors that funding will not be released until evidence of performance has been presented.

Possible concerns may be

- Disconnect with overall budgetary processes¹⁰. This can result in duplication of efforts, lack of coordination,¹¹ loss of legitimacy, loss of expenditure control and less efficient allocation of resources. For example, loss of legitimacy has been experienced by some Conservation Trust Funds who fall outside parliamentary control and can be thus captured by donors and lose legitimacy.
- Possible resistance from Ministry of Economy and Finance (MEF) if funds are off budget since it reduces overall budget coordination. This can be a result of the point above i.e. disconnect with overall budgetary processes and can result in the fund not being able to raise funds or achieve its objectives. For example, as originally conceived, hydropower developers were supposed to contribute to the Lao EPF, however, this was not achieved because MOF has not agreed to the developers' request that contributed funds be deducted from royalties that they pay to the government. MEF's position was that all such funds should be channeled through the budget.¹²
- Complexity of creating new operating procedures (especially if the funds operate at subnational level as it is envisaged for some REDD+ funds)
- Transparency and dilution of accountability, problems in reporting and consolidation of fiscal data. Extra budgetary Funds can thus increase or decrease transparency depending on how they are structured and how well they are integrated into other government processes (for example information on allocations regularly transmitted to Finance Ministry), which themselves may or may not have appropriate measures to disclose information and make it accessible.
- For revolving funds depending on revenue from forestry related activities, perverse incentives can be created (more concessions, more income for the fund)
- Extra-budgetary funds tend to proliferate¹³ over time making the budget system become completely fragmented
- It may not be necessary to set up a new fund to address REDD+ implementation but a new window could be created in an existing fund that functions well thus reducing transaction costs.

¹⁰ The CPEIRs in Bangladesh and Thailand have identified a multitude of funds with different institutional arrangements. In Thailand, according to the 2009 Public Expenditure and Financial Accountability (PEFA) assessment, there are 95 extra-budgetary funds. (United Nations Development Programme 2013)

¹¹ But see Mexican Nature Conservation Fund in Spergel and Taub (2008) cited in (Vatn et Vedeld 2011) on p. 17 for its capacity coordinate its policies with Mexican government policies.

¹² (Asian Development Bank 2010) p. 25

¹³ Despite the concerns extra-budgetary funds are a common feature of budgetary systems almost everywhere. In developed economies, they account for about one third of government expenditure (mostly for pensions). In Africa the importance of the pension-related extra-budgetary funds is limited, other extra-budgetary expenditures are much higher. According to (Schiavo-Campo 2007) they account for between one-fifth and two-fifths of total spending.

- In addition funds that are off budget may not be able to access fiscal transfers from line ministries¹⁴.

1.3. Cambodian context¹⁵

In the following we present the advantages and disadvantages described above in general in relation to the Cambodian context.

Despite the advances made in public financial management in recent years, substantial capacity constraints remain that coupled with the complexity of REDD+ and the notion of results-based payments, can result in suboptimal performance if REDD+ payments are managed using country systems exclusively. In addition, experience shows that none of the REDD+ countries so far have opted for budget support as a modality to disburse REDD+ payments but either created independent REDD+ funds or integrated REDD+ into existing forestry or climate change funds. The recommendation is that a fund based approach is used to manage REDD+ payments in the first interim phase with a subsequent second phase relying more on country systems and following a transition.

However, using a fund based approach does not mean that it should be completely separate from country PFM systems. On the contrary, it should rely on the components that have already shown positive results. As an initial step, it could use the government COA to report data, enabling the MEF to capture this data for broader planning, budgetary, and reporting purposes. It could also rely on regular ministry staff to undertake some of the functions associated with the fund (such as secretariat, technical evaluations etc.)

¹⁴ This is the case of the Laotian EPF. (Irawan, Vichit, et al. 2012) p. 4

¹⁵ Based on Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) of the World Bank (November 2011) and CPEIRS 2012

TABLE 1: ANALYSIS OF CAMBODIAN CONTEXT

	Advantages/strengths	Disadvantages/weaknesses
Budget support	Engage all ministries and local authorities through the Budget Strategic Plan (including a three year MTEF), the Mid-term Macroeconomic and Public Finance Policy in line with the national development policy framework submitted to the Council of Ministers.	In practice the linkages between the NSDP, the MTEF and the annual budget remains weak (partially because donor funded projects is only partially captured and do not use govt. COA)
	<p>Possibility of parliamentary oversight</p> <p>In absence of a comprehensive national freedom of information law in Cambodia, parliament plays a key role in providing information, upon request, to non-government entities that make an official request in writing.</p>	<p>Oversight by the legislative branch remains weak. Strengthening the capacity of the parliament, and in particular the commission in charge of finance and banking, will further enhance oversight capacity. Development partners continue to engage with the parliament, especially during the annual budget appropriations through workshops and seminars and supporting the publication of “budget in brief” for citizens to improve understanding of the government budgets by all.</p> <p>The Ministry of Economy and Finance should also actively encourage citizens and government organizations to understand the budget process.</p>
	Can disperse large amount of finance (overall government spending amounted to 24% of GDP in 2009 – average of countries with similar per-capita income)	
	Can contribute to mainstreaming (qualitative shift) through topping up of sector spending	<p>The 2012 CPEIR showed for general climate change expenditure that there is very little high relevance funding that is financed from domestic sources. This suggests the limited capacity to mainstream and top up using domestic resources.</p> <p>The main weakness of the policy-based budgeting dimension is the continued poor integration of capital and recurrent expenditures. This is exacerbated by having a separate unit (the DIC) in MEF and project implementation units (PIUs) within line ministries that manage all aspects of donor-funded projects. While stronger links have been made between the annual budgeting and medium-term planning, more can be done to capture external financing projects to ensure availability of funding of all project costs and strengthen the link of donor-financed programs with the policy priorities of the government.</p>
		Lengthy negotiation process
		<p>Potentially less priority given to REDD+ as opposed to other areas:</p> <ul style="list-style-type: none"> • IFAPER 2003: Deficiencies in budget formulation and execution undermine the allocative efficiency and effectiveness resulting in the misallocation of resources across sectors, regions over time.

	Advantages/strengths	Disadvantages/weaknesses
	<p>Timeliness of disbursements improving:</p> <ul style="list-style-type: none"> IFAPER 2011: Budget credibility has been enhanced as a result of several measures. These include strengthened budget formulation and execution processes, improved revenue performance and revenue forecasting, harmonized budget classification and chart of accounts, better cash management, and the introduction of a mid-year budget review process. A realistic medium-term macro-fiscal framework was developed. Progress was achieved in consolidating government bank accounts, strengthening the TSA, and expanding the use of commercial banks for government transactions. This, along with the recent relocation of the Cash Management Unit to the General Department of the National Treasury has helped improve cash management thereby ensuring greater predictability, reliability and availability of financial resources. Payment arrears were successfully eliminated in 2007. Budget execution, monitored quarterly, steadily improved from a disbursement ratio of 64-68 percent during 2004-2005 to 93-96 percent on average during 2006-2010 indicating improved procurement planning and streamlined payment processes. 	<p>Timeliness of disbursements:</p> <ul style="list-style-type: none"> IFAPER 2003 budget execution suffered from delays and an unpredictable release of funds due to cash shortages as a result of poor cash management practices. This resulted in a build-up of arrears. IFAPER 2011: Despite significant improvements to cash management, in particular in strengthening the TSA, cash flow management practices have not evolved sufficiently. A number of issues related to cash flow forecasting data collection and sharing continue to have serious implications for ensuring significant resources on hand to meet the government's cash flow requirements. Imminent cash shortages have reemerged since 2010, threatening hard earned achievements on payment arrears. MEF CMU does not have the authority to require departments to submit cash flow forecasts.

Transparency of disbursements improving:

- IFAPER 2011: Positive steps to strengthen the **public procurement framework** and improve the overall procurement environment in the country have been taken.
- The National Assembly passed in 2012 Cambodia's first law on public procurement in a bid to fight the endemic corruption in the public sector. The new law codified the pre-existing patchwork of sub-decrees and other regulations governing the public procurement sector. At the provincial level, bidders need a pre-qualification. Public procurement in Cambodia is often financed through external donations; manuals guiding the procurement process for foreign funded projects have been made. One is called the Manual on Standard Operating Procedures (SOP), and another one is the Procurement Manual for Externally Financed Projects/Programs ([Ministry of Economy and Finance](#) website). The manuals state that competitive bidding is preferred and mandatory for all projects exceeding US\$ 100,000.
- IFAPER 2011: The **budget entity** is a key concept that was introduced for greater financial and programmatic accountability at all levels of the government. A budget entity is an organization that uses or receives public resources to accomplishing a function for which the government is responsible. Autonomous public organizations and sub-national governments considered initially as budget entities or cost center.
- The **new budget classification** (and chart of accounts) referred to as the Integrated Uniform Account Code Structure will enable budget integration and encourage the use of the government's public financial system via budget support **as donors will be able to have a better understanding how funds are being accounted and where expenditures are incurred**. This is made possible by **"source of funds" and "geographic" classification coding**. The "source of funds" classification supports the integration of externally financed projects into the budget and fiscal reporting and captures government own sources and external (donor-financed) sources. The "geographic" classification identifies locations of incurred expenditures distinguishing among central,

