

SUSTAINABLE FINANCE MECHANISMS FOR CONSERVATION OF FORESTS AND PROTECTED AREAS IN CAMBODIA

PREPARED BY THE CAMBODIA FORESTRY ADMINISTRATION,
MINISTRY OF AGRICULTURE, FORESTRY AND FISHERIES WITH
SUPPORT FROM THE WILDLIFE CONSERVATION SOCIETY



FINANCE OPTIONS ASSESSMENT REPORT

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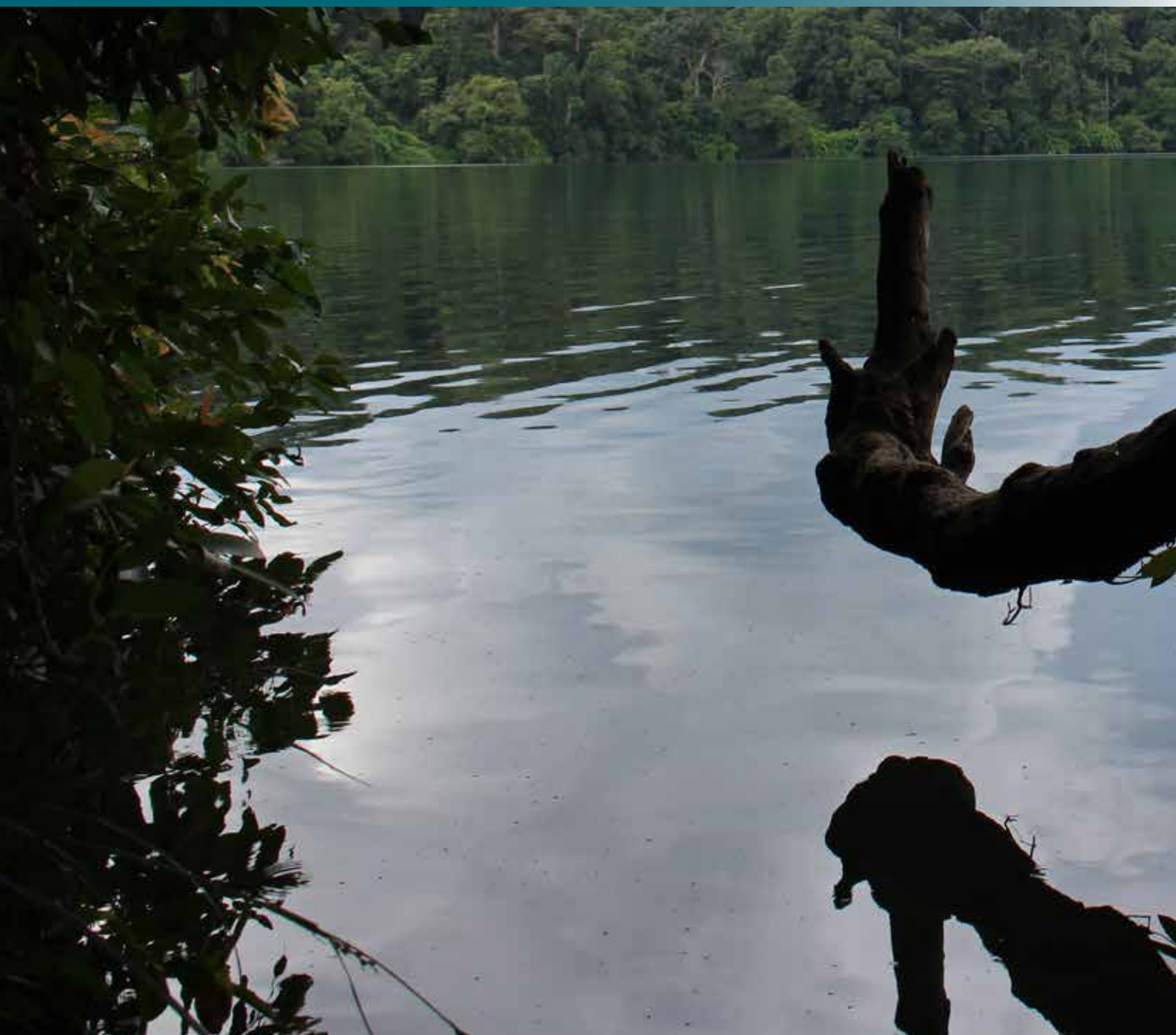




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Foreword

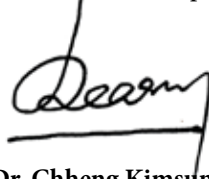
The Royal Government of Cambodia's National Forestry Program (NFP) for 2010-2029 has set six program areas for priority implementation, one of which is the development of sustainable financing mechanisms to support the management and administration of protected forests and other areas. Current levels of financial support, from government and donor budgets, are significantly below that needed to ensure successful implementation of the NFP. At the moment, there are very few policies or regulations that enable collection of revenues from the forestry sector, and the revenues that are collected are remitted to the national treasury, rather than allocated directly to support the implementation of the NFP. Private sector engagement in sustainable forest management is also very low. Consequently, Cambodia relies heavily on support from development partners, especially bilateral and multilateral donors and large NGOs, to fund the NFP. However, continued investments by donors and NGOs is not by itself a sustainable source of funding. As a result, the development of a long-term financial plan to secure sustainable financing for the forestry sector is essential in order to safeguard existing on-the ground achievements, and ensure the long-term integrity of standing forests.

The Technical Working Group on Forestry Reform (TWG-FR) is the government-donor coordination mechanism for the forestry sector. In 2014, it formed a Sustainable Forest Financing Sub-Group which is co-chaired by the Forestry Administration and Wildlife Conservation Society (WCS). The sub-group is comprised of representative from Forestry Administration, Ministry of Environment, Ministry of Economic and Finance, development partners, national and international NGOs and the private sector. It is tasked to lead a policy process and develop ideas for long-term forest financing mechanisms. The assessment of finance options for Cambodia's forests presented here was initiated to provide technical information that can be used by stakeholders to guide the development of a strategy to secure the funds necessary to pay for the full costs incurred to sustain the forests in Cambodia.

This report includes a concise description of the theory and intent of various financial mechanisms and an overview of how they are typically applied in practice in a country of similar social and environmental conditions to Cambodia. It also provides an overview of legal and policy considerations that may affect the adoption of the financial mechanism in Cambodia, and a description of any prior experience with the financial mechanism in Cambodia.

I would like to take this opportunity to acknowledge the work of the Sustainable Forest Financing Sub-Group, especially WCS who have prepared this assessment report. By acknowledging its comprehensive analysis and financial options for Cambodia's forests, I would also like to offer my thanks to all colleagues of the TWG-FR who have contributed to provide inputs for this report.

Phnom Penh, 07 April 2016



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Delegate of the Royal Government
Head of the Forestry Administration
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Acknowledgement

This report was designed and written by the Forestry Administration's Sustainable Finance Sub-group of the Technical Working Group on Forestry Reform (FA, TWG-FR) and the Wildlife Conservation Society (WCS), with contribution from Dr. James Tolisano (WCS), Dr. Nguon Pheakkdey (Royal University of Phnom Penh, RUPP) and Mr. Chhun Delux (FA). This assessment report also benefited from the insightful comments and supports from **H.E. Dr. Chheng Kimsun**, Delegate of the Royal Government of Cambodia, Head of the Forestry Administration, **H.E. Dr. Chea Sam Ang**, Deputy Director General of the Forestry Administration, and members of the TWG-FR. Financial contribution to complete this assessment report came from WCS.

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Executive Summary

The Cambodia Forestry Administration (FA) of the Ministry of Agriculture, Forestry and Fisheries (MAFF), and the Ministry of Environment (MoE) have led actions taken since the 1990s to establish new protected areas and secure protected forests in ecologically important landscapes. These actions have resulted in the stabilization, and, in some cases, recovery of populations of some threatened species. However, these accomplishments require on-going funding to insure payments for recurrent and new costs. Continued investments by donors and NGOs into the same landscapes may provide some of this funding, but is not expected to represent by itself a sustainable source for these funds. As a result, the development of a long-term financial plan to secure fund is essential in order to safeguard existing on-the-ground achievements, and ensure the long-term integrity of standing forests.

Cambodia can reduce the risks to its protected forests and enhance overall protection measures by diversifying the financing mechanisms used to produce the funds required for recurrent management costs. The principal task for Cambodia will be to ensure that funding for protected forests is not exclusively dependent on government budget allocations and external donor support, and that funding sources are sufficiently varied to allow conservation and sustainable management programs to continue even during market downturns (e.g., if, for example, tourism-based revenues decline or demand decreases for specific forest products). More effective revenue collection and cost reduction mechanisms are also important financing strategies to achieve financial sustainability.

The following report is intended to provide technical information that can be used by stakeholders in Cambodia to guide the development of a strategy to secure the funds necessary to pay for the full costs incurred to sustain the protected forests of Cambodia. The approach used here follows the lead provided by several other national conservation finance strategies being developed or applied worldwide, particularly the assessments developed for Mozambique and Belize.

The assessment of finance options for Cambodia's protection forests examined all mechanisms that were determined to be technically achievable by the Forestry Administration and its associates. The options considered were reviewed, verified, and prioritized at a consultative meeting held on Monday 26th May, 2014 at the Sunway Hotel in Phnom Penh, Cambodia, and attended by a total of 60 participants including representatives from the Royal Government of Cambodia (Forestry Administration, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy and Finance), NGOs and Development Partners, Private Sector, and Civil Society Organizations. The consultative meeting provided input on the context, framework, and approach to be taken in developing the forest financing options assessment, and share international experiences with regards to forest financing mechanisms.

The participants in the consultative meeting identified eight possible finance mechanisms to include in the assessment, including each of the following:

- Taxes, fees, and fines levied on the legal trade in forest and non-timber forest (NTFPs) products;
- Public-private partnerships, including leases, concession fees, and direct payment or profit sharing ventures in which revenues from products and services sold are directed to a trust or other fund established for the explicit purpose of forest conservation, with primary attention given to possible income generated from Economic Land Concessions;
- Donor funding;
- Payment for Environmental Services (PES), including payment for tourism, water and watershed services, and carbon and climate revenues;
- Debt relief ('Debt-for-nature swaps');
- Loans, bonds, and sustainable investment funds, including impact investments, allocated to forestry development and conservation;
- Biodiversity and Forestry offsets and compensation agreements with industry;
- Establishing a forest conservation trust fund, with revenues generated from multiple sources;

The assessment of each mechanism includes the following information:

- A concise description of the theory and intent of the mechanism;
- An overview of how the financial mechanism is typically applied in practice;
- An example of how the financial mechanisms has been applied in a country of similar social and environmental conditions, and a summary of any results to date;
- An overview of legal and policy considerations that may affect the adoption of the financial mechanism in Cambodia
- A description of any prior experience with the financial mechanism in Cambodia.

The review of the potential financial instruments included in this assessment report suggests that each may hold some potential for contributing to the financial resources needed to manage Cambodia's protection forests and secure their ecological integrity for future generations.

Further action on the forest finance assessment must occur in the context of existing and anticipated institutional policy. For the next five years, 2014-2018, the policy priorities for the RGC in terms of sustainable management of natural resources will focus on four areas.

1. Further managing forest and wildlife resources in a sustainable and equitable manner, in accordance with the "National Forest Programme 2010-2029";
2. Further strengthening of the management and conservation of fishery resources in a sustainable manner in line with the "Strategic Planning Framework for Fisheries Sector 2010-2019" and the "Declaration on the National Policy for Fisheries Sector";
3. Intensifying the implementation of measures to ensure ecosystem sustainability in the agricultural sector, particularly to protect soil productivity, and surface and underground water quality and supply;
4. Strengthening stakeholder cooperation under the framework of the "National Policy on Green Development" and the "National Strategic Plan on Green Development 2013-2030" through the development of regulatory frameworks and mechanisms.

