

CLIMATE CHANGE FINANCING IN CAMBODIA



What is climate change?

Climate refers to the average weather experienced over a long period, typically 30 years. The Earth's climate has changed many times in response to natural causes – the term climate change usually refers to changes that have occurred since the early 1900s.

Natural and human factors both affect global climate. Natural causes include interactions between the ocean and the atmosphere, changes in the Earth's orbit and volcanic eruptions. Humans influence global climate by releasing greenhouse gases – such as carbon dioxide and methane – into the atmosphere. These gases absorb energy that is radiated from the Earth's surface, warming the atmosphere and increasing temperatures globally.

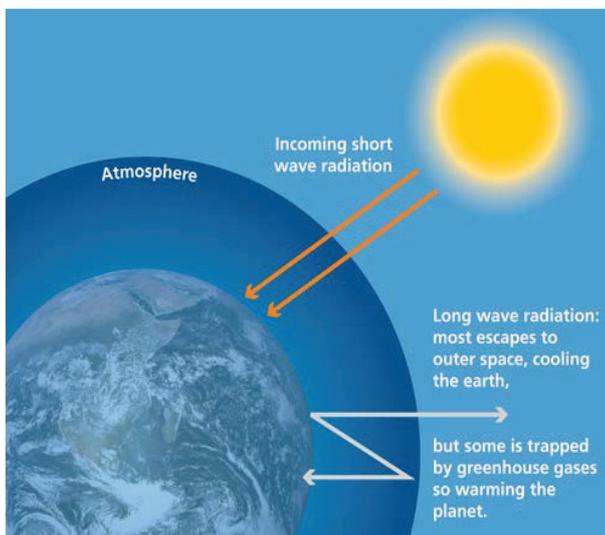


Figure 1: The greenhouse effect

Climate change is probably the most urgent problem facing our society. The impacts of climate change are wide-ranging and are going to be felt ecologically, economically, and socially. As the climate changes, extreme weather events like heat waves, droughts, heavy rain and snow, storms and floods are becoming more frequent or more intense. Extreme weather events pose a direct risk to the health and safety of people. Climate change is happening so fast that many plant and animal species will struggle to cope. Warming of 1.5° C-2.5° C beyond today's levels would put as many as 20-30% of plant and animal species at increased risk of extinction.¹ The warming of the world's oceans is expanding their volume, while polar ice sheets have started to melt and glaciers around the world are shrinking. The combination of these changes is increasing sea levels, which could displace tens of millions of people in low-lying areas – especially in developing countries.

Mitigation and adaptation are two ways to cope with climate change. Mitigation involves reducing the magnitude of climate change itself and can be subdivided into two alternative strategies: emissions reductions -- dealing with the problem at its very source, and geoengineering -- somehow offsetting the effects of greenhouse gas emissions. Adaptation, on the other hand, refers to initiatives and measures to reduce the vulnerability or increase the resilience of natural and human systems to actual or expected climate change impacts.

¹ European Commission's Climate Action website

What is climate finance?

Climate finance is the financing channeled by national, regional and international entities for climate change mitigation and adaptation projects and programs. Climate finance is critical to tackling climate change because large-scale investments are required to significantly reduce emissions and to allow countries to adapt to the adverse climate change effects. Climate finance has been a central element of the international climate change agreements from the outset. The UN Framework Convention on Climate Change, agreed in 1992, stated that developed countries shall provide "new and additional financial resources" to assist developing countries in implementing the objectives of the UNFCCC.

In the 2009 climate change summit in Copenhagen, industrialized countries committed to giving US\$ 100 billion a year in additional climate finance from 2020 onwards. To get things going, immediate 'fast-start' finance of up to US\$ 30 billion was promised until the end of 2012. Donor countries have met their initial commitment on fast-start finance. But globally there is no clear path to ramp up support to the target US\$ 100 billion by the end of the decade.