Transparency of disbursements

- IFAPER 2011: The **public procurement system** currently remains fragmented because of two separate legal and regulatory frameworks applicable for procurement financed from the national budget and by external donors. Each is governed by separate implementing rules, regulations and processes under the oversight of two different MEF departments. Significant benefits of economy and efficiency can be obtained by consolidating the two systems into a single unified national public procurement system.
- IFAPER 2011: The **capacity of line ministries** and agencies to effectively carry out **procurement** remains weak and the local market of suppliers and contractors is underdeveloped and constrained by governance issues. There is no system for ministries and agencies to monitor performance and the outcomes of procurement.
- IFAPER 2003: **Accounting and reporting systems were deficient**, with a weak control environment presenting opportunities for corruption.
- IFAPER 2011: Developing a coherent view of the **accounting model** and standards has been slow, due in part to conflicting policy advice from donors. Recently, consensus within the government has developed around the implementation of International Public Sector Accounting Standards (IPSAS) and work on understanding these standards is at an early stage. As an important first step, the MEF has undertaken a gap analysis between current systems and IPSAS standards to develop a roadmap and strategy to move toward **IPSAS and International Financial Reporting Standards (IFRS)**. This will further strengthen treasury operations and functions critical for the successful implementation of the FMIS.
- IFAPER 2011: **Internal auditing** has been introduced. Internal audit departments were established in the line ministries and agencies although many are not fully operational. With the framework in place, audit manuals, plans, and procedures can be developed by the MEF Internal Audit Department for the internal audit departments in the line ministries. A uniform and consistent set of standards which is currently at the final stage of preparation for all ministries to follow is critical in ensuring the proper controls and procedures are in place across government.
- Improving accountability through robust **internal and external audit** functions supported by strengthened parliamentary oversight remains problematic. Although work on internal audit has been ongoing since 2006, the recent PEFA assessment noted that internal controls remain weak. While templates for audit reports have been developed by the MEF Internal Audit Department, they are not uniformly applied or used by line ministries. With donor support, internal audit has improved in

	Advantages/strengths	Disadvantages/weaknesses
	<p>provincial, municipal, district, and commune levels of administration.</p> <ul style="list-style-type: none"> Once computerized, the new business processes will automate workflows, eliminate duplication, superfluous layers and steps, and reduce the need for the proliferation of different letters and forms. Electronic notification to managers will replace management involvement in transactions and reduce unnecessary approval processes thereby reducing opportunities for collusion and other corrupt practices. Steps have been taken to create a unified chart of accounts for use by all levels of government by integrating the separate charts of accounts used by the central, provincial, district, and commune levels of government. 	<p>key line ministries, including the Ministry of Health, the Ministry of Agriculture, Forestry, and Fisheries, and the Ministry of Rural Development, although these are conducted largely to meet donor reporting requirements rather than those of the government. As the government moves more financial management and accountability to the line ministries and sub-national governments, audit plans will need to incorporate a risk-based approach.</p> <ul style="list-style-type: none"> A stronger National Audit Authority (NAA) will strengthen fiscal transparency and encourage greater use of country systems by donors. Two issues are of particular importance: the conduct by the NAA of annual compliance and financial audits and the timely and comprehensive publication of results that meet international audit standards.
	<p>Implementation issues (carry overs and transfers between line items)</p> <ul style="list-style-type: none"> Special accounts can be opened with treasury and rolled over to next year Chapter to chapter credit transfer within the same ministry can be done by sub-decree Transfer from an account/subaccount to another by Prakas of MEF 	Carry over not possible (except for special accounts)
Fund based approach	Funds can pool different sources of finance (public, private, international, domestic)	
	They can protect priority expenditures from budget cuts and provide earmarking	
	Channel funds easily to beneficiaries outside the administration (see remarks on procurement above)	
	Provide a platform for multi-stakeholder coordination by having different stakeholders participate in the different governance bodies of the funds	Not if national funds (stakeholders from outside government and donors not possible)
	Sustain funding beyond the yearly budgetary cycles (money will not be forfeit if unspent at the end of the budget cycle)	

	Advantages/strengths	Disadvantages/weaknesses
	Greater flexibility and independence. For example, if the fund does not hire civil servants, their pay can be adjusted (i.e. higher than civil servants' thus attracting talent and can be based on performance as opposed to seniority)	The large salary supplements funded by donors are mostly not reflected in the official data. At the end of 2009, the government terminated the performance-based salary supplement (the Merit-based Pay Initiative) due to concerns that it promoted unequal pay for equal work. The off-budget scheme was jointly financed by donors and the government and covered only 2 percent of permanent civil servants at the time of its termination. That scheme was replaced by the so-called Priority Operating Cost, financed solely by donors. Although the levels of top-ups under the new scheme are lower than under the previous one and the government is not involved in its funding, issues of inequality remain. As a result, this is just a short-term fix, whereas the issue still needs a permanent solution to ensure that equal jobs result in equal pay, as supported by the public administration reform agenda.
	Separate auditing (see remarks on int. and ext. audits)	
	Can be a coordination tool	
	Can be a risk mitigation tool (between ex ante and ex post funding)	
	Linkages to country processes could be identified to maintain overall budget coordination	Possibility of disconnect from government and country procedures, donor appropriation etc.
	Model SOPs exist that could be used as models	Creating new procedures can be complex
	Counterpart funding? (but need to check track record)	Off budget funds may not be able to address transfers from line ministries

2. Decision 2: type of fund

Recommended option

Revolving fund with large initial donor contribution

There are several types of funds that could be used to channel REDD+ payments in Cambodia. In the following we will review some basic definitions and then compare the different fund types.

2.1. Basic definitions

2.1.1. Trust

In common law legal systems (such as English law), a trust is a relationship whereby property is held by one party for the benefit of another. A trust is created by a **settlor**, who transfers some or all of his or her property to a **trustee**. The trustee holds that property for the trust's **beneficiaries**. Trust law is not part of most civil law jurisdictions including that of Cambodia.

2.1.2. Trust Fund

Based on the concept of Trust as described above a trust fund is a fund comprised of a variety of assets intended to provide benefits to an individual, organization or an unidentified group of individuals. The trust fund is established by a grantor to provide financial security to an individual or organizations, such as a charity or other non-profit organization. In the context of international development, a Trust Fund is a financing arrangement set up to accept Contributions from one or more **Donors** to be held and disbursed/transferred to **recipients** by an entity as **Trustee** in accordance with agreed terms.

The following legal documents create the Trust Funds and establish relationships among the various actors involved (Trustee, donor, recipient):

1. Foundation documents (decrees, terms of reference etc.) creating the fund legally and describing its key characteristics (these are further detailed in other documents as needed such as operational manuals, M&E frameworks etc.)
2. Contribution agreements (between the donor and the trustee setting forth specific terms for the receipt and use of a specific Contribution for a specific Trust Fund)
3. Grant agreements (between the trustee and the recipient for the granting of funds by the Trustee to the Recipient under terms that involve (or not)¹⁶Trustee responsibility (including supervision) post-transfer.

Even though they may not be called “Trust Funds”, many extra-budgetary funds have very similar characteristics:

- they involve the separation of certain assets (such as domestic revenues or donor contributions),
- the placement of the assets on a separate account (on or off Treasury),

¹⁶ Depending on the type of fund (for example in pass-through arrangements there is no trustee responsibility post-transfer)

- the creation of a governance structure that ensures that disbursements are made in accordance with the stated objectives of the fund’s foundation documents (laws or sub-decrees) and the allocations are outside the regular budget approval processes of the State (hence the term “extra-budgetary”).

2.1.3. Types of Funds

There are three major types of funds (sinking, revolving and endowment). First we describe them, then Figures 3-5 present how they differ in their capitalization.

2.1.3.1. Sinking Funds

The simplest modality is a sinking fund where the capital and eventual investment income of the fund is extinguished over time. Sinking funds can be created to channel funding from one donor or pool resources from various donors (multi-donor funds). It is possible for these funds to evolve over time into a more sustainable funding model. The design features of the fund are simpler than those of the two others, they often do not require parliamentary approval or the approval processes are simpler especially if the fund operates as a program of development partners.

Consultations with government stakeholders in Cambodia have shown that the term “Trust Fund” is interpreted as an endowment fund. An endowment fund is actually one type of a trust fund. But to avoid confusion we do not use the term “trust fund” and only refer to “funds” in general.

On the other hand, the impacts and outreach of sinking funds are limited, since they cannot tap into innovative and sustainable sources of finances and only a single financial instrument is used (grants).

2.1.3.2. Revolving Funds

Revolving funds are replenished regularly through taxes or other fiscal instruments and government revenues. They are particularly adapted to the situation when the government wants to set aside a specific revenue and channel it to fund certain activities. Another source of the revolving fund is the projects the fund invests in. If the fund is going to make debt or equity contributions to projects or provide credit enhancement for a fee, the income from these products can regularly replenish the fund.

An advantage of revolving funds is that they can provide substantial leverage. Revolving funds can usually achieve such leverage by attracting multi and bilateral lenders¹⁷, commercial banks¹⁸ or by raising additional capital through the bond markets.

In the context of REDD+, the REDD+ payments received for the emission reductions achieved would constitute the recurrent source of revenue.

¹⁷ Their support usually involves co-financing the fund’s reserve capital and thus improve the credit rating of the fund and/expanding the amount that can be allocated to loans, co-financing the start up, capitalization and feasibility studies or providing credit risk guarantees thus lowering the cost of capital.

¹⁸ They are usually interested because of the credit risk guarantees and enhancements that governments can provide. In addition, funds can aggregate small and medium sized loans into attractive sizes for commercial banks.