Ultimately, it is expected that the Forestry Administration will work together with other appropriate government agencies to design and implement a comprehensive strategy that includes several of the financial instruments described here. However, the development of this strategy will still require the following information:

- A more thorough assessment of the legal framework available or required to support the use of each instrument to support the procurement of funds to support government actions to manage public protection forests;
- An up to date market analysis to determine the approximate amount of income that may be accessible to the FA through use of each financial instrument, including a review of Cambodia's competitive advantage for each instrument to be pursued;
- A prioritization of the most promising financial instruments based on the results from the market analysis;
- A determination of the most effective management framework that can best support the administration and disbursement of any funds raised, including the feasibility of public-private partnerships in the form of trust funds or para-statal organizations;
- A business plan to create a 3-5 year roadmap for financial success. The business plan will define the immediate and long-term objectives of the Forestry Administration and the specific financial needs the plan will fulfill; a summary of the market analysis; an action plan to guide the implementation and fulfillment of the finance strategy; and an operations and management plan to describe the administration and use of funds.

It is recommended that TWG-FA now establish a work plan to carry out each of these steps. The results from this work will help provide more precise answers to each of the following concerns:

- The "Mission" and "Vision" of the proposed finance strategy;
- The approximate amount of funding required to ensure long-term conservation of Cambodia's protection forest resources;
- The expected outputs and outcomes from the funding
- Identification of the institutional structure and responsibilities of the management authority
- Determination of the disbursement and accounting procedures for all leveraged funds.

The work plan should also establish the respective stakeholder roles and responsibilities in the design and implementation of a comprehensive Cambodia forest finance strategy. In turn, the completed strategy should determine the funding requirements necessary to achieve long-term forest management goals in Cambodia; the institutional and policy framework necessary to implement the strategy; and implementation, monitoring, and reporting procedures.



1. Introduction to Cambodia's Forest Finance Feasibility Study

Cambodia lies within one of the world's most significant biodiversity hotspots, and also one of the most threatened. Significant conservation investments have been made by external donors and the Cambodian government since the 1990s to establish new protected areas and secure protected forests in ecologically important landscapes. These actions have resulted in the stabilization, and, in some cases, the recovery of populations of some threatened species.

The Forestry Administration (FA) of the Ministry of Agriculture, Forestry and Fisheries (MAFF), and the Ministry of Environment (MoE) have led this work, with technical and financial support from donors and international non-government organizations (NGOs), including the Wildlife Conservation Society (WCS), Conservation International (CI), World Wide Fund for Nature (WWF), Birdlife International, and Flora and Fauna International (FFI). Independent external reviews of many of these programs, such as the evaluation report from the United Nations Development Program (UNDP) – Global Environment Facility (GEF) project entitled “Establishing Conservation Areas through Landscape Management,” have emphasized the significant on-the-ground results that have been achieved in terms of forest areas placed under protection or improved management. However, these accomplishments require on-going funding to insure payments for recurrent and new costs. Continued investments by donors and NGO into the same landscapes may provide some of this funding. However, donor and NGO contributions are finite in scope and cannot serve as a sustainable financing source. As a result, the development of a long-term financial plan to secure fund through market-based mechanisms is essential in order to safeguard existing on-the-ground achievements, and ensure the long-term integrity of standing forests.

These financial pressures continue in parallel with on-going social and ecological pressures. As mentioned above, the forested landscapes in Cambodia are under significant and increasing levels of threat. Cambodia now has one of the world's highest rates of deforestation, driven by large-scale forest clearance for agriculture and in-migration to frontier regions. Deforestation rates increased significantly following changes in forest management policies in the mid-2000s that provided a basis to expropriate forestlands for agriculture, and the new Protected Areas Law in 2008 that permitted the de-gazettement of protected areas for economic development. Since 2008 more than 10% of Cambodia's protected area network has been allocated to investment firms. Assignment of large-scale concessions to corporations also removes options for local people to use land and resources for livelihoods and new enterprises. Securing the finances to sustain forest landscapes in Cambodia thus becomes important for the needs of local people and biodiversity.

Five particularly pervasive financial constraints to effective protected forest management are evident:

1. There is insufficient funding at the present time to cover core site-level costs and coordinate national-level forest management activities;
2. Funding is distributed unevenly across the protected forest network;
3. Staff costs dominate public budgets;
4. Protected forests rely on a very narrow funding base and limited range of financial sources;
5. Protected forests operate according to a short-term financial planning horizon.

Cambodia can reduce the risks to its protected forests and enhance overall protection measures by diversifying the financing mechanisms used to produce the funds required for recurrent management costs. The principal task for Cambodia will be to ensure that funding for protected forests continues to include, but is not fully dependent on government budget allocations and external donor support, and that funding sources are sufficiently varied to allow conservation and sustainable management programs to continue even during market downturns (e.g., if, for example, tourism-based revenues decline due to terrorism or natural disaster). More effective revenue collection and cost reduction are also important financing strategies to achieve financial sustainability.

The following report is not intended to serve as a finance strategy document. Instead, this assessment provides background information and options that can be used to support the development of a long-term finance strategy for Cambodia's protected forests. Preparation of this long-term forest finance strategy is expected to be a follow-on activity to the results provided in this report. Ultimately, the assessment is intended to provide technical information that can be used by stakeholders in Cambodia to guide the development of a strategy to secure the funds necessary to pay for the full costs incurred to sustain the protected forests of Cambodia.

The approach used here follows the lead provided by several other national conservation finance strategies being developed or applied worldwide. Mozambique and Belize are two countries that have recently completed similar conservation finance strategies, and each provides an appropriate model for Cambodia's forests. The Cambodia forest financing assessment has also relied on the important work and resources available through the Conservation Finance Alliance (<http://conservationfinance.org/>). Members of the Alliance at the global level include most of the development partners working in Cambodia, including donor agencies (AFD, EC, GIZ, KfW, UNDP, and USAID, among others) and NGOs (FFI, IUCN, Pact, WCS, and WWF). The organizations and experts in the Alliance have supported other countries to develop strategies for sustainable financing, including Mozambique.



1.1 Policy Framework for Innovative Forest Financing in Cambodia

The National Forest Programme (NFP), approved by the Royal Government of Cambodia in 2010, sets out the strategic framework for the forestry sector over the period 2010–2029, to be implemented by the Forestry Administration (FA). The NFP prioritizes six programmatic areas that will receive emphasis over the next two decades in order to achieve these objectives. One of the six programmatic areas is the development of sustainable financing mechanisms, including innovative mechanisms, such as conservation concessions or offsets. In addition, the recent National Strategic Development Plan for 2014–2018 similarly encourages the pursuit of sustainable finance measures to support forest conservation in Cambodia.

The implementation of the NFP Programme's sustainable finance objective has thus far focused on REDD+ (Reducing Emissions from Deforestation and forest Degradation) pilot projects and the National REDD+ Readiness Programme. The present report recognizes the importance of continuing this REDD+ work, and references other information sources that can ensure that this work is included in a broader forest finance strategy for Cambodia. The present report will include information on REDD+ opportunities while also highlighting the potential benefits from other innovative financing approaches. Some examples of these other, innovative approaches include:

- Development of Payments for Environmental Services (PES) mechanisms by WCS with the Forestry Administration and MoE in Preah Vihear province;
- Community-based ecotourism development by the Wildlife Alliance, WCS, and WWF; and
- The Community-based Production Forestry (CBPF) pilot led by FA/WCS in the Seima Protection Forest, and similar activities undertaken by the Regional Community Forestry Training Center funded by UNDP.

These initiatives have succeeded in generating significant revenue for conservation and local development at the village level. Scientific research conducted by WCS staff, which has been published in leading academic journals, has demonstrated that these models can protect biodiversity and ecosystem services and alleviate local poverty. However, the amount of funding provided by these village-level projects is not sufficient to fulfill the existing forest management financial targets. As a result, the present recommendations review options from a mix of potential revenue sources. Each section of this report provides an overview of a potential revenue source and evaluates its feasibility under existing conditions in Cambodia. The eventual Cambodia protected forest finance strategy will most likely achieve its greatest results through a combination of several of these potential sources implemented in a coordinated and unified process as a Cambodia Forest Fund.

Further, any funding mechanisms put into practice must be managed in a transparent way with clear oversight and engagement of development partners and potential investors. This is important if any fund is to ensure confidence from investors and contributors. Specifically, a comprehensive sustainable finance strategy for protected forests in Cambodia will require the establishment of a fund management system that is (a) consistent with national law, (b) has sufficient input by government, and (c) is structured to ensure transparency and effective management by financial experts.

2 Objectives of the Sustainable Finance Mechanisms for Conservation of Cambodia Protection Forests

On 28 February 2013 the Technical Working Group on Forestry Reform (TWG-FR) formed an informal taskforce to address the issues and needs of sustainable finance for Cambodia forests. The TWG-FR is the government-donor coordination mechanism for the forestry sector, chaired by the Director-General of the Forestry Administration (FA) and the European Union (EU). The TWG-FR determined that the taskforce is to be facilitated by the Deputy Director-General of the FA and WCS.

The assessment is designed to support the Forestry Administration (FA) of the Royal Government of Cambodia to develop an options assessment of innovative forest financing modalities for Cambodia's protection forests, and to understand and communicate the results of this assessment to key stakeholders. The assessment carried out the following 3 activities:

Activity 1: Consultations on appropriate innovative financing mechanisms. The FA has created an informal taskforce, chaired by the Deputy Director-General of the FA and WCS, and includes representatives from the FA, donors, and NGOs. This group will consider different innovative financing options, analyze ongoing initiatives, and identify priority modalities for further research. Particular effort has been made to engage the private sector in these discussions, including the European Chamber of Commerce in Cambodia.

Activity 2 : Development of the options assessment on forest financing modalities of Cambodia's Protection Forests. The assessment team has reviewed and identified a range of mechanisms that may provide opportunities for Cambodia to generate the revenues necessary to support long-term conservation of its protected forests. The assessment of each mechanism includes a summary of the theory by which the mechanism operates and generates revenue. The assessment also includes at least one example of how the mechanism has been used to generate revenues in Cambodia or in another country facing similar social and ecological challenges. Finally, the assessment examines existing policy and laws in Cambodia to identify possible constraints or opportunities that may facilitate the adoption of the finance mechanisms.

Activity 3 : Communication of the results to the Forestry Administration (FA) and interested stakeholders. The results of this study will be communicated to the FA and development partners through a national-level workshop, with results summarized and distributed to appropriate interests. The workshop will be held under the authority of the TWG-FR. The experts who contributed to the results included in the study will facilitate the workshop, the objectives of which are to:

1. Provide initial training to the Government on the various types of innovative forest financing mechanisms, and how they have been used in other countries.
2. Explore which mechanisms might be relevant for Cambodia, and select the ones that should be considered in more detail.

Research for the options assessment as conducted over a four-month period from June – September 2014, and included an extensive literature review and consultation with key stakeholders in Cambodia and outside of the country. The literature review for the assessment consisted of a review of recent guides and case studies on protected area financing; existing documents on sustainable financing and PES; and, conservation area business plans. The options considered were reviewed, verified, and prioritized at a consultative meeting held on Monday 26th May, 2014 at the Sunway Hotel in Phnom Penh, Cambodia, and attended by a total of 60 participants including representatives from the Royal Government of Cambodia (Forestry Administration, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy and Finance), NGOs and Development Partners, Private Sector, and Civil Society Organizations. The consultative meeting provided input on the context, framework, and approach to be taken in developing the forest financing options assessment, and share international experiences with regards to forest financing mechanisms.

The report is presented in three parts: Section 3 provides a review of possible financing mechanisms; Section 4 summarizes the overall findings and recommendations; and, Section 5 outlines the steps needed to prepare an action plan for the development of a long-term sustainable financing plan for Cambodia's protected forests.