Various international climate financing mechanisms have been established since the Kyoto Protocol. Global Environment Facility Funds (GEF) is the largest public funder of projects to improve the global environment.² Serving as financial mechanism for the UNFCCC convention, the GEF offers four funding windows for climate change related activities: (1) The Special Climate Change Fund, (2) The Least Developed Countries Fund, GEF Trust Fund and (4) GEF Small Grant Program. The Climate Investment Funds (CIF) are the world largest funds for climate change, dispersing US\$ 6.7 billion to 49 development countries to date.³ Administered by the World Bank since 2008, CIF are made up of two multi-donor Trust funds or four funding windows to help developing countries pilot low-emissions and climate-resilient development. The Adaptation Fund is a financial instrument under the UNFCCC and its Kyoto Protocol (KP) and has been established in 2009 to finance concrete adaptation projects and programs in developing country Parties to the KP, in an effort to reduce the adverse effects of climate change facing communities, countries and sectors.⁴ Adopted as a financial mechanism of the

UNFCCC at the end of 2011, the Green Climate Fund (GCF) is the latest funding instrument aiming to make a significant and ambitious contribution to the global efforts towards attaining the goals set by the international community to combat climate change.⁵ Detail process on how to access the Fund is yet to be developed. The GCF is expected to be fully operational in 2014.

Research rationale and objective

Due to its strong exposure to floods and droughts and the lack of adaptive capacity which caused by a combination of low-levels of income; skill and infrastructure, Cambodia, along with the Philippines, is the most vulnerable country to climate change in Southeast Asia. As one of the poorest countries in the world, Cambodia needs sustained financial resources to deal with the impacts of climate change. The 2010 World Development Report's preliminary estimates of financing needs for mitigation and adaptation activities in developing countries range from US\$ 140-175 billion per year for mitigation over the next 20 years with associated financing needs of US\$ 265-565 billion and US\$ 30 – 100 billion a year over the period 2010 - 2050 for adaptation⁶. However, such estimate is not available on a country level for Cambodia.

The large majority of climate expenditure has so far been provided by donors. According to the ministry of environment, Cambodia has mobilized US\$ 200 million of climate funding for the last few years but little is known about the detail of the fund. With regard to effectiveness, information is scarce on the impact of the completed projects and on the progress of the ongoing climate change projects. With hundreds of million of dollar of climate financing, Cambodia faces a growing pressure to demonstrate that climate finances are well spent. This research aims to contribute to addressing this issue by reviewing Cambodia's climate change finance to estimate how much fund Cambodia has actually received, from which source and whether the intended beneficiaries are indeed benefitting from climate change projects.

Being the first comprehensive research of its kind in Cambodia, this research has the following objectives:

- (1) Identify and document the range of bilateral and multilateral funds that are currently available to and being accessed by Cambodia
- (2) Analyze the progress and challenges of the climate change financing policy and implementation

² <http://www.thegef.org/gef/whatisgef>

³ <https://www.climateinvestmentfunds.org/cif/aboutus>

⁴ <https://www.adaptation-fund.org/>

⁵ <http://gcfund.net/home.html>

⁶ World Bank Group, 2010, p. 257

- (3) Make recommendations on the steps required to increase the ability of Cambodia to effectively and sustainably manage and utilize climate change funding and thus better respond to climate change.

Scope of research

This study adopts a narrow definition of climate finance as the transfers of public resources from developed to developing countries. In this regards, this study only covers the financing flow from developed countries to Cambodia through bilateral and multilateral channel. Other sources of financing, including the private sector, are not included in the study. Also, the study only looks at the fund that is given specifically for Cambodia. Regional projects are also excluded from the calculation due to the difficulty to track what proportion of the total fund is allocated for Cambodia.

Research Methodology

This research employs a mix-method approach, combining qualitative and quantitative data collected from desk research, key informant interview, and case study. A comprehensive literature review and desk research was conducted to study the global climate change financing schemes, the range of fund that Cambodia has accessed to, and the status of climate change projects in the country. Based on the set criteria, 95 climate change relevant projects were selected for analysis from Council for the Development of Cambodia's ODA database, development partner's climate change project list, and the database of international multilateral funding agencies. Triangulating the four different data sources took a considerable amount of time but helped to increase the accuracy of the calculation. A total of 27 key informants including representatives from local, international NGOs, government ministries, donors and 32 project beneficiaries were interviewed to verify and complement the result of the desk research. Two case studies of donor-funded climate change projects were selected for further analysis. The entire research lasted for three months from July 01, 2013 to October 01, 2013.

Main findings

Climate change financing in Cambodia by type assistance

Since 2003, Cambodia has mobilized US\$ 655.6 million in climate fund, 64% of which is grant while the remaining 36% is concessional loan. This funding comes from 95 domestic climate relevant projects, of which 43

projects have been completed, 45 projects are ongoing and seven are in the pipeline.