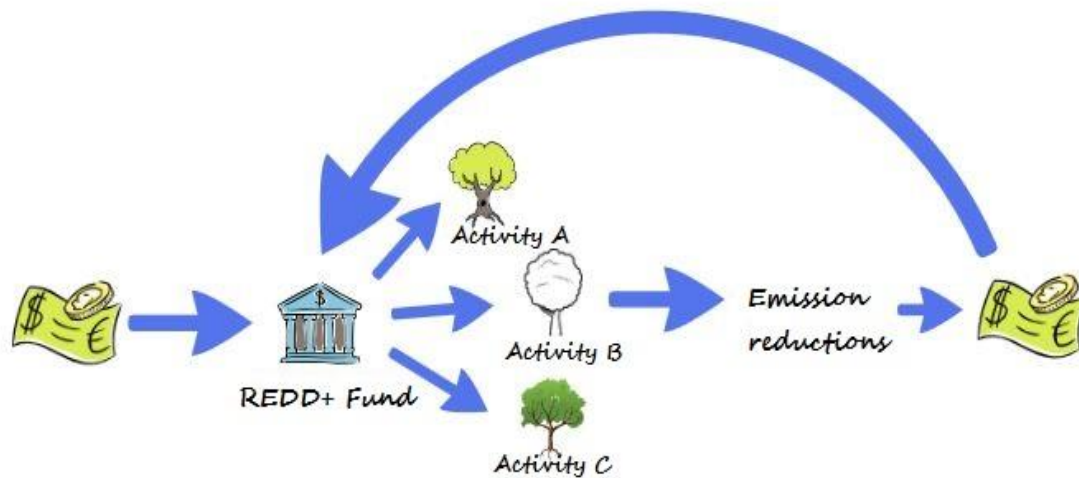


FIGURE 2: REVOLVING FUND MODEL FOR REDD+

2.1.3.3. Endowment funds

In this modality, the principal is kept in perpetuity and not consumed, but it is used to generate investment income. This is particularly useful in countries or for sectors where there is no regular source to replenish the fund.

The fund can incur losses, so sufficient buffers should be put in place to make sure that there would be available resources for continued operations in the lean years as well. The capital of the endowment fund can be invested offshore or in the country thus also contributing to general economic development of the beneficiary country.