3. Review of Financing Mechanisms

The assessment of finance options for Cambodia's protection forests examined all mechanisms that were determined to be technically achievable by the Forestry Administration and its associates, including the Ministry of the Environment. The finance mechanisms reviewed in the assessment include each of the following:

- Taxes, fees, and fines levied on the legal trade in forest and non-timber forest (NTFPs) products;
- Public-private partnerships, in which revenues from products and services sold are directed to a trust or other fund established for the explicit purpose of forest conservation, with primary attention given to possible income generated from Economic Land Concessions;
- Donor funding;
- Payment for Environmental Services (PES), including payment for tourism, water and watershed services, and carbon and climate revenues;
- Debt relief ('Debt-for-nature swaps');
- Loans, bonds, and sustainable investment funds, including impact investments, allocated to forestry development and conservation;
- Biodiversity and Forestry offsets and compensation agreements with industry;
- Forest conservation trust fund, with revenues generated from multiple sources;

The assessment of each mechanism includes the following information:

- A concise description of the theory and intent of the mechanism;
- An overview of how the financial mechanism is typically applied in practice;
- An example of how the financial mechanisms has been applied in a country of similar social and environmental conditions, and a summary of any results to date;
- An overview of legal and policy considerations that may affect the adoption of the financial mechanism in Cambodia
- A description of any prior experience with the financial mechanism in Cambodia.

Section 4 of the assessment concludes with suggestions for steps to be taken to develop an action plan that can support the development and implementation of a forest finance strategy.

3.1 Government Budget Support – Public Taxes, Fees, Fines, and other direct allocations from Government

Government revenue allocations are an important source of support for protected areas. A portion of the fees collected from public taxes, fines, and other payments from concessions and businesses using Cambodia's natural resources is typically reassigned to support costs for management of protection forests. Despite the importance of this finance mechanism, direct government budget support is often inadequate to meet all forest management costs, with financing gaps typically met by revenues from external donor assistance. However, new sources of public finance may be accessible through additional public taxes, fees or fines derived from natural resources exploitation or use, and other sources of public finance, such as debt relief. Effective financial management and revenue retention regulations, including revenue sharing with local communities, are also critical to ensure public support for protected forests.

3.1.1 How Does This Mechanism Work?

Taxes, fees and fines related to natural resource use are charged in sectors such as petroleum, mining, hydropower and other energy production, fisheries, forestry, land, water supply, and tourism. A percentage of the fees, taxes and fines for environmental licensing and environmental impact assessment (EIA) can also be assigned to a government or independently managed fund designated for forest conservation uses. It is important to ensure that the fees and taxes levied for the use of Cambodia's natural resources are charged at rates that reflect fair market value for the service and product being delivered. For example, the fee for leasing an ecotourism site in the Northern Plains of Cambodia should fully account for the cost of creating, maintaining, and managing these areas. Fee structures should include "willingness to pay" surveys that are further linked with market surveys to determine a fair market rate for each service offered to private businesses for the use of Cambodia's natural resources.

Using Government Fees to Finance Conservation: Government budget allocations are typically done on an annual basis, and protected forests typically are funded through a centralized revenue system. Thus revenues from taxes, fees or other charges within a specific protected forest are not retained at the local level, but are delivered to a central agency or the national Treasury. Protected forests typically receive only a small portion of these collected fees through one annual allocation. This can create significant difficulties for local managers who may not have reserves in place during times of new growth or need. Also, the separation of budget allocations from earnings reduces any incentives for protected forest managers to generate more revenue, and creates little responsibility or accountability for them to do so. The financial autonomy of protected forests can be enhanced by increasing the opportunity to generate and retain funds locally (Emerson, et al. 2006).

It is also essential to evaluate the way in which financial allocations from government budget support are distributed. In some cases the vast majority of funds are assigned to recurrent costs, and principally human resource costs. However, this usually occurs at the expense of essential investment needs in infrastructure, maintenance and new growth. For example, salaries for forest guards may be secure, but those same guards will have no funding available to cover transportation, community meeting, or facility maintenance costs. Providing competitive salaries for staff is unquestionably essential. However, these personnel must also have the resources and capital they need to carry out the management functions expected to ensure long-term sustainability of the forest ecosystems. Thus funds must also be in place to cover the costs of building maintenance and essential new construction, vehicle purchases and maintenance, community consultations, and social and environmental fieldwork.

Most protected forests operate on an annual budget cycle. Yet cash flow requirements for conservation finance rarely conform neatly to an annual budget or project calendar. Similarly, donor-funded projects may involve very irregular or delayed transfers of funds. When combined with uncertainty about the level of funding that can be expected in the future, this means that it is often difficult to match cash availability to actual needs, or to undertake long-term planning and investment (Emerson et al., 2006).

3.1.2 Institutional and Policy Factors in Cambodia

The Royal Government of Cambodia (RGC) has evolved a 'Rectangular Strategy' (RS), which has been the hallmark of development since about 2004. The National Strategic Development Plan (NSDP) for 2006-2010 carried forward the agenda laid out in the first RS, and the NSDP Update 2009-2013 on the RS Phase II. The NSDP 2014-2018 carries forward the agenda laid out in RS Phase III, and it was enacted in September 2013. The NSDP 2014-2018 states that the national budget revenue collection target should increase revenues by an average of 0.5 percent (half of one percent) of the GDP per year in order to achieve one of Cambodia's development priorities – environmental sustainability. Thus the target was 13.2% of GDP in 2011 and rose to approximately 14.9 in 2013, and 15.4% in 2014. At the end of the plan, the minimum expectation is to target budget revenue at 16.9% of the GDP, although the goal should be closer to 18% as stated in Step 2 of the Public Financial Management Reform Program.

In order to generate revenues for environmental sustainability, the RGC will continue formulating and increasing the effectiveness of enforcement of laws (and legal letters) related to non-tax revenue mobilization and enforcement of contracts (or agreement on state property management), especially Economic Land Concession Contracts, public property-leasing, petroleum and mine concessions, and other concessions.

The RGC has in place many laws, regulations, and policies that enable relevant ministries to collect revenues for natural resources conservation from environmental taxes, fines, fees, and/or royalties (see Annex 4 for the complete list of enabling legal provisions under Cambodian law). As stipulated in Article 51 of the Law on Forestry, FA shall collect both a Wildlife Conservation Fee and Wildlife Royalty. The exact amount of Fee and Royalty shall be determined by Joint-Prakas between MAFF, and MEF. The Law on Forestry also specifies that: (i) any individual or legal entity harvesting

Forest Products and By-products for commercial purposes within the Permanent Forest Reserve shall pay royalties and premiums to the national budget through FA (Article 52); (ii) anyone with legal possession of a permit to harvest Forest Products and By-products shall pay all applicable royalties and premiums prior to transferring or selling any of these rights to a third party (Article 56); and (iii) any individual who has committed a forestry offense harming the forest ecosystem shall be liable for payment in order to restore or repair the forest ecosystem to its original condition (Article 94).

In addition, Article 32 of Law on Mineral Resource Management and Exploitation states that the rate of royalty on the value of mineral resources, methods of royalty payment to the State, and incentives for competent officials as provided in Article 23, shall be determined by Inter-Ministerial Prakas. Taxes, duties, tax on shares, tax on personal share, provision, method of expenditure, tax payment procedure, accounting and financial principles and practices, definitions of losses, exemption and incentives of investment in mineral sector shall comply with laws in force.

Finally, according to Article 53, punishment for natural resource offences within protected areas include imprisonment, fines by court procedures, transaction fines, confiscation of evidence, payment of restoration damages, warning, termination or suspension of agreements or permits. Decisions to suspend or terminate agreements or permits shall be the responsibility of the Minister of Environment. Decisions to impose transaction fines, to pay restoration damages and to issue warnings shall be the responsibility of the Nature Conservation and Protection Administration.

3.1.3 Prior Experience with this Finance Mechanism in Cambodia

FA has been collecting royalties from timber products, fines and premiums for many years. For example, as stated in the National Forest Programme, the royalties for timber collected between 1999 and 2009 was calculated at USD 56.5 million. In 2008, the royalties to FA from 36,785 m³ of round logs totaled approximately USD 2.5 million, while fines and premiums collected by FA was estimated at approximately USD 600,000. The revenues from forests have been derived from the sale of logs and timber as a sub-unit of the total value of the forests. Therefore, it should be noted that some of the significant services and incomes provided by forests that could add to the total amount of fines, fees and royalties from forests have not been estimated. Those include:

- The value of NTFPs such as fuel-wood, charcoal, medical plants, furniture processing, and wildlife;
- Employment resulting from timber harvesting in the primary sector, in particular the considerable downstream processing;
- Significant increases in value-added through the chain of wood processing;
- Payments for environmental services; and,
- Revenues from eco-tourism.

FA will focus from the present time through 2029 on the RGC's ability to contribute to the financing of forest conservation by pushing for the reallocation of funds from the national budget, the contribution from royalties and fines collected, as well as any export duties on timber and non-timber forest products.

In the next 10-20 years, some of the approaches that FA will pursue to raise revenues for sustainable forest management will include:

- Collecting royalties from logging in the intact evergreen areas;
- Royalties and legal fees from logging in community forest areas and concessions areas, including from non-timber forest products;
- Sales of services in forestry;
- Property tax on private plantations;
- Sale of carbon credits based on reduced impact logging and redd+;
- Entrance fees to protected forest areas; and,
- Sale of hunting rights.

According to the National Forest Programme, it is expected that royalties from logging in the intact evergreen areas (1.25 million hectares, which is 50 percent of the production forest) for the next 20 years will bring in an estimated USD 728 million. The other 50 percent of production forest will bring in the royalties estimated at USD 455 million. Finally, it is expected that 75% of the 2 million hectares of community forest areas will consist of degraded deciduous forests, and 25% of logged semi-evergreen forests. Therefore, royalties from logging can be expected to commence once all of CF is operational with proper management plans in place. It is expected that within 20 years, royalties from log-

ging in CF areas would total approximately USD 476 million. Overall, the RGC expects that within the next 20 years, FA would be collecting about USD 1.6 billion from royalties from logging in the intact forest areas, production forest areas, and CF areas.



3.2 Leases, Concession Fees, and Public-Private Partnerships to Generate Revenues from Forest Enterprise Products and Services

In most parts of the world, user fees – especially for tourism and resource harvesting – have traditionally provided the majority of revenues for protected forests. In Cambodia, a variety of charges can in principle be collected for the use of forest land, resources and facilities, including for access, recreational services, land rental and concessions, as well as for various extractive resource uses. As well as generating income, user fees have the additional advantage that they can be employed to manage demand and optimize income from both economic and conservation viewpoints. Considerable revenues can also be generated from public-private partnerships created by the government of Cambodia with private businesses. In such a case the resulting business will have an explicit mission to generate revenues for the conservation of forests, biodiversity, and ecosystems, and income for communities and regions. These public-private entrepreneurial partnerships can also provide existing or emerging markets with products that have a positive impact on the environment, educate consumers, and contribute to building a global constituency for conservation and sustainable production.

The potential certainly exists to widen considerably the range of goods and service for which charges are levied. For example, the Philippines has expanded the basis of revenue generation in protected areas by allowing for income to be generated from a wide variety of sources including entrance fees, charges for the use of facilities such as car parks and visitor centers, payments for services such as snorkeling, diving, swimming, boating, mountain climbing, trekking, picnicking, bird watching, filming and photography, as well as fees for resource harvesting, construction and aquaculture development, land rental and concessions. Diversifying the range of goods and services for which fees are charged can make a significant difference in terms of income generation and cost recovery. For example, even though New Zealand's Department of Conservation is not permitted to charge for entry into public lands, it is able to cover 15% or more of its annual budget from commercial concessions on tourism, agriculture and filming, as well as from income generated by the users of recreational facilities such as huts, trails and campsites. All of these rates are set at levels that will ensure full cost-recovery, and are regularly revised and updated in line with inflation (Phillips 2000).