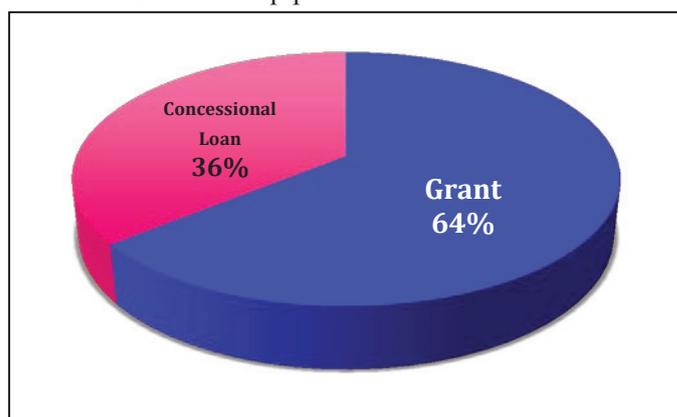


Figure 2: Climate change financing in Cambodia by type assistance

Climate change fund availability

Out of the US\$ 655.6 million that Cambodia has mobilized so far, US\$ 338.8 million is estimated to have been disbursed and the remaining US\$ 316.8 million is available for next seven years (2014-2020).

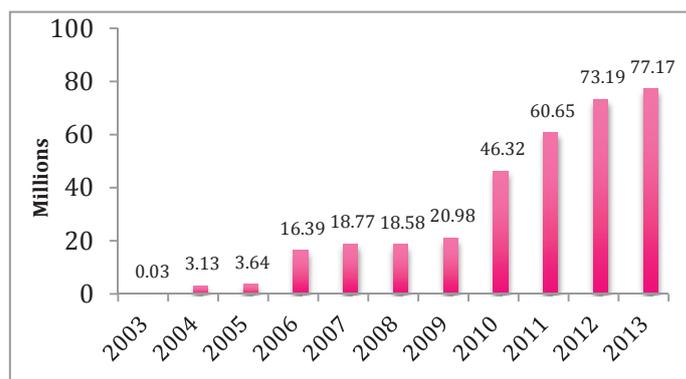


Figure 3: Climate fund availability by year

Source of financing

Cambodia receives climate change financing through two main sources: bilateral and multilateral channel. The former has contributed US\$ 317.7 million, accounting for 48% while the latter has contributed US\$ 337.8 million, accounting for 52% of the total fund. (See figure 4 on the next page)

Climate financing by sector/ focus area

Seventy-one percent of the total financing is concentrated in three major sectors: agriculture, water and irrigation (41%), transport and infrastructure (16%) and disaster management (14%). The researcher classified climate projects into four categories: mitigation, adaptation, mitigation and adaptation project (for project which has both elements), policy, research and capacity building and found that the majority of the

financing (70%) is allocated for adaptation projects. (See figure 5 and 6 on the next page)

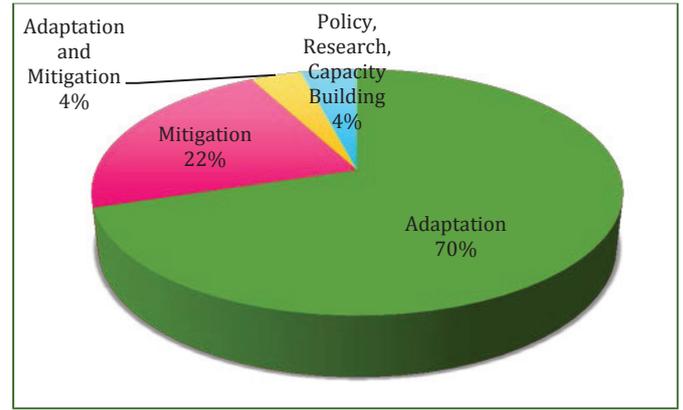


Figure 6: Climate Change Financing in Cambodia, by focus area

Climate change financing by locations

Dissecting the projects by province by assuming that provinces covered by the same project receive proportionally equal amount of fund of that project, the researcher has found that Pursat has received the largest share of the fund, totaling at US\$ 67.29 million. Other major receivers of fund include Battambang, Kampong Chhnang and Siem Reap with an estimated funding of US\$ 49.77 million, US\$ 35.90 million, US\$ 32.8 million respectively.