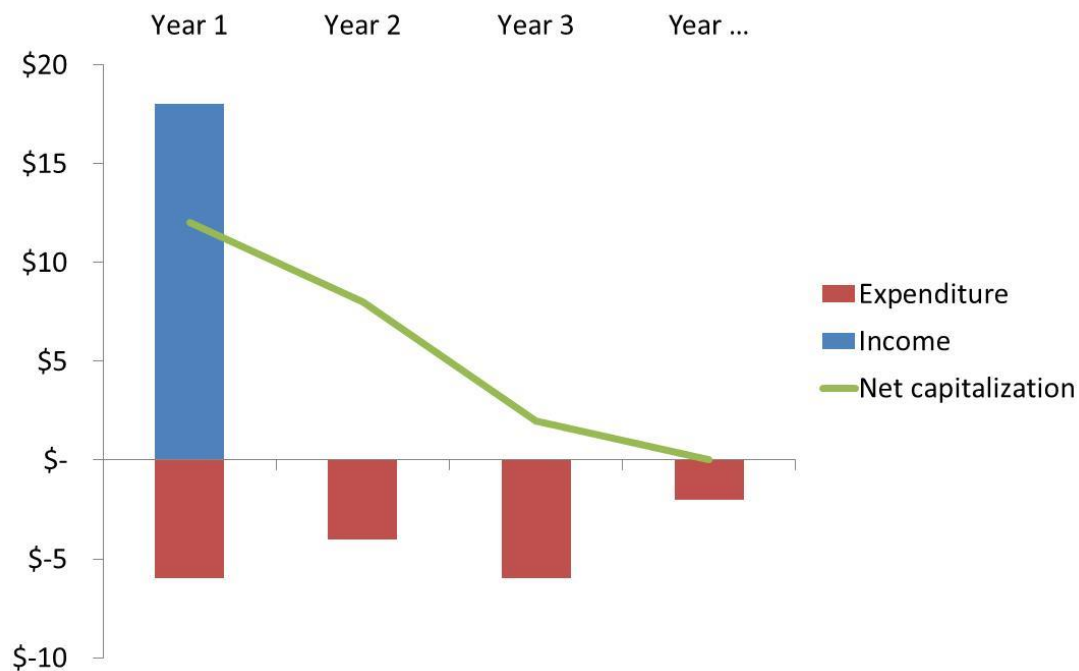


FIGURE 3: SINKING FUND CAPITALIZATION OVER THE YEARS

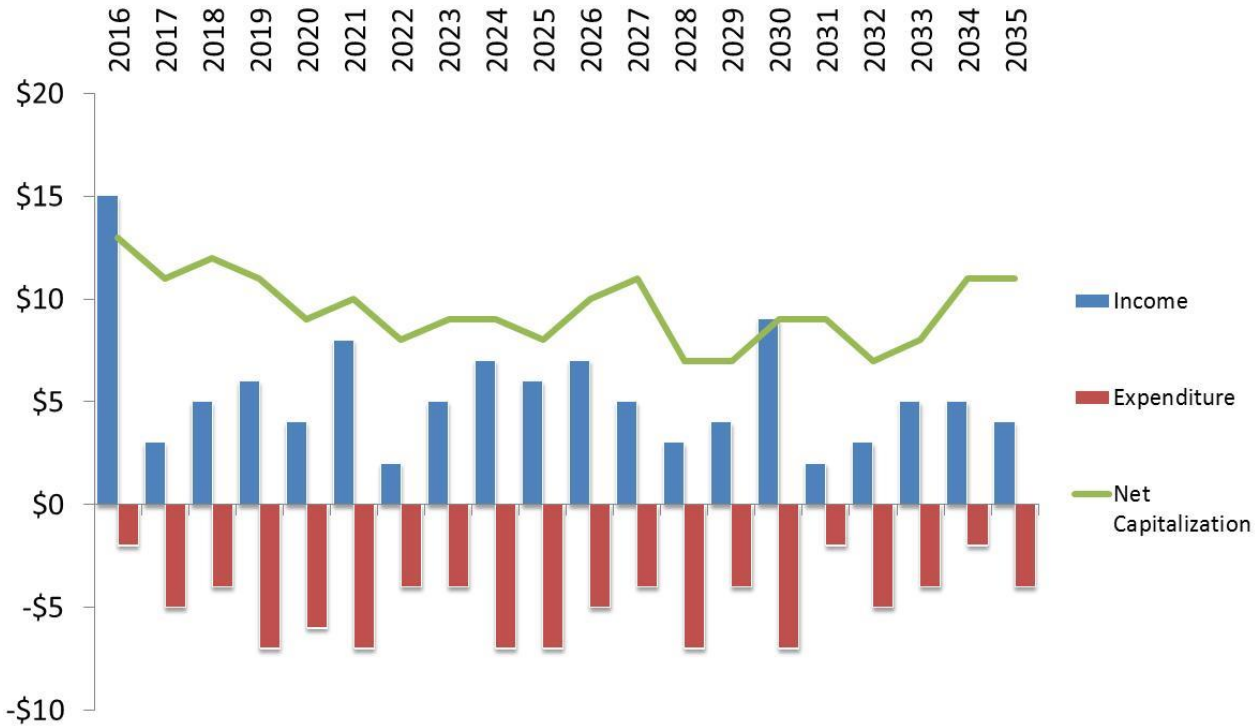


FIGURE 4: REVOLVING FUND CAPITALIZATION OVER THE YEARS

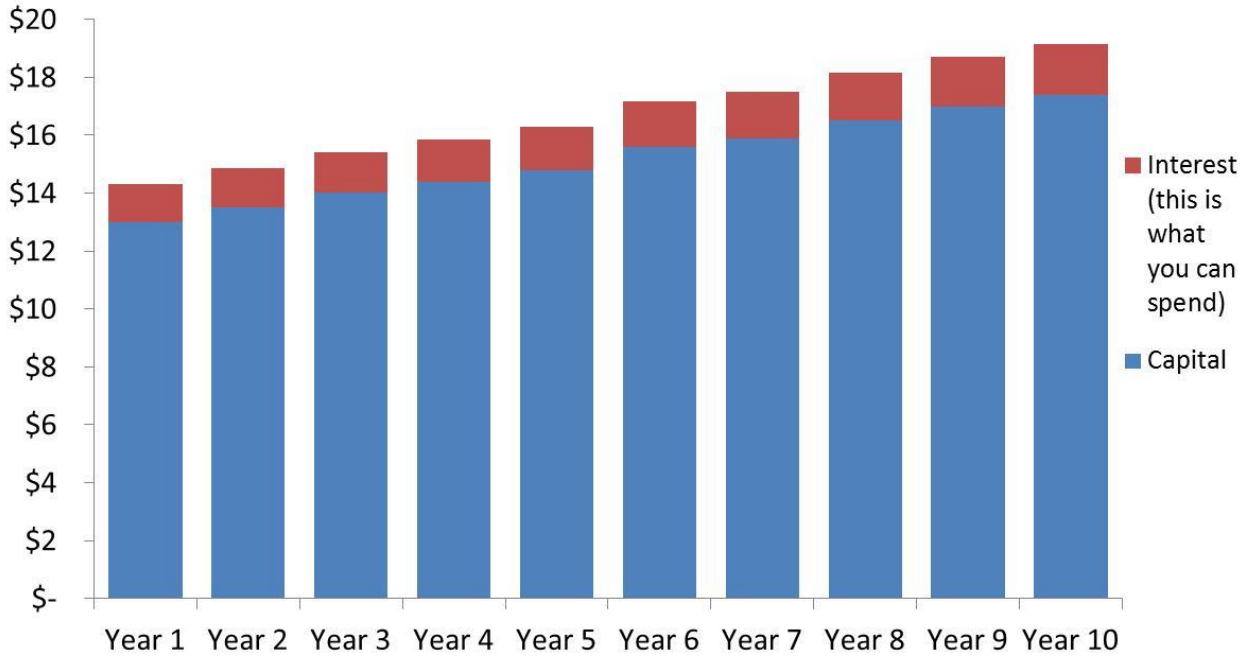
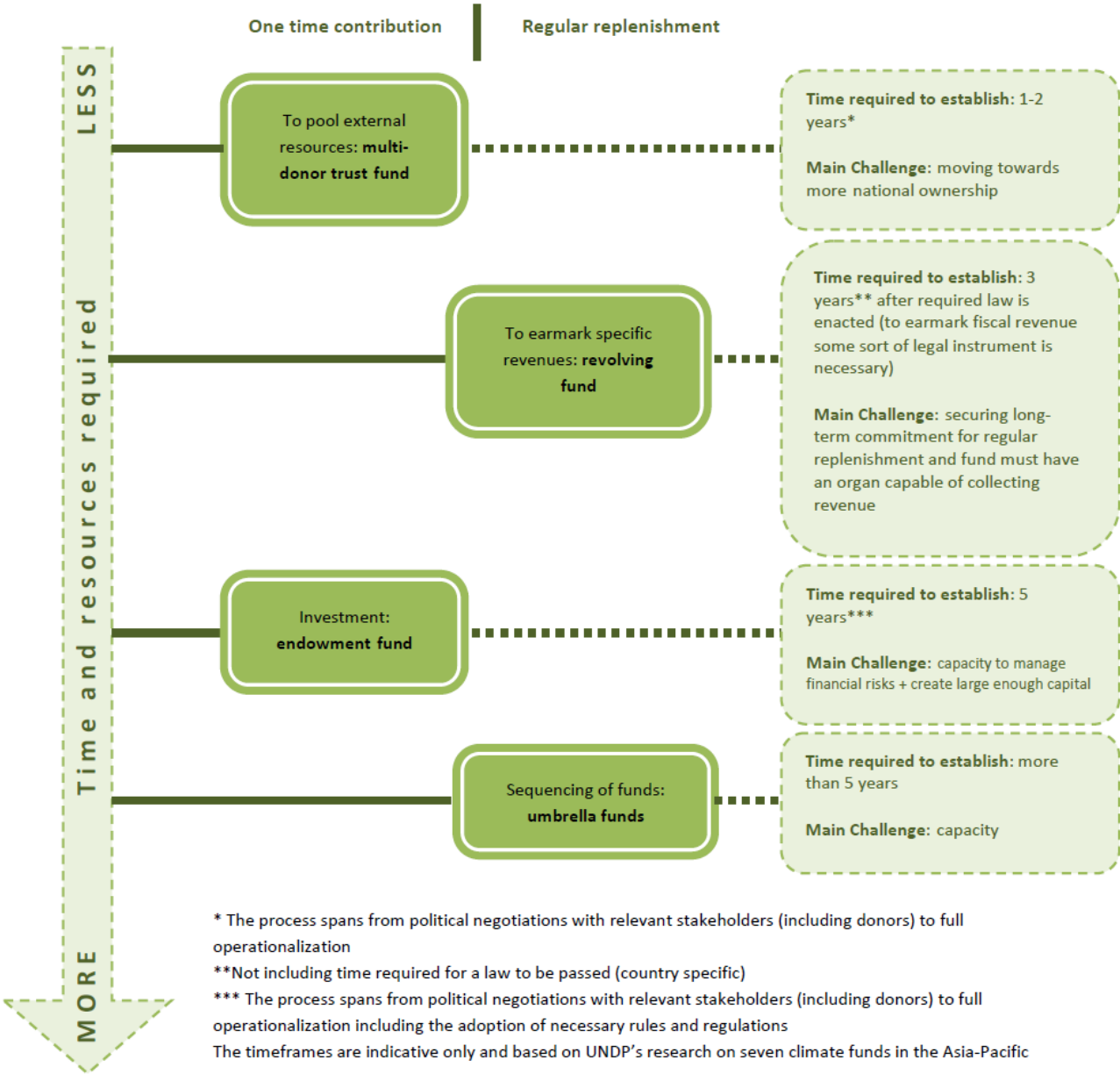


FIGURE 5: ENDOWMENT FUND CAPITALIZATION

2.2. Comparison of options



Based on the descriptions and analysis above, namely:

- that an initial donor contribution will be necessary to implement the results based actions that will result in emission reductions
- that REDD+ payments are expected to be regular revenues

it is recommended that a revolving fund be set up with a large initial donor contribution to cover initial investment costs.

3. Decision 3: Interim structures

Recommended option

Set up fund in two phases
Phase 1: interim international trustee: Multi-donor fund
Phase 2: budget support, national REDD+ fund or part of Climate Change Fund

3.1. Rationale for developing fund management arrangements in 2 phases

Major challenges/obstacles do not permit the rapid operationalization of the fund using a Government administered National REDD+ Fund or a REDD+ sub-fund under the National Climate Change Fund for several reasons:

- The Funds themselves do not exist they are only mentioned in the relevant laws (climate change) or the adoption of a new law would be required to establish it (separate national REDD+ Fund)
- There may be capacity constraints that would prevent the government from setting up a fund using government procedures credible enough for donors to capitalize it
- During the climate finance architecture design work supported by UNDP, donors were interviewed on whether they would be interested in pooling funding into a national fund. Donors were reluctant to capitalize a climate change fund hence the decision to create a national climate finance facility that harmonizes the various aspects of financial management (such as planning, reporting, accounting, treasury, budget etc.).

So it is recommended that a Multi-Donor Trust Fund is set up on an interim basis with international support in for example assuming the Trustee's and/or fund management role, participation in the governance structures and ensuring quality assurance of the technical work by hiring experts and staff. This solution would remedy the shortcomings of described above:

- It could be set up more rapidly
- And provide Cambodia with increased credibility to ensure capitalization¹⁹

During the interim period while the Multi-Donor Trust Fund is already receiving funding and supporting activities on the ground, the country could:

- Decide what the long term fund management option will be
- Develop the necessary operational details of the selected long term option while considering national circumstances (such as developments in the national climate finance architecture) and lessons from the operation of the multi-donor REDD+ trust fund
- Identify capacity gaps and develop the capacities of national entities to ensure full ownership after the interim period.

¹⁹ To date, except for the Amazon Fund, REDD+ funding has been channeled to structures managed by international entities such as the UN or multilateral development banks. See Annex 1 for more details.

3.2. Interim arrangements: options and recommendations

In every case, when interim arrangements are decided, a capacity development and transition plan will be prepared including the following information:

1. Objectives (outputs and outcomes)
2. Activities
3. Timing
4. Milestones and indicators
5. Costs
6. Input
7. Implementation responsibility
8. Risks and risk management actions

Possible areas where interim arrangements may be necessary are the Steering Committee of the Fund, the Secretariat, the trustee and the entities receiving funding.

3.2.1. Steering Committee

On an interim basis as defined by the transition plan, the Steering Committee can have interim members such UN, Multilateral Development Bank, donor representatives and civil society representatives .

3.2.2. Secretariat

International organizations could recruit international staff to assume the role of:

1. Director
2. Accountant (familiar with international trust fund management)
3. Program staff as identified in the terms of reference of the Management Unit (to be developed later)
4. Technical experts

3.2.3. Trustee

Several trustee options are possible for the NRF:

1. United Nations (either pass through or managing agent)
2. Multilateral development bank (WB or ADB)
3. International bank and an international managing agent

The table below summarizes how the UN can play the role of international trustee and managing agent. The options are presented according to a number of criteria. The choice depends on:

- The types of entities with access
- The kind of oversight the entities will require
- Fees
- Complexity of procedures
- Conflicts of interest
- Capacity development services to be offered by the Trustee

Options according to the types of entities with access:

- Mainly different UN agencies – optimal structures: **joint programs**
- One UN agency and national entities – optimal structure: **single agency fund**
- Several UN agencies and national entities – optimal structure: **national fund (pass through)**

Options according to oversight required

- Relatively little oversight since capacity and country systems are adequate²⁰ – **pass through**
- Relatively high oversight since capacity and capacity systems are not adequate – **managing agent**

Options according to fees

Depends on the actual participating organizations and implementing partners and their cost recovery policies. It is recommended that fees are modeled for each of the options considered. (see generic examples in table below)

Complexity of procedures

One set of procedures (i.e. managing agent approaches) are simpler than processes where the rules applied depend on the participating organizations and the implementing partners (pass-through). However, depending on the diversity of the entities with access, such complex procedures may need to be set up.

Conflicts of interest

Several international organizations may qualify to play various roles in the overall governance structure of the fund and organizations' representatives may appear in the different governance bodies of the NRF. More specifically, the same organization can simultaneously:

- Be trustee and/or managing agent (in other words safeguarding the Fund's assets and assessing who will have access to the Funds if managing agent),
- Be entity with access (if some of the implementation functions are to be transferred to an international organization),
- Be member of the Steering Committee (and thus with direct responsibility over funding allocation) and
- Recruit members of the Secretariat

For each international organization to play an interim role, it is advisable to check whether it also plays (directly or indirectly) another role, assess its rules and regulations (and especially) internal control framework to see how it deals with such conflicts of interest and decide based on this:

- To eliminate one or more of the roles
- To temporarily adjust the operating procedures of the NRF to make sure that the potential conflict of interest does not interfere with the quality of decision-making and implementation
- To disclose conflicts of interests and examine measures (sanctions, cancellation of decision) if a conflict of interest has not been disclosed.