As well as involving the creation of new fee systems, funds can be generated by improving existing markets and pricing structures. This is because, very often, charges are set so low that they neither accurately reflect prevailing prices, nor fully recover the costs of providing those services. Kenya's differential pricing system in their protected areas was, for example, preceded by studies to assess tourist demand and willingness to pay, and to look entry fees and service charges in neighboring countries.

There is some risk in developing public-private enterprises since considerable initial capital outlay may be required to finance a business start up. However, initial investments for business start-ups typically rely on blended capital in the form of grants and affordable loans. Public-private partnerships can be developed through collaboration between government, NGOs and private foundations, with a guarantee that revenues from the business be used to support social and economic needs and forest and ecosystem conservation management. An important advantage of public-private partnerships to create forest-based enterprises is that the revenues generated from these businesses can become commercially viable and will not be dependent on long-term donor subsidies.

Impact investors may also be a source for initial project funding in some contexts. Impact investments are made into companies, organizations, and funds with the specific intention to generate social and environmental benefits and a financial return. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market-to-market rate, depending upon the circumstances.

There is a growing opportunity to take advantage of existing markets promoting conservation, including such markets as:

- Ecotourism - “experiential” tourism--which encompasses ecotourism, nature, heritage, cultural, and soft adventure tourism, as well as sub-sectors such as rural and community tourism—are among the sectors expected to grow most quickly over the next two decades. Tourists are willing to travel long distances and pay high rates for viewing of charismatic wildlife and scenic landscapes and ecosystems.
- Organic or Sustainable Intensified Agriculture – the sale of organically derived agricultural products has grown globally at a rate of nearly 20 percent per year for the last few years. Further, emerging land management strategies such as the System of Rice Intensification (SRI), can be a win-win for both conservation and farmers' yields and profits.

¹ It should however be noted that these revenues are not necessarily collected or administered by FA authorities, but can instead be managed by an independent third party entity.

- Non-timber forest products market development – increasing interest from impact investors in products such as bamboo, resins, rattans, etc.

Section 3.2.3 below outlines other examples of public-private partnerships that have already been tested in Cambodia.

3.2.1 How Does This Mechanism Work?

The government has considerable experience collecting fees and charges for the use of public lands and resources. This expansion of this revenue source needs only to explore new possible funding sources from resources from which fees are not been collected, or where fee structures do not currently reflect fair market values. Government also has considerable experience with public-private partnerships. However, it may be useful for government and NGOs to identify suitable private sector partners for possible collaborative ventures involving sustainable forest-based enterprises. Government can then solicit funding and collaboration requests from potential partners through a formal proposal submission process, and then select and share the development costs for collaboration ventures. Each venture would then require the following:

- Feasibility studies, business plans and possibly seed grants to support start-up enterprise concepts.
- Capital loans at low interest rates (0-11% per annum) provided by NGO, private foundation, or investor partners allocated to the most promising enterprises for working capital and/or scaling up (either vertically or horizontally). Actual terms can be customized to the situation of each enterprise.
- Sustainable sourcing plans to ensure consistent high quality in product delivery.
- Marketing plans to identify and build demand, and ensure best price options for products and services.
- On-going technical support provided through NGO or investor partners to optimize business operations (accounting, sourcing, legal compliance), and ensure the adoption of sustainable business management and best practices, including monitoring support.

The feasibility of these public-private enterprises to generate significant revenues as part of a comprehensive forest finance strategy will require a comprehensive initial market survey to determine opportunities for proposed new ventures to gain entry into existing marketplaces or to stimulate new ones.

Protecting Parks and Gorillas in Congo

WCS has developed an ecotourism program in the Republic of Congo that generates revenue for and creates jobs in Nouabalé-Ndoki National Park (NNNP), and positions the park to cover its operating costs. The project simultaneously benefits the local community, and increases awareness and support of gorilla conservation, while demonstrating the value of the wildlife and habitat to the surrounding communities. In the short-term, WCS has worked with the government of Congo to help to secure funding to improve NNNP's ecotourism infrastructure.

Additional staff will be hired to track the existing gorilla groups, maintain and improve local hiking trails, and handle tourism logistics. The results will better position the operation to handle an increase in tourist demand and may encourage enthusiastic visitors to stay longer and visit multiple groups. In the long-term, the project seeks to attract private investment from tour operators who will gain from the increased tourism opportunities created by the venture. Early stage sales of approximately \$200,000 suggest that the low investments could eventually yield significant revenues to help defray long-term park management costs.



3.2.2 Institutional and Policy Factors in Cambodia

The Government of Cambodia has been taking steps to improve the investment climate and levels of investment. Comprehensive sector development plans have been prepared, but implementation is constrained by institutional weaknesses and limited borrowing capacity. Most funding is sourced from user fees for services provided by state-owned enterprises (SOEs), and through public sector borrowing on a concessional basis. SOEs have limited capacity to borrow due to the lack of availability of long-term debt in local financial markets. The amount of public sector borrowing is limited by the size of the country's tax base, which is low and does not reflect the demand for infrastructure facilities and services. In December 2011, all public sector debt, by law, was sourced on a concessional basis, and there was no commercial debt program. Government and official development assistance (ODA) funding resources are insufficient to meet Cambodia's overall funding needs. Public-private partnership (PPP) can help the government meet this financing gap by stimulating private sector investment and financing for development activities.

The Royal Government has recognized the importance of PPPs, and a Law on Concessions (LOC) was enacted by the National Assembly in 2007. A draft sub-decree that would allow the LOC to be implemented has been prepared, but it has not been approved. Despite the absence of a legal framework, as of December 2012, a significant number of PPPs had been implemented, or were in the process of being implemented in Cambodia, and further PPP projects are planned in the power sector. The PPP projects being proposed are often quite small and emerge on an ad hoc basis. PPPs are not standardized, and they tend to be issued on a reactive, unsolicited, and negotiated basis, rather than through proactive government preparation and competitive tendering. As a result, the amount of funds being raised through PPPs is below potential, and it is unlikely the services provided accurately reflect market needs.

3.2.3 Prior Experience with this Finance Mechanism in Cambodia

To date, most PPP projects in Cambodia have been procured on a noncompetitive and unsolicited basis. Some of these projects are quite large, particularly in the power sector, and the International Monetary Fund (IMF) noted in a recent report on Cambodia's debt sustainability that the hydropower projects presently being developed by the government as PPPs have the potential to create significant liabilities for the government. The IMF does recommend that the government implement a phased PPP development program that builds on project successes to create political support and investor confidence in order to broaden the scope and sector coverage for PPP projects.

While the number of PPPs is impressive, the overall level of private investment outside power in sectors such as water and transport is low. Data from the World Bank's Private Participation in Infrastructure (PPI) Projects Database show that during the period 1990–2008 there was a total of 22 PPP projects in Cambodia. Slightly over half of these projects were in the energy sector, representing about 55% of total investments by number and investment value. While private investment in infrastructure has been increasing in recent years, the number of projects and the amounts mobilized continue to be small. It appears that in the road sector there has been little investment as the concessions were allocated for existing roads. There is virtually no PPP investment in social sectors such as health and education and cross-sectoral sectors such as environment and conservation.

PPPs Implemented by the RGC

Sector	Number and Form of PPP	Level of Government Issuing Contract
Power	6 hydropower generation BOT projects 3 coal-powered generation BOT projects 2 transmission leases/ BOT projects Various licenses issued to small REEs for generation and distribution	National National National Subnational
Airports	3 airport concessions Air navigation services concession	National National
Roads	National Route 4, concession Various rural concessions	National Subnational
Rail	Operation and maintenance contract	National
Seaports	Oil terminal and dry port concession	National
Water	16 small rural distribution concessions 1 bulk water project	Subnational Subnational
Solid Waste Management	2 concessions	Subnational

BOT: Build-Operate-Transfer; REE: Rural Electrification Enterprise; PPP: Public-Private Partnership
Source: ADB 2012

3.3 Funding from Development Partners – Including Trust Funds

3.3.1 How Does This Mechanism Work?

Between 2008 and 2012, Cambodia received about USD 5.4 billion in development cooperation financing from development partners. Approximately USD 3.55 billion of this total was dispersed as grants, and US\$1.85 billion as loans. Based on projections in the NSDP 2014-2018, Cambodia is likely get USD 1.2 billion (USD 600 million as grant, and USD 600 million as loan) in the next 2-3 years. Development cooperation has accounted for approximately 10 percent of the country's GDP in the recent years. It has also probably contributed to the recent high economic growth rate, increased GDP per capita from USD 760 in 2008 to USD 1,036 in 2013, and reduced the poverty rate from around 47.8% in 2007 to 19.8% in 2011. Besides demonstrating the international community's support for the Royal Government's development program and reform effort, this increased level of external resources has also supported the creation of a positive enabling environment, which has been associated with expanded public and private investment, primarily in the infrastructure, garment, agriculture, construction, and tourism sectors.

Development partners provide an important source of funding for protected forests in Cambodia, with bilateral and multilateral agencies providing the largest source, along with some donations from individuals, NGOs, private charitable foundations, and private companies. However, donor interests and procedures can vary significantly. This means that fundraising approaches need to be tailored for each partner, and funding priorities can change quickly and dramatically. Most development partners provide support through two to five year projects, and this is often insufficient to fulfill the medium or long-term objectives and needs of many protected forests. However, some funders are increasingly willing to consider funding requests to catalyze long-term sustainable financing mechanisms and to capitalize financing mechanisms, such as conservation trust funds (see Section 3.3.2 below). Public-private-community partnerships, supported by donor financing, also provide new models for sustainable financing (see Section 3.2 above).

New approaches to traditional donor fundraising can also help to increase funding for protected forests. For example, many development partners have significantly increased available funding for programs responding to climate change and capitalizing on opportunities to generate revenues from payments for ecosystem services (PES – see Section 3.4 below). Others, such as the Global Environment Facility, have identified sustainable forest management as a funding core. Private charitable foundations are principally focused on social sectors in Cambodia. However, foundation support through NGO collaboration is another viable source of short-term funding. Increased private investment in Cambodia may also create new opportunities for private sector financing through partnership agreements, sustainable investments, and biodiversity offsets.

3.3.2 Conservation Trust Funds

Conservation Trust Funds (CTFs) are private, legally independent grant-making institutions that provide sustainable financing for biodiversity conservation and natural resource management. Conservation trust funds have been legally established in over 50 countries, typically as trust funds or foundations, as a way to manage long-term financing for protected areas, biodiversity conservation or other environmental purposes. These funds are usually independent of government, and are typically set up as private grant-making institutions that are governed by an independent board of directors which is charged with ensuring that funds are used for the specific purposes defined in the fund's legal statutes.

Conservation trust funds are often established to anchor other sustainable financing mechanisms by providing a transparent and efficient way to manage funding for conservation purposes. Conservation trust funds can manage endowment funds (e.g., only investment income is spent), sinking funds (e.g., both capital and investment income is disbursed) or revolving funds (e.g., pass-through sources of revenue are disbursed), or a combination of any of these.