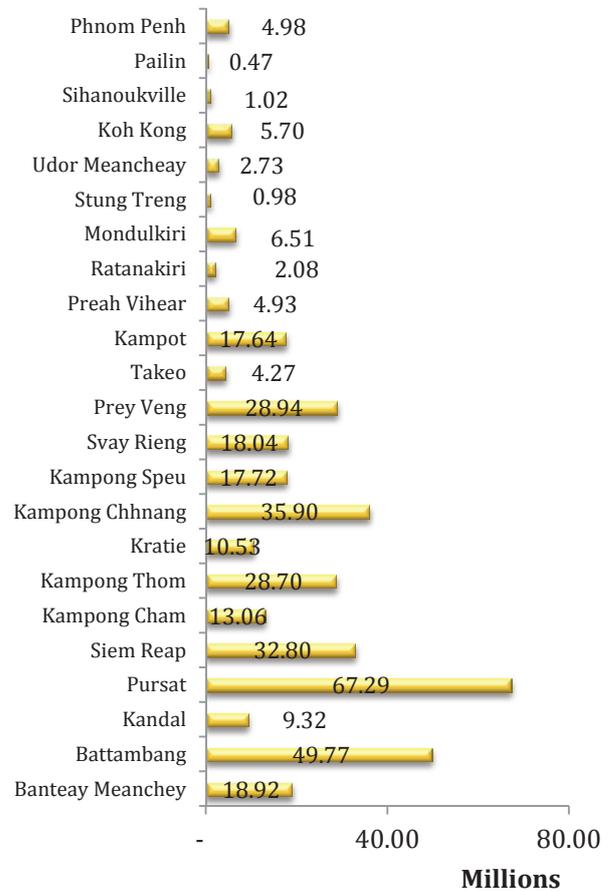


Figure 7: Climate Change Financing in Cambodia, by Province (million US\$)

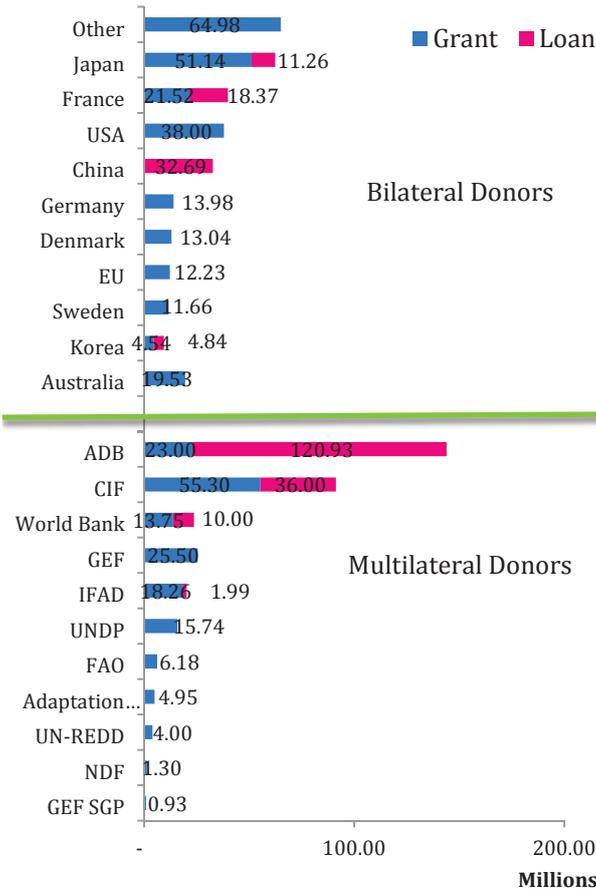


Figure 4: Climate Change Financing in Cambodia, by donor (million US\$)