²⁰ Should be based on the assessment presented above, with micro assessments of the potential implementing entities and in consultation with potential donors.

Capacity development

Since the objective of selecting an interim trustee and/or managing agent is to bridge a temporary capacity gap, it is important that the Trustee transfers its roles and corresponding capacities to the identified national trustee.

3.3. Identification of national arrangements following interim period

This includes:

1. Detailed terms of reference or descriptions of the Trustee/managing agent, entity with access during the interim period
2. Terms of reference of trustee/managing agent, entity with access during national ownership
3. Identification of national entities to assume the roles after interim period
4. If more than one, decision on which one will assume
5. Based on the ToR described under points 1 and 2 above, assess institutional and human capacity gaps to be filled before national ownership is possible
6. Develop capacity development plan accordingly
7. Identify milestones (including capacity development targets and institutional reform targets) that will enable steps in the transition
8. Implement activities and gradually transfer ownership

TABLE 2: COMPARISON OF FUND MANAGEMENT OPTIONS

Type of Modality	Programmatic Framework	Governance Structure	Trustee / AA	Entities with access	Advantages	Disadvantages	Examples
Single Agency project	Framework : project document Allocation to: Single Project	Project Steering Committee	One Agency Indirect Cost : 7%	Government Entities, NGOs, INGOs Indirect cost varies for implementing partners	Fast & Simple mechanism used to support or complete readiness activities. Project document defines the implementing modalities and scope.	Only uses the specific expertise of 1 UN Agency. National appropriation is limited. Activities are limited to the Scope of the project document.	UNDP project in Democratic Republic of Congo
Joint Program	PARALLEL Framework: Based on separate documents of each UN Agency + common work plan Allocations: to multiple projects	Each agency its own	Each agency separately Indirect cost: According to each agency	Different government partners for each UN agency	When interventions by participating organizations are aimed at common results but work with different implementing partners (unlikely in the case of REDD+)	Multiplication of operating procedures	
	JOINT Framework: Project document Allocations: to a single program	Joint Programme Steering Committee	Managing Agent: One agency Indirect cost: 7% (if UNDP is the MA) if funds channeled directly to MA, only 7%, if channeled through other agency (agency's rules apply, for UNDP 1%)	National and subnational partners according to MA's rules and procedures.	Better coordination than variant above. Possibility to reduce indirect costs. One set of rules apply to national and subnational entities (that of the MA). Programmatic and financial accountability of managing agent as opposed to pass through.	Agency fees can add up. May be difficult to agencies to agree on MA	
	PASS THROUGH Framework : National Strategy and programme document Allocation to: Single Program	Joint Steering Committee	One UN Agency including UNDP MPTF-O AA fees 1%	UN Agencies Each agency Indirect Cost (UNDP 7%) Government Entities, NGOs, INGOs Indirect cost varies for implementing partners	Fast & Simple mechanism used broadly by UN-Agencies in various domains. Program document defines the implementing modalities and scope.	Only UN agencies can be participating organizations. National appropriation is limited. Activities are limited to the Scope of the program document. .	UN-REDD programme in Viet Nam

Type of Modality	Programmatic Framework	Governance Structure	Trustee / AA	Entities with access	Advantages	Disadvantages	Examples
National Fund (Single Agency)	<p>Framework : National Strategy & Investment Plan</p> <p>Allocation to : Multiple Projects</p>	<p>National Steering Committee</p> <p>Supported by a Technical Secretariat</p> <p>and/or a Managing Agent</p>	<p>Single UN Agency or MDB</p> <p>Trustee: 1%</p> <p>Indirect & Direct Cost for Trustee or MA varies 12-15%?</p>	<p>Government Entities NGOs INGOs</p> <p>Indirect cost varies for implementing partners</p>	<p>Strong National appropriation. The use of the financial rules and regulations of the Agency appointed as a trustee. MDB can recruit a dedicated managing agent. It can support specific National Investment Plan and result based payment.</p>	<p>Do not build on the expertise of other UN agencies or Bilaterals. The use of National system when the capacities are weak, can slow down the implementation of activities, and limited the investment to small scale projects.</p>	<p>Indonesia Climate Change Trust Fund in Indonesia, CCCA TF in Cambodia</p>
National Fund (Pass-Through)	<p>Framework : National Strategy & Investment Plan</p> <p>Allocation to : Multiple Projects or Programs</p>	<p>National Steering Committee</p> <p>Supported by a Technical Secretariat</p>	<p>MPTF-Office</p> <p>AA fees 1%</p> <p>Direct Cost for Technical Secretariat: 3-5% M&E : 2-3 %</p>	<p>UN Agencies (7% indirect cost for UNDP) INGOs Government Entities NGOs</p> <p>Indirect cost varies for implementing partners</p>	<p>Strong National appropriation. AA fees and Direct cost fees are reduced. Can used broader Participating Organizations which allows larger and multi sector investments. High flexibility in financial management, based on specific MOU & capacity assessment (i.e. possibility for certain government entities to manage according to domestic PFM rules.)</p>	<p>The large number of actors involved creates the need for stronger coordination. Minimum capacity is needed before Financial & programmatic accountability is given to an entity.</p>	<p>DRC National Fund</p>

4. Decision 4: Legal capacity of the fund for phases 1 and 2

Recommended option

**Phase 1: no legal capacity (use agents)
Phase 2: No recommendation at this stage –
further analysis and consultations needed**

The question of legal capacity is central in the fund establishment process. Legal capacity is necessary to enter into agreements (such as contribution agreements between the fund and the donors, grant agreements between the implementing entities and the fund, staff contracts and service contracts, purchase agreements to procure goods etc.)

There are various options that can be envisaged in this context:

1. The fund will have legal capacity – this means that the fund on its own behalf will be able to enter into contracts, will be accountable to third parties, can sue and can be sued. Its creation will have to follow Cambodian law on the creation of juristic persons.
2. The fund will not have legal capacity – other entities will perform the functions listed above and their relationship and responsibilities will be managed through contracts. The functions can be split among several different entities (i.e. not the same entity performs all the functions) for example:
 - a. Signature of contribution agreements with donors can be done by a Ministry or by the Trustee/Administrative Agent
 - b. Signature of the grant agreements with the implementing entities can be done by a Ministry, Trustee/Administrative Agent or a Managing Agent (hired by the Trustee, Administrative Agent, or funded as a project of the Fund)
 - c. Hiring staff, procuring services and goods can be done by the Ministry and the Managing Agent

We recommend that in the first phase the fund should be created without legal capacity and use agents to perform the functions listed above. Who should perform the functions depends on the type of trustee services the fund will contract as explained in the next section.

5. Decision 5: Role of the trustee for phases 1 and 2

Recommended option

None at this stage

Further analysis and consultations needed but must be decided before during Q4 2014 to be incorporated in the national REDD+ strategy

There are two main options to consider here:

1. Trustee as only a bank account

The fund will need legal capacity or will need an agent mandated by government to enter into agreements with the Trustee, grantees, staff, its consultants.

This trustee role can be assumed by:

- Any bank
- MPTF (will sign with donors and grantees but not be accountable financially and programmatically to donors)
- Other?

2. Bank account and managing agent

The entity assuming both roles of the bank account and as the managing agent will do all the contracting.

This role can be assumed by:

- Multilateral Development Bank (World Bank or ADB)
- UNDP
- UNOPS (will sign with donors and grantees but can do pass-through for UN agencies)

Since some of the entities listed above have their way of working, choosing that entity will also determine the role of the trustee. Also see **Error! Reference source not found.** to complement the information in this section. Even though no recommendation is made at this stage, a decision on the role of the trustee will have to be made during the development of the national REDD+ strategy in Q4 2014 for the interim arrangements. Decision regarding Phase 2 can wait.

6. Decision 6: Use budget support, create separate REDD+ fund or integrate into existing fund for phase 2

Recommended option

No decision yet (wait for policy evolution and further analysis)

The RGC and UN-REDD Programme commissioned report identified 4 fund management options. As mentioned in previous sections, the present recommendations break the fund establishment process into two phases, one interim phase or Phase 1 with a Multi-donor Trust Fund and a second phase where a more permanent and nationally owned structure will be created. The options for this Phase include the three presented in the report, namely:

- Government administered National REDD+ Fund
- REDD+ sub-fund under National Climate Change Fund
- REDD+ sub-fund or window in Sector Law Fund

In addition, budget support modality should also be considered.

A preliminary analysis of the budget support modality has been presented at the beginning of this document. The report also compared the advantages and disadvantages of the three options above. This is summarized in the table below. However, these are only preliminary analyses. They are to be repeated and complemented during the design and implementation of the transition to nationally owned fund management modalities as described above in section 3. So the summary provided is only indicative and should not be the basis of any decision yet.