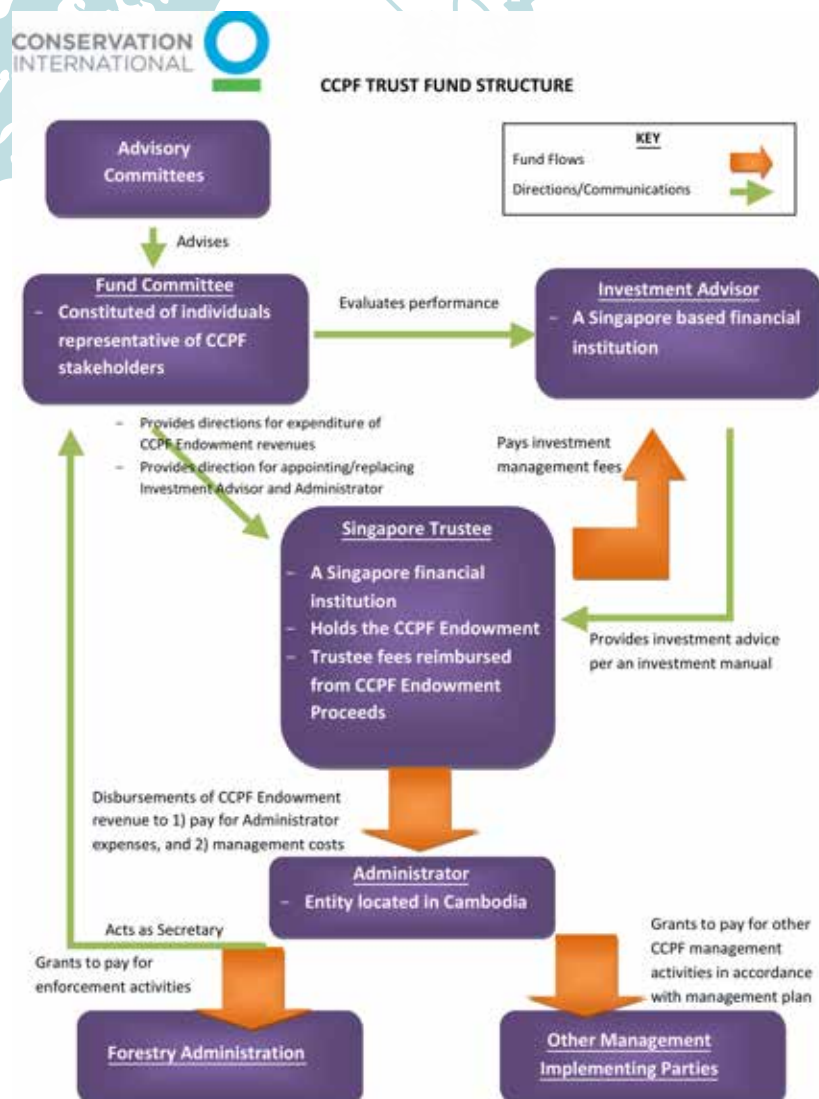
CTFs can be:

- Funds that support Protected Area (PA) management with a primary focus on biodiversity conservation, or
- Environmental funds that cover a range of environmental issues with significant support to civil societies and local communities.

- Endowment Fund – A large capital fund (often provided by a donor or via a grant or debt swap). Only spends the interest earned on the account.
- Sinking Fund – All funds in the account are spent over a specific time frame – 10 to 20 years.
- Revolving Fund – Income from taxes, fees, fines, donors, or PES are continuously raised and put in the fund.

Most funds combine 2 or 3 of the fund types as a way to diversify their sources of funding and take advantage of emerging opportunities.

The Central Cardamoms Protected Forest (CCPF) trust represents an important existing model to show how trust funds can significantly support forest management and conservation in Cambodia. The CCPF was signed and executed on June 10, 2015 by the MAFF, FA, and MEF and with support from The Global Conservation Fund of Conservation International (CI). The Fund includes an endowment (the “CCPF Endowment”) to provide a secure and steady long term flow of funds to support core management costs of the CCPF. An initial \$2.5 million in funds have been raised and invested by CI from various donors, with a gap of \$7.5 million in funds required for full target capitalization needed to cover management expenses. The first payout is expected in January 2017. Management decisions are made by a Fund Committee comprised of MAFF, MEF, a designated Administrator (CI), another NGO (FFI), private sector interests (Grandis Timber Ltd), academia (RUA), and donors (FINTRAC-HARVEST). The Fund Committee offers credible and transparent operational procedures and effective checks and balances for the administration of the Fund, pursuant to a CCPF Operations Manual. The CCPF protects habitat for 54 endangered species listed on the IUCN red list, provides drinking water for 30,000 people downstream, and stores an estimated 358,000 tons of CO2. The CCPF represents an essential source of funding to cover the significant gap in the \$250,000 minimum needed annually to manage the CCPF and enforce existing laws, including payment for 44 rangers, management and support staff and the fuel and motorbikes needed for monitoring patrols.



3.3.3 How Do Conservation Trust Funds Work?

CTFS are typically developed through a process that engages all affected stakeholders to carry out the following steps:

- Define the mission, vision, and desired outcomes from establishment of the fund.
- Determine the roles and responsibilities for all parties involved in the development and management of the fund – this can include the assignment of fund management responsibilities to an independent third party, often a local or international NGO, and appointment of secretariat to manage the overall development and implementation of the fund.
- Legally establish the fund, and define financial management procedures.
- Identify potential donors with demonstrated interest in the mission and vision of the proposed fund.
- Develop and submit proposals to raise the funds to endow the fund.
- Build the capacity for individuals and institutions managing funds.
- Help fund managers communicate with and learn from other trust funds.

Madagascar Biodiversity Trust Fund

The Government of Madagascar established a conservation trust fund in 2005 as a part of a concerted effort to find sustainable financing the effective management of the protected area network by the National Park Service.

The external trust fund donors in addition to the participation of the Government of Madagascar are the Global Environment Facility (GEF), Fonds Français pour l'Environnement Mondial (AFD/FFEM), World Wildlife Fund (WWF), Conservation International (C.I.), World Bank (IDA), and KfW. The interests yielded from the assets will go to cover selected measures for infrastructure, and to partly cover the costs of maintaining the parks. They planned to have \$33 million EUR. As of 2007, \$11 million USD had already been disbursed.

3.3.4 Institutional and Policy Factors in Cambodia

As previously mentioned, the NSDP 2014-2018 provides the overarching framework for implementing development activities and for programming domestic and external resources in Cambodia. The RGC has also produced a Development Cooperation and Partnerships Strategy to support implementation of the NSDP with the objective to promote development effectiveness in Cambodia. The Strategy is effective for the period between 2014 and 2018 and will guide the promotion of partnerships with a wide range of development actors, including Government ministries and agencies, development partners, civil society, the private sector and regional actors including South-South partners. Finally, the Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia (CRDB/CDC) is the focal point within the RGC for the mobilization of Official Development Assistance (ODA), for coordination of ODA with all development partners and NGOs, and for coordination with and between Royal Government ministries and agencies on ODA allocation and utilization issues.

Development Partner Support for Conservation in Cambodia

Development partners have supported more than 550 projects in Cambodia. These development projects are divided into 4 main sectors: social, economic, infrastructure, and services/ cross-sectoral programs.

Environment and conservation projects are listed under the services/ cross-sectoral programs sector. There are in total 82 environment and conservation projects out of the 550 plus projects that are currently being supported by development partners. For the complete list of all projects in Cambodia, visit this Council for the Development of Cambodia's portal:

http://cdc.khmer.biz/Reports/report_oda_and_ngo_listing_of_project_by_sector.asp

The RGC divides development partners into two categories: bi-lateral partners and multi-lateral partners. Current bi-lateral partners include: Australia, Belgium, Canada, China, Denmark, Finland, France, Germany, Japan, the Netherlands, New Zealand, Norway, Republic of Korea, Russian Federation, Sweden, Thailand, United Kingdom, and the United States. Multi-lateral development partners include: United Nations Agencies (UNDP, UNICEF, WFP, UNFPA, UNHCR, UNESCO, FAO, WHO, UNCOHCHR, UNAIDS), Bretton-Wood Institutions (IBRD/ World Bank and IMF), Asian Development Bank, and the European Union/EEC. The RGC welcomes support from all of its development partners and acknowledges that, if carefully managed, this provides for innovation and a broad range of policy perspectives to help achieve successful implementation of priority policy objectives of the NSDP 2014-2018.

Cambodia: Greater Mekong Subregion Biodiversity Conservation Corridors Project/Asia Development Bank, USD 19 Million

A Grant Agreement was signed between the RGC and ADB on 27 January 2011 to implement the GMS BCC Project in Cambodia over an eight year period (2011–2019) to establish sustainably managed biodiversity corridors in the GMS BCC Project provinces (Monduliri and Koh Kong). The Project covers 80 villages in 10 districts (covering 22 communes) across Monduliri and Koh Kong provinces in Cambodia. The long-term impact of the Project is to achieve climate resilient sustainable forest ecosystems benefiting local livelihoods. The Project outcome is sustainably managed biodiversity corridors. The Project has four outputs: (i) institutions and communities strengthened for biodiversity corridor management; (ii) biodiversity corridors restored, protected and maintained; (iii) livelihood improvement and small-scale infrastructure support in villages; and (iv) project management and support services provided.

Institutional and Policy Factors for Conservation Trust Funds: Cambodia does not have any identifiable overarching law or any sub-decree that guides or regulates the establishment of funds generally (aside from the more general Law on Public Finance System 2008, discussed further below). The result is that existing funds in Cambodia have been created on an ad hoc basis through special subject-matter laws. Further details could be included below this law, via a sub-decree, in accordance with the hierarchy. An exception to this would be a project-based, donor managed trust fund established under contractual arrangements with a development partner(s) (also discussed further below). Nevertheless, there are various laws in Cambodia that do provide provision on how the different types of Conservation Trust Fund (discussed earlier) could be established.

The Law on Forestry 2002 establishes the legal framework for the management, harvesting, use, development and conservation of the forests in Cambodia. This law enables the establishment of a National Forestry Development Fund (NFDF), which is to be administered and managed under the responsibility of the National Forestry Development Committee (the organization and function of which is to be set out in Sub-Decree), and co-chaired by Minister of the MAFF and the Minister of MEF. The Forestry Law specifies that its revenue sources will include government allocations, premiums on forest products/by-products, wildlife conservation fees, contributions from international organizations, donations from individuals and non-government organizations, and revenue from 'other services in the forestry sector'. Activities the NFDF's funds may be only be used for are reforestation, silviculture and forestry rehabilitation, forest and biodiversity protection and conservation, scientific and technical research, extensions services; development in the forest and wildlife sector, development of community forestry; and training human resources for the forest and wildlife sector. The revenue of the fund must not be used for the organization and functioning of the FA. The FA is currently preparing the Sub-Decree to operationalize the NFDF.

The Law on Protected Areas 2008 ('PA Law') establishes a framework for the management, conservation and development of protected areas, under the jurisdiction of GDNAP of MoE. Amongst other things, the PA Law requires the establishment of a National Protected Area Strategic Management Plan, action plans and technical guidelines for managing protected areas, and proposals for establishing and modifying any protected areas. The PA Law also contains provisions enabling the establishment of a Protected Areas Fund ('PA Fund'). Similar to the Forestry Law, the PA Fund is to be organized, managed and 'given responsibility' by a protected area committee, which is to have the Minister of MoE and the Minister of MEF as co-chairs. PA Law also specifies that the PA Fund may be used for activities within protected areas including the protection, conservation, rehabilitation and enhancement of biological resources and ecosystems, technical and scientific research and study, maintenance and extension of eco-tourism services, training, human resource development and capacity building of staff, support for establishing community protected areas, education on protected areas, and infrastructure needs. The PA Fund has not yet been operationalized.

The Law on Environmental Protection and Natural Resource Management 1996 ('Environment Protection Law') under MoE establishes a broad framework on matters including national and regional environmental plans, natural resource management, environment protection and pollution control, and environmental impact assessment. It also provides the foundations for the establishment of an 'Environment Endowment Fund', a special Treasury account to be created and administered by the MoE 'for environmental protection and natural resource conservation' in Cambodia. Sources of revenue are to constitute government contributions, grants from international organizations, donations from individuals and non-government organizations, and other lawful sums. To date, MoE has not operationalized the Environment Endowment Fund.