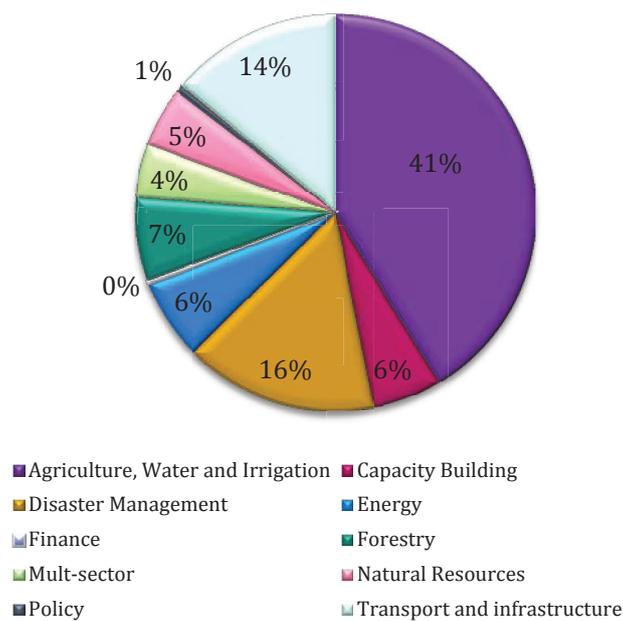


Figure 5: Climate Change Financing in Cambodia, by sector

Climate change financing: progress and issues

Cambodia has been relatively successful in mobilizing climate fund. A total of US\$ 655.6 million has been mobilized since 2003, almost half of this amount is still available for use until 2020. While the understanding about the effectiveness of climate finance interventions remains limited, donors have generally expressed satisfaction with the use of climate fund so far. Progress has also been made at the policy level. The national Climate Change Strategic Plan has been completed and is waiting for government's endorsement. Cambodia is also one of the first few countries in the world to complete the Climate Public Expenditure and Institutional Review to review the climate change related expenditure, and to assess the extent to which this expenditure is guided by existing policy and institutional responsibilities. The ministerial action plans and Climate Change Financing Framework are currently being developed. New and promising approaches are also emerging to effectively use climate fund.

While headway has been made, there are challenges that need to be addressed. Some donors and NGOs suggest that although the money has been used successfully, it could have been used more effectively. The following challenges are identified to be the barriers for the effective management of climate change fund.

- The absence of a single, well-defined, robust, and uniform reporting and monitoring framework, and the lack of data are the barriers in tracking of how the money is delivered, channeled and managed
- Limited ownership due to the lack of government's participation in the implementation, monitoring and evaluation process
- Limited stakeholder engagement, particularly, the vulnerable communities
- Despite some progress, awareness of climate change remains low among the general population and so is the capacity of the government and NGOs to address climate change challenges
- Low coordination among the government's ministries, among donors, between the government and donor, and between government and implementing NGOs. This has led to sub-optimal results

Conclusion

As one of the poorest countries in the world most vulnerable country to climate change in Southeast Asia, Cambodia needs sustained financial resources to deal with the impacts of climate change. Information regarding climate change financing in Cambodia is limited. To bridge this information gap, this research seeks to answer three fundamental questions: (1) how much money has Cambodia received to mitigate and adapt to climate change? (2) What are the main sources of climate change financing and in which sector, location has the fund been disbursed? (3) What progress has been made with regard to climate change financing and what are the remaining challenges needed to be addressed?

This study analyzes 95 climate change relevant projects from four main data sources and found that since 2003 Cambodia has mobilized **US\$ 655.6 million** (36% of which is concessional loan) from bilateral and multilateral sources. At the time of writing, it is estimated that Cambodia still has about half of mobilized fund to be used until 2020 if no additional fund is requested. The majority of fund was spent on adaptation projects in three major sectors: Agriculture, water and irrigation, transport and infrastructure and disaster management. Pursat, Battambang, Kampong Chhang, Siem Reap, and Prey Veng are the largest beneficiaries.

While some progress has been made at the policy level, challenges remains with the implementation and coordination of climate change projects and the management climate change fund. To what extent climate change fund has been effectively used is unclear due to the lack of data and the absence of a single, well-defined, robust, and uniform reporting and monitoring framework on how the money is delivered, channeled and managed. The lack of country ownership, restricted stakeholder engagement, poor coordination, low awareness and limited institutional capacity are found to be the main barriers.

Recommendation

With hundreds of million of dollar of climate financing, Cambodia faces a growing pressure to demonstrate that climate finances are well spent. The ability to prove effective governance of the fund will help government to secure more allocation over longer term. This research suggests that the following actions be taken into consideration in order to improve the effectiveness of climate fund in Cambodia.

For government

- Link climate finance with Cambodia's development plans, not create stand-alone projects
- Develop a harmonized reporting, recording and tracking system for climate change financing flow
- Improve transparency and accountability to all stakeholders
- Create an effective coordination process to manage the complex interactions between multiple actors and channels
- Strengthen and promote financing through sub-national channel.

For donors

- Promote country ownership by helping to build Cambodia's capacity to exercise leadership over its climate change policies and strategies and activities
- Reduce the fermentation of climate change assistance by harmonizing their systems
- Promote pool funding mechanism
- Continue to raise awareness and strengthen the capacity of government and civil society
- Improve transparency and information sharing

For implementing agencies

- Document lesson learned and share best practices of climate change projects
- Pay special attention to the poor and the vulnerable in designing and implementing the project to ensure that they really benefits from the project
- Involve local community in climate change projects to empower local people, create a sense of belonging and allow them to better understand and adapt to the consequences of climate change.
- Strengthen coordination and communication to eliminate duplicated work and to identify areas or issues that need more attention.



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