TABLE 3: SUMMARY OF OPTIONS PRESENTED IN PREVIOUS REPORT

Option	Advantages in Cambodian context	Disadvantages in Cambodian context
Multi-donor REDD+ Trust Fund	<ul style="list-style-type: none"> • Optimal to build donor confidence • Possibility to transition to greater use of country systems (including capacity development) • Multi-stakeholder decision-making 	<ul style="list-style-type: none"> • May not coincide with entity accredited under GCF • If operated too much outside of country systems, loses country ownership and capacity to coordinate with national policies etc. • Linked to the point above difficulty of pooling domestic resources (more info on the track record of counterpart funding would be needed)
Government administered National REDD+ Fund	<ul style="list-style-type: none"> • Could be perfectly tailored to REDD+ in Cambodia • Could integrate domestic and external funding streams 	<ul style="list-style-type: none"> • Would require the adoption of a new Law (time consuming, may be complex to broker in the short run and premature in light of national and international context) • Multi-stakeholder decision-making is not possible or complicated • Credible national trustee? • Overlaps if National Climate Change Fund is established
REDD+ sub-fund under National Climate Change Fund	<ul style="list-style-type: none"> • Optimal integration into the climate change context (policies and climate finance) 	<ul style="list-style-type: none"> • National CC Fund does not exist yet • Multi-stakeholder decision-making is not possible or complicated • Possibility of overly complex operating procedures (depending on the diversity of activities to be supported by REDD+ payments and safeguards)
REDD+ sub-fund or window in Sector Law Fund	<ul style="list-style-type: none"> • Sectors are related to REDD+ 	<ul style="list-style-type: none"> • Multi-sector nature of REDD+ vs. <ul style="list-style-type: none"> ○ capacity of line Ministry to coordinate across sector ○ capacity of line ministry to transfer funds to other ministries²¹ ○ questionable efficiency of multiple transfers among ministries instead of using regular resource allocation channels (MEF) • The sector law Funds do not exist yet. Waiting for the sector law funds to be established may result in losing time and opportunity • Multi-stakeholder decision-making is not possible or complicated

²¹ Article 55 of the Law on Public Finance states that “A transfer of credit from one ministry, institution, or similar public entity to another shall be determined by the Law on Finance. However, any necessary transfer of credit from one ministry, institution, or similar public entity to another in order to strengthen the structure or the administration of the Royal Government can be made by sub-decree in case that such transfer would not change items of expenditure and allocation of credit by each chapter.”

7. Steps in the design of national REDD+ fund management arrangements

In the design of the multi-donor trust fund for REDD+ several steps will need to be taken. The key considerations and decisions are represented in the diagram below followed by the description of the steps proposed for the establishment of the National REDD+ Fund for Cambodia.

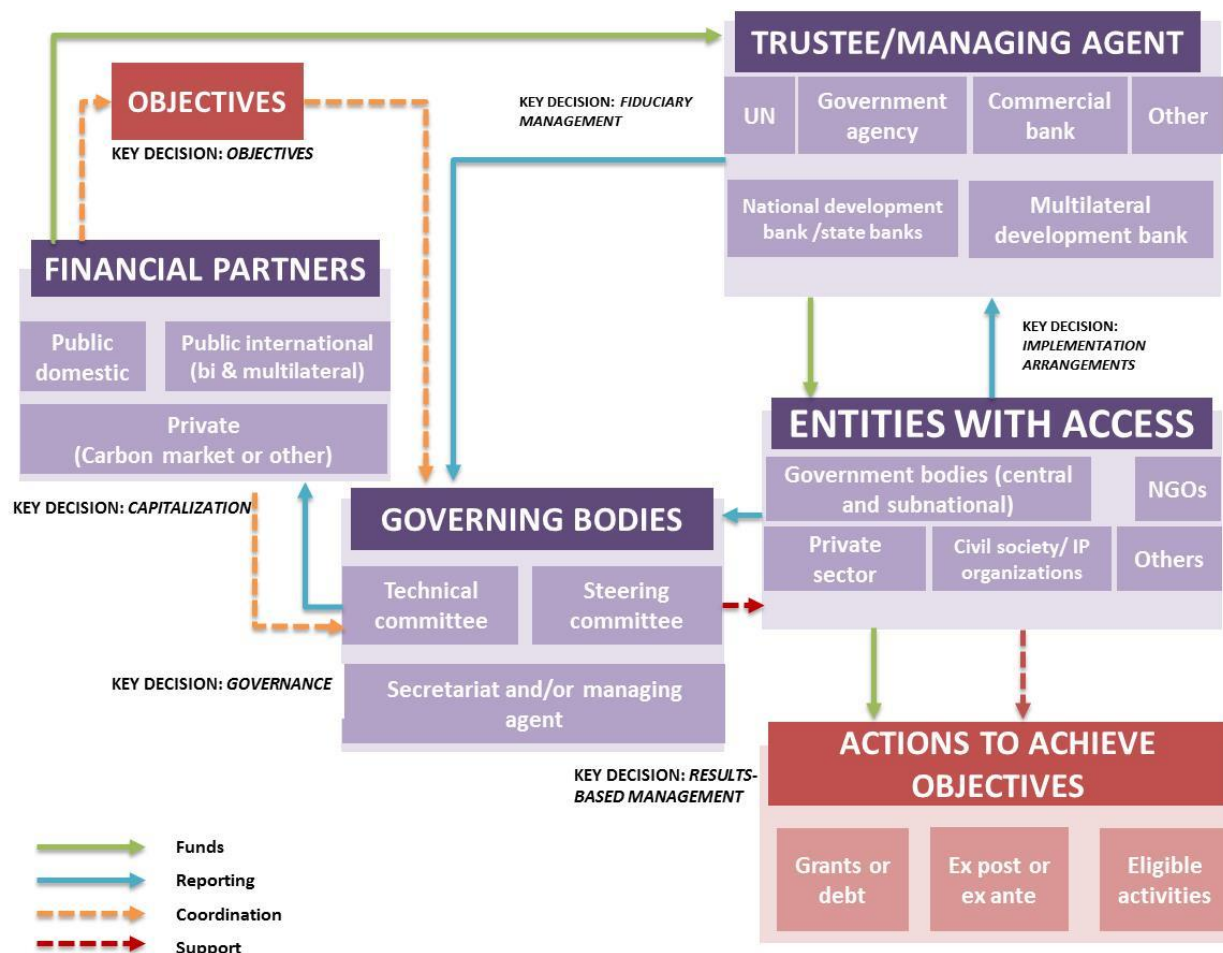


FIGURE 6: FUND DESIGN

The decisions presented in Figure 6 will be made during the fund development process as described below (especially during Steps 2 to 4). For key decision a number of important issues will need to be considered. The actual issues and considerations will be identified during the design process, but below are some examples:

During the decision to be made on **objectives** the following considerations may be addressed

1. National priorities and their links to REDD+ objectives
2. Fund theory of change²² (through what actions and expected results the Fund aims to reach its objectives)

²² ToC is most often defined in terms of the connection between activities and outcomes. The ability to articulate this connection rests on the idea that, "social programs are based on explicit or implicit theories

3. Relation to other funds, entities and programs
4. Timeframe (for reaching the stated objectives)
5. Expected financial flows
6. Stakeholders to be involved to achieve stated objectives and ways to involve them

During the decision to be made on **capitalization** the following considerations may need to be addressed :

1. Identification of sources
2. Relation of capitalization to size, governance and implementation
3. Cycle for resource mobilization
4. Allocation of funds to specific activities

During the decision to be made on **fiduciary management** the following considerations may need to be addressed:

1. Trustee selection (who?)
2. Services of the trustee (what?)
3. Conflicts of interest, oversight
4. Fees
5. Capacity development to strengthen national trustee

During the decision to be made on **implementation arrangements** the following considerations may need to be addressed:

1. Selection and accreditation of entities
2. Oversight of entities (M&E functions of the governing bodies and oversight by government structures)
3. Fund transfer arrangements
4. Reporting including to UNFCCC
5. Fees (direct/indirect costs of implementation depending on the nature and capacities of the entities)
6. Relationship to international and domestic funds
7. Windows

During the decision to be made on **results based management** arrangements, the following considerations may need to be addressed:

1. Links to existing results-based management systems
2. Fund RBM requirements based on UNFCCC definitions of results and results based action and payments
3. Safeguards
4. Audits
5. M&E

about how and why the program will work.” Articulating these theories commonly involves exploring a set of beliefs or assumptions about how change will occur. Though some consider these elements as components of ToC, others define ToCs as themselves beliefs and assumptions about change. (Stein & Valters, 2012)

During the key decision to be made on fund **governance** arrangements, the following considerations may need to be addressed:

1. Governing bodies (composition and roles) identified
2. Relation to existing bodies
3. Decision-making process
4. Proposal submission
5. Proposal approval
6. M&E

These issues and considerations will be discussed and decided in subsequent stages of the fund development process.

The fund development process is described below noting that some of the steps may overlap with each other and they are to be defined in a detailed workplan with deliverables and corresponding timelines:

- | | |
|--|--|
| 1. Assessing options (ongoing and to be completed with TF decision) | <p>Objective: to understand the advantages of different fund management options in the context of REDD+ and national circumstances</p> <p>Outcome: a decision by the country on the preferred option</p> |
| 2. Develop a concept note or basic design document | <p>Objective:</p> <ul style="list-style-type: none"> - to agree and outline the basic characteristics of the fund management option (see background document on the key elements to present) - to identify the legal requirements for the establishment of the fund (laws, decrees, special exemptions from certain laws, agreements and the contents of these) <p>Outcome: adoption of the design document and inclusion in the national REDD+ strategy</p> |
| 3. Establishment of the Fund | <p>Objective: to legally create the Fund based on the design document and the legal requirements identified above</p> <p>Outcome:</p> <ul style="list-style-type: none"> - agreements, decrees, bylaws etc. properly adopted by the government |
| 4. Develop detailed procedures for the fund | <p>Objective: to agree and describe how the fund will actually function (every detail that was not described in the design document)</p> <p>Outcome:</p> <ul style="list-style-type: none"> - Operational manuals and Terms of Reference for different governance bodies - Portfolio description - M&E framework |

- Risk management framework
- Agreement templates
- Etc.