3.3.5 Prior Experience with this Finance Mechanism in Cambodia

There are several examples of conservation trust funds that have been established in Cambodia. Thus far, the biggest trust fund that is currently operational and is relevant for conservation activities is the Cambodia Climate Change Alliance Trust Fund. Other trust funds that have been set up include the Marine Conservation Trust Fund and the Tropical Forest Conservation and Venture Trust Fund.

Cambodia Climate Change Alliance (CCCA) Trust Fund

The CCCA Trust Fund is a multi-donor trust fund established by donors and government to apply a more coherent approach to climate change support for Cambodia. The fund is administered by UNDP, and implemented by a National Climate Change Committee within the MoE. A dedicated Trust Fund Secretariat appointed by government manages day-to-day operations, and reports to a Programme Support Board. A Trust Fund Administrator manages the Trust Fund, provides capacity development and financial assurance, and reports to the government and donors.

The CCCA Trust Fund is a sinking fund, where all committed funds will be disbursed by the end of the project time-frame. The initial design was for the duration of 3 years (2010-2012) and approximately USD 8.9 million was committed for that period. Recently the CCCA programme has been extended to 2014, with additional donor commitments being made (details to be finalized).

The CCCA Trust Fund operates under a project cycle, utilizing 'calls for proposals' followed by a two-step appraisal process (concept notes and full proposals), and grants are capped at a maximum of US\$300,000. It accepts proposals from government institutions, international organizations, NGOs and research institutes/universities. The CCCA Trust Fund prioritized projects that contribute to or are aligned with the 39 projects identified as priorities in the National Adaptation Programme of Action to Climate Change (NAPA). Four priority areas for adaptation are identified in the NAPA, which include water resource management and agriculture, forestry, health, and the coastal zone.

Tropical Forest Conservation and Venture Trust Fund, Eastern Plains Landscape (TRAFO)

The Eastern Plains Landscape covers an area of almost 16,000 km and constitutes the largest intact tropical dry forest in Southeast Asia, with 2 globally recognized protected areas: the Mondulkiri Protected Forest and the Phnom Prich Wildlife Sanctuary. Funded by WWF-Switzerland, the TRAFO project recognizes the multiple (economic, social and biological) values of forests. The approach also recognizes the role that communities play in retaining the forests, the opportunity costs of sustainable land uses and the sustainable commercialization of NTFP. There are three main objectives: (i) to identify appropriate financing incentives through an 'Incentive to Conserve' assessment, (ii) to establish and build capacity in the management of community forests, and (iii) to develop sustainable NTFP use and management processes. Communities are paid a set annual fee per hectare for protecting their forests. Another key strategy is to help establish Community Protected Areas (CPA) and Community Conservation Forests (CCF) that give communities management and decision-making rights within legally designated areas. The TRAFO also provides compensation to 30 forest patrol team members. Financial support is also given to CCF Management Committee and CPA Committee members to start up new enterprises based on natural products, or to scale up their existing ones to allow them to move beyond a subsistence level.

3.4 Payments for Ecosystem Services (PES)

Ecosystem services are the many diverse benefits that people derive from nature. Payments for Ecosystem Services (PES) initiatives create financial mechanism allowing the people who protect ecosystem services to be compensated by the people who receive or benefit from those same services.

What are 'Payments for Ecosystem Services'?

PES fall into four broad categories: supporting services (basic services upon which all other services depend such as photosynthesis, nutrient cycling, and soil formation); provisioning services (the goods that we directly derive and consume from nature which include food, fuel, drinking water, and medicine); regulating services (services that are often “invisible,” including flood control, disease regulation, water purification, pollination, and climate regulation); and cultural services (the spiritual, recreational, educational, and aesthetic services that nature provides to people).



3.4.1 How Does This Mechanism Work?

PES projects create mechanisms to measure, value, incentivize, and create payment schemes for one or more of the recognized services provided by ecosystems. This process typically proceeds as follows:

1. A set of parameters is established for measuring the stocks and flows of a specific ecosystem service, such as drinking or irrigation water.
2. The economic (or social) value of the service is quantified in collaboration with affected stakeholders. In voluntary markets the value can be arbitrarily set by the affected stakeholders working in collaboration with an independent third party to facilitate transactions.
3. Public or private interests who benefit from the protection of the ecosystem service compensate landowners for the use of best management practices to ensure protection.

The landowner affecting the supply the environmental services must typically hold a publically recognized right over an environmental service that provides a flow of benefits to the demanding party in order for compensation to be equitably established. Once these rights are established then a PES program can be set up through a contract agreement between the consumers of ecosystem services (the beneficiaries) and landowners who affect the supply of these services. In some cases, such programs can operate in the open marketplace without government involvement. However, many PES programs are funded by governments and facilitated by independent third party intermediaries, such as non-government organizations.

3.4.2 Institutional and Policy Factors in Cambodia

PES projects create mechanisms to measure, value, incentivize, and create payment schemes for one or more of the recognized services provided by ecosystems. This process typically proceeds as follows:

1. A set of parameters is established for measuring the stocks and flows of a specific ecosystem service, such as drinking or irrigation water.
2. The economic (or social) value of the service is quantified in collaboration with affected stakeholders. In voluntary markets the value can be arbitrarily set by the affected stakeholders working in collaboration with an independent third party to facilitate transactions.
3. Public or private interests who benefit from the protection of the ecosystem service compensate landowners for the use of best management practices to ensure protection.

The landowner affecting the supply the environmental services must typically hold a publically recognized right over an environmental service that provides a flow of benefits to the demanding party in order for compensation to be equitably established. Once these rights are established then a PES program can be set up through a contract agreement between the consumers of ecosystem services (the beneficiaries) and landowners who affect the supply of these services. In some cases, such programs can operate in the open marketplace without government involvement. However, many PES programs are funded by governments and facilitated by independent third party intermediaries, such as non-government organizations.

An Ecosystems Services Approach in the Cardamom Mountains

With the financial support from a three year European Commission's grant, FFI has been implementing the Sustainable Provision of Ecosystem Services in the Cardamom Mountains Landscape (CML) Project. The main objective of this project is to explore new incentive approaches to deal with the challenges of balancing biodiversity conservation and development at two hydro-dam sites located within the CML. One of the outcomes of this project was the feasibility assessment of an incentives for ecosystems services scheme in the Stung Atay catchment, developed using principals from PES projects

3.4.3 Prior Experience with this Finance Mechanism in Cambodia

As discussed in the previous section (section 3.3.2), there have been several references to PES in the national policy documents. Several international conservation NGOs, in particular WCS and FFI, have also piloted a series of PES programs in Cambodia as a complement to improving conservation strategies in protected areas. To date, there are three pilot PES projects that have been supported by WCS and a pilot Incentives for Ecosystems Services scheme at a hydroelectricity facility in the Cardamom Mountain Landscape by FFI. All three of WCS programs were piloted in two Protected Areas in the Northern Plains landscape: the Kulen Promtep Wildlife Sanctuary managed by MoE and the Preah Vihear Protected Forest managed by MAFF.

Paying for Upstream Watershed Protection in Colombia

In Colombia, associations of irrigators and governmental agencies are paying upstream forest landowners along the Cauca River to manage their land, to improve base flows and to reduce sedimentation in irrigation canals. Voluntary payments are made by associations of irrigators to a government agency; water users originally paid \$0.50/L/second every trimester (covered administrative costs, based on theoretical water use for single crop), but they now voluntarily pay an additional fee of \$1.50 to \$2.00 to be put in a separate fund to be used by the CVC to finance those watershed activities necessary to improve stream flow. The program covers 1 million hectares of forest, and will stimulate reforestation.

Community-Based Ecotourism in Tmatboey, Cambodia

The community-based ecotourism program was started in 2004 in the village of Tmatboey in Kulen Promtep Wildlife Sanctuary, following initial awareness-raising in 2002-3. There are various criteria that contribute to the success of this initiative. First, the area contains rare species that are high profile targets for international birdwatchers (e.g. the Giant Ibis). Second, sightings of these species are reliable year-round. Third, the village is relatively easy to access from the major tourism centre at Siem Reap, which receives more than 2 million visitors annually and has an international airport. Finally, prices for accommodation and other related expenses are moderately inexpensive. An agreement is drawn between the PA authorities, WCS and the village, which stipulates that tourism revenue is subject to the villagers agreeing to stop hunting key species and abiding by the land-use plan. The value to local families of conserving wildlife is further reinforced by the fact that each tourist pays \$30 to the village if all key species are seen and only \$15 if just a subset is observed.

3.5 Debt Relief (“Debt for Nature” Swaps)

Debt relief, or “debt for nature swaps” (DFNS) produce an agreement through which debt owed by a developing country, or a private or commercial company, can be renegotiated with the creditor to fund natural resource conservation. The debt owed is exchanged with the creditor for financial payments made by the debtor country to cover the costs of conservation or improved natural resource management. Bilateral, multilateral, and commercial debt has each been used in DFNS agreements.

3.5.1 How Does This Mechanism Work?

A DFNS involves an agreement between a “Debtor”, a “Creditor”, and a conservation intermediary. The debtor is generally the national government erasing debt owed to a bilateral or multilateral donor or bank, or a private company or borrower erasing debt from a commercial loan. Debtors must demonstrate a commitment to allocate funds for biodiversity conservation or natural resource management needs that would not otherwise be funded through other means. A DFNS typically proceeds through a process similar to the following:

- A creditor (donor or bank) converts existing debt into local currency at a discounted rate and pays the debtor (usually the government) cash.
- The debtor (government) agrees to use the cash to fund forest management, or similar conservation activities, in the country in which the debt is to be converted.
- A third party, often a conservation NGO, usually negotiates the debt purchase.

There are also typically several preconditions that must be satisfied to make the DFNS feasible, including the following:

- Funds are available to reduce or cancel the debt, and
- A transparent institution exists to manage the funds that will be used to fund the proposed conservation activities.
- Donors, banks, investors or creditors must be willing to sell a country’s debt at less than full face value.

The payments from a DFNS agreement are often placed into conservation trust funds set up as a public-private entities that are privately managed (often an NGO), with funds disbursed to respond to specific budgeted conservation management needs.

From Debt to Conservation in Indonesia

In partnership with the World Wildlife Fund - Indonesia (WWF) and the Nature Conservancy, the United States and Indonesia signed a debt-for-nature swap agreement in 2011. The U.S. agreed to forgive a debt of \$28.5 million over the next eight years; in exchange, the Government of Indonesia promised to commit these funds to support grants to protect and restore the the country’s tropical forests in Kalimantan, as well as investments in green-growth activities to reduce carbon emissions from deforestation, forest degradation, and land use. This fund will be channeled through civil society and will strengthen capacity of local institutions and stakeholders to ensure that a balanced approach to economic development is supported.

3.5.2 Institutional and Policy Factors in Cambodia

According to the IMF (2014), the stock of Cambodia's external public debt, including arrears, stood at around US\$4.5 billion or 32 percent of GDP by the end of 2012. The debt-to-GDP ratio has increased from 27 percent in 2008, partly reflecting greater external fiscal financing during the economic slowdown in 2009 and larger disbursement of bilateral loans during 2011–12 (IMF 2014). In addition, the share of bilateral debt, including arrears, in total external public debt has increased from 50 percent in 2009 to 63 percent in 2012. China remains the largest bilateral creditor, contributing to more than 50 percent of the total bilateral debt stock and about 80 percent of bilateral debt disbursement during the past three years. Cambodia remains in arrears to the Russian Federation and the U.S. (nearly 20 percent of total debt or 6 percent of GDP), and the status of negotiations of these arrears has remained unchanged since the last IMF's Debt Sustainability Analysis (DSA). Cambodia is not servicing its debt with these two creditors. The Cambodian authorities have been in contact with the Russian and U.S. authorities at least on an annual basis, but further efforts are needed to conclude agreements under the Paris Club framework.