5. Fund raising

Objective: develop plans to mobilize desired funding level and get commitment from donors

Outcome:

- Fund raising plan
- Agreements with donors negotiated (it is recommended to start negotiating with donors as early as possible in the process to be able to incorporate their expectations into the fund design thus ensuring their buy-in)

6. Fund operational

Objective: to disburse

Outcome:

- Annual program cycles defined
- Calls for proposals launched
- Funds disbursed to support activities
- Results achieved according to Fund's results framework

7. Capacity building

Objective: to prepare national entities to manage and receive funds

Outcomes:

- Capacities and gaps assessed
- Capacity development plan prepared accordingly
- Capacity development plan implemented
- Capacities built to ensure transfer of responsibilities

8. Transfer to national ownership

Objective: ensure phase out international support in governance structures and access modalities and their national management

Outcomes:

- Transition plan prepared and agreed
- Transition implemented according steps of the transition plan

Annex 1: Summary of REDD+ fund management in other countries

Name of the Fund	Country	Organizational structure	Source of funding	Type of disbursement	Beneficiaries	MRV and M&E	Publicly accessible information
Guyana REDD+ Investment Fund - operational	Guyana	World Bank administers trust, guided by government-donor Steering Committee and a secretariat Non-government stakeholders are observers	International (Norway)	Grants to implement Guyana's Low Carbon Development Strategy	Direct access given to UNDP, Inter-American Development Bank and the World Bank (partner entities)	<p>Programmatic:</p> <ul style="list-style-type: none"> - Fund level: results based (tCO₂e) and enabling indicators for non-carbon benefits; - Project level: against performance indicators (NOT tCO₂e) <p>Financial: According to Trustee's (fund level) and partner entities' rules (project level)</p>	The Government of Guyana hosts a website on the partnership that includes international funding committed, annual progress, progress on enabling activities, MRV and third party verification, amounts disbursed and details about the supported Low Carbon Development Strategy projects and programmes.
Congo Basin Forest Fund (CBFF) – operational	Regional – Congo Basin	African Development Bank (AfDB) administered trust fund guided by multi-stakeholder governing board (including one civil society representative), AfDB provided Secretariat and supported by private fund management agent (for small and medium size projects)	International (Norway, UK, Canada)	Grants based on calls for proposals and assessed through six criteria to be used to combat deforestation, develop national baseline and MRV systems, and enhance government/civil society partnerships	Government and CSOs	<p>Programmatic:</p> <ul style="list-style-type: none"> - Fund level: NOT tCO₂e, performance measured against performance indicators including reduce average deforestation rates - Project level: against performance indicators <p>Financial: According to Trustee's rules (fund level) and annual financial audits (both fund and project level). Fiduciary risk assessment is conducted by third parties</p>	The CBFF web site publishes guidelines and criteria for funding, calls for proposals and winning proposals, annual reports (last available : 2012), beneficiary forms and information (including procurement, disbursements)

Name of the Fund	Country	Organizational structure	Source of funding	Type of disbursement	Beneficiaries	MRV and M&E	Publicly accessible information
Amazon Fund – operational	Brazil	National bank-administered trust guided by multi-stakeholder governing board (including non-governmental representatives) and supported by technical committee	International (Norway, KfW) and national (Petrobras)	Non-reimbursable loans (are to be reimbursed if expected results not achieved by the project) to directly or indirectly reduce deforestation in the Legal Amazon, with up to 20% set aside for international projects or projects outside of Amazon biome	Government (federal and state), Brazilian NGOs	<p>Programmatic:</p> <ul style="list-style-type: none"> - Fund level: results based (reduction of deforestation rates below historical average * emission factor = tCO₂e) - Project level: against performance indicators (NOT tCO₂e) – but see definition of non-reimbursable loan before <p>Financial: according to Trustee’s rules (BNDES)</p>	High transparency noted on disbursement Amazon Fund website publishes guidelines and criteria for investment, details of projects submitted and funded. The website also reports <i>expected</i> projects results, for example the number of families receiving PES benefits, the number of individuals trained, and the area of properties mapped. There is limited publicly available information on impact or lessons learned (ODI 2013)
Fund for REDD+ in Indonesia – not yet operational	Indonesia	Currently UNDP administered trust fund (to evolve into national trustee) Government-dominated structure (REDD+ Agency – ministerial level body)	International (Norway)	Grants, debt and equity for projects aligned with the National Action Plan on Greenhouse Gas Action Plan and Provincial Action Plans	Executive agencies: central and provincial government, CSOs, private sector If they don’t qualify, then no direct access and must have a partner agency (UN, World Bank)	<p>Programmatic:</p> <ul style="list-style-type: none"> - Fund level : Results-based (tCO₂e) but currently (Phase 2) NOT tCO₂e - Project level: both results-based (tCO₂e) and no results based monitoring (currently developing M&E framework) <p>Financial: According to Trustee’s rules (UNDP) in interim period</p>	No dedicated site for the Fund
DRC National REDD+ Fund – not yet operational	DRC	UNDP administered trust fund (MPTF pass through) with a multi-stakeholder Board	International (Norway)	Grants to projects aligned with strategic priorities defined in a results framework	National government, UN, World Bank, NGOs	<p>Programmatic:</p> <ul style="list-style-type: none"> - Fund level: NOT tCO₂e, performance measured against performance indicators including 	No dedicated site for the Fund

Name of the Fund	Country	Organizational structure	Source of funding	Type of disbursement	Beneficiaries	MRV and M&E	Publicly accessible information
		(including non-governmental stakeholders), technical committee and executive secretariat			(local and international)	<p>ER but international payments for 1st window do not depend on ER achieved. For 2nd and 3rd windows yes</p> <ul style="list-style-type: none"> - Project level: performance measured against project monitoring framework, no payments per ER achieved by projects for 1st window, possible for 2nd and 3rd window <p>Financial</p> <ul style="list-style-type: none"> - Fund level: according to Trustee's rules - Project level: according to entities' rules 	
Costa Rica National Forest Financing Fund (FONAFIFO) – operational (but not to disburse REDD+ payments yet)	Costa Rica	National bank administered, semi-state entity guided by public-private stakeholder governing board Decision made in June 2013 to expand the FONAFIFO's Board of Directors to create a REDD+ Executive Board or Committee by including one Indigenous Peoples' representative and one civil society representative. Indigenous Peoples and civil society representatives	International (KfW, CF) and national (fiscal and voluntary)	Grants (not REDD+ payments only PES) Currently revising PES scheme to adopt to REDD+ requirements (such as Carbon Fund requirements)	Forest users for PES, Under revision for REDD+	<p>Programmatic</p> <ul style="list-style-type: none"> - Fund level: for REDD+ will be results based (PES is NOT) - Project level: in PES scheme payments per hectare for specific activities monitored by external parties (<i>regentes</i>) – this is currently under revision to adapt to REDD+ <p>Financial :</p> <ul style="list-style-type: none"> - Fund level : BNCS - Project level : internal and external audits 	The FONAFIFO site publishes PED requirements, modalities, various cumulative statistics (on demand, number of hectares, women's engagement, payment distribution etc). It also publishes maps of payments and allows online pre-applications to maintain a registry

Name of the Fund	Country	Organizational structure	Source of funding	Type of disbursement	Beneficiaries	MRV and M&E	Publically accessible information
		at the REDD+ Executive Board will be elected based on an externally funded self-selection process					
Peru Climate Change and Forest Fund (not yet operational)	Peru	Trust agreement between the donor and a bank (either Agrobanco or COFIDE) – no legal personality Forest Conservation Program will act as board and secretariat	International (Norway, CF) and national (fiscal and voluntary)	Grants and (debt) to implement the national REDD+ strategy and compensate provinces for ER achieved	Provinces, private sector, communities, individuals (nested approach)	Programmatic <ul style="list-style-type: none"> - Fund level : Results-based (tCO2e) but currently (Phase 2) NOT tCO2e - Project level: both results-based (tCO2e) and no results based monitoring Financial <ul style="list-style-type: none"> - Not decided yet 	No dedicated site for the Fund
REDD+ Fund	Ecuador	Subaccount of the National Environmental Protection Fund (FAN) using its governance mechanisms	International (KfW) and national (fiscal and voluntary)	Grants	Various domestic entities to implement the national REDD+ strategy (landscape approach)	Programmatic <ul style="list-style-type: none"> - Fund level : Results-based (tCO2e) - Project level: both results-based (tCO2e) and no results based monitoring Financial FAN's operational procedures apply	Website of FAN does not yet contain information on the REDD+ subaccount.

Annex 2 : Transparency and accountability in REDD+ fund management

Transparency and accountability (T&A) in REDD+ generally cover three main aspects: 1) how national T&A strengths and gaps facilitate or impede drivers of deforestation and forest degradation 2) **new T&A risks and opportunities brought about by REDD+, such as in fund management** (which this annex focuses on) and allocation of REDD+ incentives and 3) T&A as part of the safeguards policies laws and regulations, and safeguards information system mandated under the UNFCCC.