In terms of national legal provisions, Article 68 of the Law on Public Finance System states that only MEF has the rights to prepare debt repayment schedules for either debt liable to and from others. The preparation of a debt schedule is defined by the Law on Finance. Furthermore, according to Article 21 of the Draft Law on Financial Regime and Property Management for Sub-National Administration (2012), the sub-national administrations shall not be entitled to involve in loan agreement, publish bonds or/ and financial tickets, issue guarantee letters, and directly or indirectly perform activities which cause direct or indirect debts or financial liabilities for the Kingdom of Cambodia. In receiving grants, the sub-national administrations shall obtain prior agreement from MoI and MEF.

3.5.3 Prior Experience with this Finance Mechanism in Cambodia

As stated in the IMF's Press Release No. 05/286, the IMF Executive Board, under the Multilateral Debt Relief Initiative, has approved debt relief for Cambodia. As part of the Initiative, the IMF will provide 100 percent relief of outstanding debt incurred before January 1, 2005. This amounts to approximately US\$82 million. This debt relief was made available in early January 2006 when the remaining consents of the contributors to the Trust Subsidy Account have been received. According to the IMF, Cambodia qualified for the debt relief because of its overall satisfactory recent macroeconomic performance, progress in poverty reduction, and improvements in public expenditure management. Since 1999, Cambodia has enjoyed robust economic expansion, with annual growth rates averaging over 7 percent and inflation being kept under control. During this period, the RGC has shown strong commitment to implementing its National Poverty Reduction Strategy, and improving public administration, in particular public expenditure management. Performance in these areas provides assurance that resources made available under the Multilateral Debt Relief Initiative would be used effectively.

These additional resources were made available to help Cambodia make progress toward its Millennium Development Goals (CMDGs). While environmental sustainability is part of the CMDGs (Goal 7), the targets for this goal include: reverse the loss of environmental resources; increase the proportion of people who have access to potable water supply and sanitation, to a stipulated number (separately defined for rural and urban areas); reduce dependence on firewood for cooking to 52%; and increase the proportion of people with secure land tenure. In other words, the existing debt relief does not conform to the conventional modes of debt-for-nature-swap such as that developed in Indonesia or other countries.

3.6 Loans, Bonds, and Sustainable Investment Funds

A bond is a written promise to pay back a specified amount of money, with interest earned on the principal, at a specific date or dates in the future. It is very similar to a loan, with the exception that a bond can be traded in the marketplace to generate revenue. This means that the issuer of the bond, usually government, can sell it to investors, who, in turn, will purchase shares in the bond on the expectation that its value will increase over time. Loans are more commonly agreements made between banks and customers, and are generally non-tradable. The issuer of the bond (usually government) provides financial backing for the bond through its credit rating.

Pioneered by issuers such as the World Bank and the European Investment Bank (EIB), the green bond market has expanded across agencies and the wider corporate market. Green bonds are essentially debt securities whereby the issuer declares that the proceeds must be channeled into a designated environmental cause. The potential to generate revenue from the sale of a bond has made this a very desirable mechanism to use to help finance many infrastructure improvement projects, with the credit rating of the bond issuer generally incentivizing investors.

Conservation funds can also be raised through similar bond mechanisms, such as a Social Impact Bond (SIB). An SIB uses a commitment by the public sector to pay for improved social outcomes that result in public sector savings. Repayment of the capital is tied to the achievement of specified social and environmental outcomes (or 'impacts'). An SIB transfers project risk to impact-oriented investors, and uses donor finance to repay the principle once set objectives are delivered, guaranteeing increased effectiveness of the donor financing.

Another financial tool available for consideration is a "credit enhancement" adopted by banks or other lending institutions. Credit enhancements are protections provided to a borrower through pledged financial support to cover the losses of securitized assets in adverse conditions. Banks use credit enhancements to improve the credit rating of a borrower who may not have established credit. Rating Agencies such as Moody's Investor Services, Standard and Poor's Ratings Service, or Fitch Ratings can establish the borrower's credit. Risk mitigation tools such as credit enhancements or guarantees provide stability and support to projects which otherwise do not have the track record necessary to attract investors.

A further emerging financial force is the engagement of impact investors in the management of forest resources and natural capital. Impact investors seek to achieve specific social and environmental results through investments made into companies, organizations, and funds, while simultaneously achieving a desired financial return on their investment. Impact investments can be made in both emerging and developed markets, and target a range of returns from below market value to market rate, depending upon the circumstances. Investors can include private pension funds, wealthy individuals, or other mainstream retail investors. Consultations with impact investors at the recent Responsible Business Forum on Sustainable Development held in Singapore November 24-25, 2014 indicates very high investor interest in Southeast Asian markets, with a particular interest in infrastructure and natural capital development in the Mekong region

(<http://www.responsiblebusiness.com/events/responsible-business-forum-on-sustainable-development/>).

3.6.1 How Does This Mechanism Work?

Government backed bonds are typically developed and issued through a relatively simple process:

- The government determines how much money is needed to fund specific projects for a particular period of time.
- The Government then legally authorizes the creation of a bond to raise money from investors to fund the projects.
- Underwriters from national or international private sector companies buy the bonds and resell them to large and small investors. The underwriters make money on their investment when they re-sell the bonds. The investors in the bonds are most commonly pension funds, mutual funds, and other large investors. In some cases small investors will find bonds appealing, typically if they feel that the value will increase rapidly over a short time period.

Other key participants in the bond market include:

- Bond rating companies that provide a wide range of credit services, including establishing a rating that indicates how the financial market views the risk associated with the bonds.
- Debt Service administrators facilitate the payment schedule on the bond (principal and interest), with payments typically are made every 6 months for 20 or 25 years.

As the issuer of a bond, the government may also decide to declare a debt limit that restricts the amount of bonds the state can issue. Investors in the bond must have transparency, and some form of verification as to how the projects to be carried out fulfill the mandates of the bond. It is also essential that monitoring data demonstrate the use of proceeds from bond sales.

- *Proceeds bond* - a “full faith” senior unsecured bond whereby funds are set aside into a sub-portfolio to be used on a conservation project.
- *Proceeds Revenue bond* - these bonds have non-recourse to the issuer, and the credit exposure is made to pledged cash flows derived from other revenue streams such as fees, taxes, etc.
- *Project bond* - the investor has direct exposure to the risk of the project with or without recourse to the issuer of the bond.
- *Securitized bond* - these are collateralized by one or more projects, such as covered bonds or asset-backed securities.

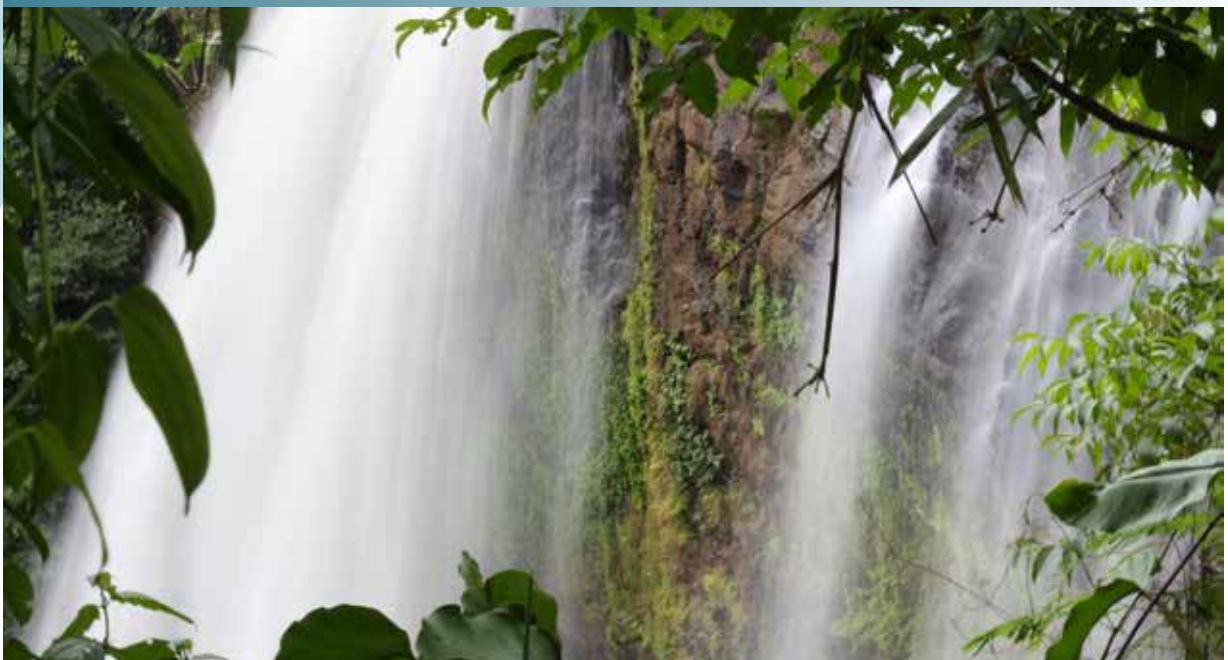
Green Bond Options

Enterprise funds and other types of sustainable investment funds differ from bonds in that they channel capital – debt or equity – into environmentally-sustainable businesses. For-profit investments can be structured to provide financial returns for a private conservation trust or similar financial structure by tapping into the substantial financial resources of the private sector. In this way, these funds can provide both a direct financial benefit and promote adherence to environmental standards for use of resources.

The issuance of bonds to support forest or biodiversity conservation work is a relatively new mechanism, and has not been thoroughly tested to date. However, the mechanism is increasingly being viewed as a promising tool as part of a broader conservation finance strategy. Non-financial corporations began issuing such instruments in 2012. Although commercial banks have generally stood on the sidelines of the green bond market thus far, two banks have already been active - Bank of America kick-started the bank green bond market in November 2013 as part of a 10 year USD 50 billion environmental commitment. Canadian Toronto Dominion (TD) Bank followed in March 2014. There has also been some development in China. The Chinese government has already called for growth of a corporate green bond market, and the first yuan denominated green bond was issued last month by IFC.

A Green Bond for Rhinos

Threatened by poaching, rhino protection has become a high priority in Africa and Asia. In response to this problem, The Global Environment Facility (GEF) and the Zoological Society of London (ZSL) have teamed up to create what they call “rhino impact bonds” to raise money for rhino protection in up to five different conservation sites in Africa and Asia. These long-term funding commitments are used to leverage private investment on the basis that if outcomes are verifiably achieved then investors will be paid back (potentially with interest) by the donor. The project proposal outlines several goals, that when met, will be considered positive returns on the investment. The project will potentially receive over \$6 million USD in funding.



3.6.2 Institutional and Policy Factors in Cambodia

The Government of Cambodia has undertaken comprehensive economic and structural reforms, beginning in 2001 when the Financial Sector Blueprint for 2001-2010 was adopted. The strategy outlines a sequence of policy reforms, including plans for the establishment of a securities exchange in 2007, and the legal and regulatory framework needed for market infrastructure. It also outlines the development of money market instruments, treasury bills, and the need to establish a bond market. Currently, Cambodia is in the second phase of implementation of the Financial Sector Blueprint. Through the National Bank of Cambodia (NBC), MEF has issued treasury bills, recapitalization bonds, and certificates of deposit. However, no negotiable instruments have been issued yet. The Law on Government Securities and Law on Issuance and Trading of Non-Government Securities were adopted in 2007, and have both been enforced. Additional to MEF's roles and responsibilities, the tasks related to bond market infrastructure are delegated to the Securities and Exchange Commission of Cambodia (SECC), the National Bank of Cambodia (NBC), and the Cambodia Securities Exchange (CSE).