In identifying transparency and accountability needs for Cambodia REDD+ Fund Management, it is important to define key terms:

- Transparency is “when information is “presented in plain and readily comprehensible language and formats appropriate for different stakeholders” and “made available in sufficient time to permit analysis, evaluation and engagement by relevant stakeholders.” It therefore relates to both disclosure of and access to information. In the case of a REDD+ Fund, this information covers the processes of nominations at key posts, decision-making, bidding process for proposals, financial commitment and disbursements and their links to results, and all other information deemed relevant and necessary by stakeholders for their full and effective participation and for exercising oversight. It is generally considered that proactive disclosure of information in an accessible format, rather than information provided upon request, is best practice. The contents, frequency, timeliness, format and quality of information provided are best negotiated and agreed upon with information-seekers (such as government bodies, civil society, donors and the private sector).
- Accountability, in this context, relates to all feedback, complaints, grievances mechanisms and the way they are received and addressed (redress), related to the design and operations of the Fund. It comprises systems for receiving information (how does someone provide suggestions to improve a process or lodge a complaint), investigative procedures, and possible sanctions if misuse of power or mismanagement of funds is established. Accountability also includes internal and external audits, conducted by national entities and other external actors as needed. An accountability framework comprises both the supply side (downward accountability from those who are accountable) and the demand side (upward accountability from those who demand accountability, be they donors, development partners or civil society), which often raises capacity requirements on both side.

An overview of the enabling transparency and accountability framework in Cambodia shows:

- **Legislation:** Cambodia has ratified the [United Nations Convention against Corruption \(UNCAC\)](#), and the Cambodian [Anti-Corruption Law \(AC Law\)](#) is in line with international standards. Under the AC Law, people giving illegal facilitation payments and the government officials receiving them will face harsher penalties. Corruption is covered and criminalised in the provisional [Criminal Code](#) (in Khmer), particularly Article 38. Corruption in the form of [active](#) and [passive bribery](#), [abuse of office](#) for private gains and [extortion](#) are also criminalised under the provisional Criminal Code. The [Law on Anti-Money Laundering and Combating the Financing of Terrorism](#) criminalises [money laundering](#). In January 2012, Cambodia's National Assembly passed a new draft law on public procurement which aims to increase transparency

in the state's public procurement (see below). Little information is yet available on the effective implementation of these new legislations, although Cambodia's UNCAC peer-review is scheduled for 2014 and the review will be done by Myanmar and Togo.

- **Government Strategies:** Six out of eight political parties in Cambodia have signed anti-corruption pledges with help from NGOs; the pledges include expansion of the current asset declaration practice, better public access to information to expose corruption, stronger law enforcement for corruption prosecution, and increased focus on fighting corruption in education and government officials' recruitment.
- **Anti-Corruption Agencies:** The ACU is responsible for investigating public and private sector corruption. [Freedom House 2012](#) states that anti-corruption agencies in Cambodia, including the ACU and the Anti-Corruption Council, have neither conducted any investigation of nor prosecuted officials for corruption. In March 2013, the ACU arrested the director of Sustainable AgroEnergy (formerly called Carbon Credited Farming) on allegations of fraud.
- **The Ministry of National Assembly Senate Relations and Inspections (MoNASRI)** was created to investigate allegations of corruption. The Anti-Corruption Body (ACB) in the Council of Ministers was created as the body to be the main anti-corruption agency and was charged with developing anti-corruption measures and presenting proposals to the government; it was also mandated to supervise and follow up on corrupt activities. The ACB cannot in practice investigate corruption.
- The [National Audit Authority](#) is empowered by law to annually audit all government bodies. It receives its financing from the [Ministry of Economy and Finance](#). Its reports are not made available to the public.
- **Ombudsman:** Cambodia does not have an ombudsman. Instead, executive agencies - such as the MoNASRI and the National Assembly Commission for Protection of Human Rights and Reception of Complaints - handle citizen complaints.
- **E-Governance:** According to [United Nations E-governance survey 2012](#), Cambodia is among the countries with the least-developed E-governance (ranked 155th out of 190 surveyed countries).
- **Public Procurement:** The National Assembly passed in 2012 Cambodia's first law on public procurement in a bid to fight the endemic corruption in the public sector. The new law codified the pre-existing patchwork of sub-decrees and other regulations governing the public procurement sector. At the provincial level, bidders need a pre-qualification. Public procurement in Cambodia is often financed through external donations; manuals guiding the procurement process for foreign funded projects have been made. One is called the Manual on Standard Operating Procedures (SOP), and another one is the Procurement Manual for Externally Financed Projects/Programs ([Ministry of Economy and Finance](#) website). The manuals state that **competitive bidding is preferred and mandatory for all projects exceeding US\$ 100,000**. Cambodia is not a signatory to the [WTO Agreement on Government Procurement](#).
- **Freedom of Information:** Cambodia's Constitution does not provide for a right of access to information, nor is there overarching freedom of information legislation. Instead, access to information provisions are scattered throughout a couple of laws.
 - Article 5 of the **1995 Press Law** is described by many as the "closest thing that Cambodia has to a law guaranteeing access to information", as it recognizes the right of the press to "access information in government held records"²³. Article 5 states that in order to obtain information, a request must be made in writing to the relevant institution specifying the information sought, to which officials are obliged to reply within 30 days. However, the Press Law does not provide any clear definition with regard to what constitutes confidential official documents, and only applies to

²³ Cambodia Center for Human Rights 2012

members of the press. In addition, the law is silent on rights of appeal if a request is rejected, and no provision is made for an independent entity to monitor requests and government replies.

- The 2005 Law on Archives provides for public access to archives except if information would be detrimental to national security or other overriding public interests.
- The Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans provides that local councils must provide access to certain types of information to the citizens. This pertains mainly to information on reports, consultation processes and decisions taken.
- Therefore the best avenues for civil society or the private sector to obtain information is to **write an official letter to any Committee who has legitimate discretion in questioning a concerned government official with regard to a particular issue.** According to new amended internal rule of the Parliament, the chair of each Committee has a right to call upon any government's representative to be presented before the Parliament with respect to the issue raised by civil society. The relevant ministry will then appoint someone to respond to the question before the Parliament, who will bring along official documents to present to Parliament. A copy of those documents will be left with the Committee, which civil society can get a hold of. Stakeholders have a constitutional right to approach both ruling party legislators and opposition legislators to seek information on any issue. Note that obtaining information upon request entails that information seekers have the knowledge and capacity to do so.
- **Whistleblowing:** Cambodian legislation provides little to no protection for whistleblowers. The provisions in the ACL could potentially punish whistleblowers with terms of up to six months in prison if their corruption allegation cannot be proven.

T&A in REDD+ Fund Management has shown to decrease the risks of conflicts and increase donors' confidence. A number of good T&A practices have been highlighted, including²⁴:

- A clear set of minimum fiduciary standards (with specific criteria for assessment and procedures for addressing shortfalls)
- Financial accounts, donor contributions and expenditures are made publically available
- Meetings to govern REDD+ funds are open to observers and the general public and documents circulated beforehand, and regular open information sessions are held with civil society to keep an open dialogue
- There is a balance of power between donor and recipient countries in the decision-making process to disburse funds, with representation from civil society organizations, indigenous peoples and local communities
- The presence of an official independent investigative body provides clear oversight over financial management and deals with allegations of corrupt practices

For this reason, **a number of national Funds (described in more details in Annex 1) have integrated considerations on T&A in selecting the modalities for receiving REDD+ funds and designing their REDD+ fund management systems.** For example,

- **DRC** has integrated in the Operational Manual of its National REDD+ Fund a number of measures related to **proactive information disclosure, detection, reporting and sanction of misuses.** For example, the Technical Committee that submits advices and recommendations includes civil society experts, the review of proposals is characterized by a double blind process

²⁴ Global Witness 2012 « Safeguarding REDD+ Finance »

where the identity of the reviewers is kept anonymous to avoid collusion, a financial micro evaluation of implementing entities is undertaken by a third party, and a multi-channel complaints mechanism is established

- **Brazil's Amazon Fund** is generally considered as demonstrating high standards of T&A. The Brazilian Economic and Social National Development Bank was entrusted with managing the funds for its ability to **meet high standards of transparency and accountability through strong financial management capacities**. Very high transparency on disbursement has been observed. Observers have however noted that robust fiduciary standards have made it more difficult for small organizations to access the Fund. Civil society representatives are active in the **Multi stakeholder Guidance Committee** (COFA) which is also composed of federal and state representatives. Monitoring and transparency are one of the eight principles against which project proposals are screened. The transparency of applications received and the projects being funded has increased substantially over time, in part as a result of guidance by COFA.
- **The Congo Basin Forest Fund** allows sub-national and local entities direct access to funds; when combined with stringent financial safeguards, this is considered an effective way to reduce risks of misallocation at national level.

An analysis of T&A in **operational Funds in Cambodia has also shown good practices** that could be modeled or replicated for REDD+, such as:

- A focus on **prevention** in the CCCA Trust Fund, with early capacity assessments and capacity strengthening complemented by regular spot checks
- A number of reporting and multi-tiered accountability requirements under the Commune/Sangkat (CS) Fund, described in the related Sub decree under, among other; article 4 (Board monitors the actual transfer of resources to the Fund); article 6 (Secretariat prepares quarterly financial and activity reports); article 7 (Minister of Interior provides Board with periodic details on transfer and utilization) and; article 17 (Councils shall demonstrate that they have followed a participatory planning, budgeting and implementation plan).
- A 3-Tier complaints mechanism in the CCCA Trust Fund , with the Trust Management is the first entry point and, if the resolution is not satisfactory, national mechanisms (Inspectorate of Ministry, Anti-Corruption Unit and National Audit Authority). To increase transparency the procedures for complaints is expected to be posted online on the CCCA web site shortly.
- A stated objective of the Sub Decree establishing the CS Fund to create incentives for building good governance of the Commune/Sangkat Councils.

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