The SECC is established under the Law on The Issuance and Trading of Non-Government Securities (Securities Law) to help regulate the securities industry in Cambodia and contribute to socio-economic development through capital mobilization from securities investors. The NBC is the central bank of Cambodia. Established in 1954, the NBC is referred to as the Government Securities Management Agency, whose authority is to address operational matters related to government securities. Finally, the CSE was established in March 2009 through a joint-venture agreement between the government, represented by MEF, and the Korea Exchange. CSE is considered as a public enterprise in accordance with the Law on the General Statutes of Public Enterprises. Cambodia Securities Exchange was then incorporated on 23 February 2010. In accordance with the agreement, CSX was capitalized by both parties, with MEF owning 55% of the registered capital and Korea Exchange the remaining 45%. In accordance with the Securities Law, CSX had been granted approval to function as market operator, clearing and settlement facility operator, and depository operator.

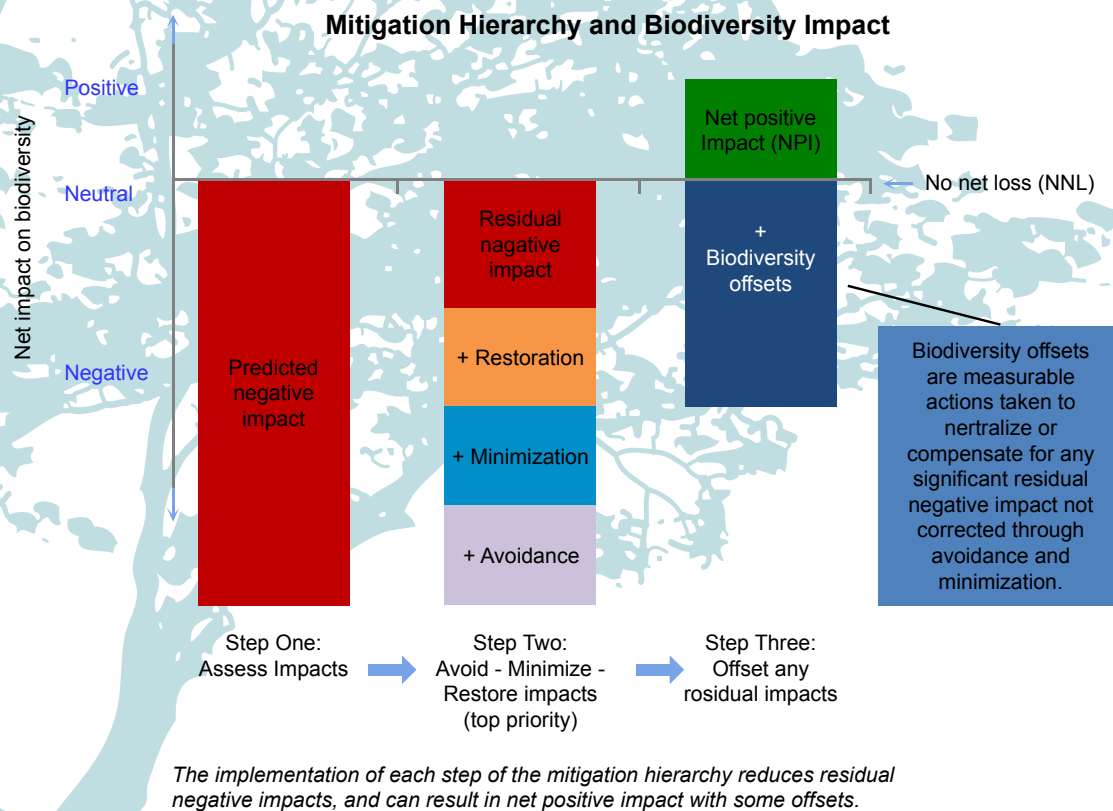
3.6.3 Prior Experience with this Finance Mechanism in Cambodia

At the moment, there is no government bond market in Cambodia (ADB 2013). In the Financial Sector Development Strategy 2011-2020, it is stated that the Royal Government will consider issuing government bonds starting in 2017. Although the system no longer operates, Cambodia previously issued government bonds with maturities longer than 10 years, and it implemented a book-entry system. The Book-Entry System (BES) is a computerized registry for government bonds developed by the IMF that can process participant's details, auction outcomes, and secondary market transactions. BES also handles information on interest and redemption. In order to register, commercial banks need to create three accounts: securities account, customer account (one account for all customers of each bank that are trading on behalf of customers), and collateral account. A security account can be created for any large non-bank corporation that intends to participate in bond auctions on a regular basis, and a collateral account is also created when required. All submissions for bond auctions must be made on a standard physical form issued by the NBC. After all bid forms are validated, NBC enters all bid submissions in BES and selects accepted bids. The settlement date is 3 days (72 hours) after auction.

There are three patterns of bond sales and purchases in Cambodia: (i) between a bank and its customers, (ii) between two banks, and (iii) repo and reverse repo. For sales and purchases between a bank and its customers, the bank's securities account and bank's customer account are involved. The bank's customer account is one separate account whose current balance can be monitored by NBC. NBC occasionally requires a complete disclosure of a customer's particulars and the amount of securities held, the total of which must reconcile with the BES book-entry account held at NBC. All interest payments on bonds issued at face value with an annual rate of interest and a fixed maturity date are shown in BES. Interest can be paid to bond holders either once or twice per year depending on the terms of issuance. On the due date, NBC processes a fund transfer arising from interest payment by debiting a treasury account. NBC types and sends a letter to subscribers and also sends copies of an interest payment due report for to NBC's Internal Audit Department.

3.7 Biodiversity Offsets and Compensation

Biodiversity offsets are measurable actions taken to correct significant residual impacts to biodiversity and ecosystems that have resulted from a particular project development. Offsets are intended to correct adverse impacts that have not been avoided, minimized, or mitigated through other project actions. Offsets are generally developed in accordance with the protocol outlined in the mitigation hierarchy.



source: Tolisano et al., 2013

The mitigation hierarchy is a best practice approach to managing biodiversity risk. The approach applies efforts early in the project development process to prevent or avoid any adverse impacts to biodiversity and ecosystems wherever possible. The project developer then acts to minimize and reduce impacts that cannot be avoided; and then repair or restore impacts that cannot be avoided, minimized or reduced. If it is evident that the residual impacts cannot be corrected by actions to avoid, reduce, or mitigate the impact then an offset or compensation strategy may be the most appropriate action to achieve no net loss and preferably a net gain of biodiversity on the ground with respect to species composition, habitat structure, ecosystem function and people's use and cultural values associated with biodiversity. The mitigation hierarchy process distinguishes between actions to "compensate" for residual impacts, and those to "offset" residual impacts. Compensation for residual impacts can take a variety of forms, including financial payments or funds established and managed over the life of a project to cover recurrent costs for conservation management. Offsets typically involve specific actions designed to ensure that an equal or greater area of identical habitat is protected or improved as a result of residual project damages.

The corporation or business responsible for the project impacts assumes the costs for a biodiversity offsets. For example, a corporation or business may provide the funds to protect ecosystem services or the management costs for protected forests. Offset and compensation strategies typically create a mechanism through which the corporation or business either directly pays the mitigation and management costs, or finances the government or an assigned third party to carry out the same mitigation and management actions.

Although no standards have been adopted at the international level for biodiversity offsets, more than 30 countries have laws requiring biodiversity offsets or compensation. Brazil's industrial compensation program requires that, as a condition for licensing, project developers pay a percentage of the capital costs of development to finance the establishment or maintenance of protected areas. In Africa, although there are examples of companies voluntarily compensating for impacts on biodiversity (e.g. in Ghana and Madagascar), South Africa is one of the few countries that is developing a national biodiversity offset policy, and offset guidelines have already been drafted in the Western Cape and KwaZulu-Natal provinces. (Madsen et al. 2010)

3.7.1 How Does This Mechanism Work?

Examples of possible offset activities that may be included as a form of compensation could include:

- Strengthen ineffective protected areas by investing in capacity building for management staff and additional needed management activities;
- Establish new protected areas or no-go zones in collaboration with communities and government in order to conserve particular species and increase available habitat;
- Establish movement and dispersal corridors for wildlife;
- Establish or strengthen buffer zones adjacent to protected areas;
- Work with communities to develop alternative livelihoods that can reduce or eliminate unsustainable activities and hunting pressures.

Ideally, offsets should be designed and implemented as part of a national planning effort taking into account the cumulative impacts of development in the country, and contributing to and nested in existing national conservation strategies, including recovery plans for IUCN recognized threatened and endangered species and protected area strategies. Government-endorsed national offset and compensation strategies may also be most effective if supported and overseen by effective and transparent institutions, such as conservation trust funds, to ensure permanent funding to deliver conservation outcomes over the long term.

A key factor in the development of any compensation or offset strategy is the assurance that investments in conservation or offset activities do not simply provide a mechanism to allow inappropriate developments to move forward. This is particularly true in areas of rare, unique, or highly threatened species and ecosystems. Thus all compensation and offset strategies must ensure that appropriate monitoring, planning, and management mechanisms are in place and secure over the long term to guarantee that the compensation objectives are achieved.

An Offset for Mining Impacts in Madagascar

Madagascar is a global hotspot for biodiversity, with a high species richness and many endangered and range-restricted species. Sherritt International, Sumitomo, KORES, and SNC Lavalin have teamed up in Madagascar to undertake a No-Net-Loss mining project in Madagascar. This site is a nickel and cobalt mining and processing joint venture, with an investment of \$7 billion USD. Their mission is to be the leader in the sustainable production of quality nickel and cobalt for the global market, while delivering no net loss, and preferably, a net gain in biodiversity. They plan to avoid pipeline tunnels underneath the forest, minimize paced directional clearing, and to restore the site after the mining is completed.



3.7.2 Institutional and Policy Factors in Cambodia

The Draft Law on Environmental Impact Assessment under MoE establishes the legal framework for environmental impact assessments of all investment projects that create impacts on and harmful consequences to the environment, society, economy, culture, and legality and democracy of the nation. This law applies to all projects and activities carried out by naturalized persons, of owners of all types, of private legal entities, public legal entities, state units and institutions, and nations, which are under the jurisdiction of the Cambodian laws (Article 3), except for state projects, which have been decided by the government or approved by the National Assembly and which are considered to be the emergency projects related to national security, national protection, and disaster management (Article 4). The law establishes the condition that all development projects shall adopt and apply the 'polluter pays' principle in order to achieve the objective of sustainable development. Specifically, those who generate pollution and waste or cause harm to the environment should bear the cost of damage, containment, avoidance, or abatement (Article 7). As stated in Article 9, MoE is the only institution responsible for carrying out EIA.

The law further defines offsets as measurable conservation outcomes resulting from actions designed to compensate for significant adverse biodiversity impacts arising from project development and persisting after appropriate avoidance, minimization, and restoration measures have been taken. Generally, these are not within the project site (Annexure 1: Vocabulary). The format and procedure of the payment must be determined by a joint Prakas by MoE and MEF (Article 28). It should be noted that since this is still a draft law, sub-decree No. 72 dated August 11, 1999 on the Process of EIA and legal regulations related EIA are still valid until the draft law is adopted and that there are new regulations to replace them (Article 94).

3.7.3 Prior Experience with this Finance Mechanism in Cambodia

The RGC has thus far piloted various carbon and biodiversity offset projects across different sectors in Cambodia. These pilot projects could be grouped into two categories:

1. Forest specific offset projects, as in Reducing Emissions from Deforestation and Degradation (REDD+) pilot projects
2. Non-forest offset projects, taking the form of Clean Development Mechanisms

REDD+ Pilot Projects

Following His Excellency Dr. Mok Mareth's remark at the 2007 UNFCCC conference in Indonesia, the Royal Government of Cambodia (RGC) started to implement REDD+ pilot projects. Classified as a priority "high forest cover, high deforestation" country for the purposes of REDD+, Cambodia started to pilot REDD+ projects in May 2008 when the Forestry Administration (FA) of the RGC approved the first REDD+ pilot project in Oddar Meanchey province, followed by the second REDD+ pilot project in the Seima Protection Forest, Mondulkiri province in 2009 (Forestry Administration, 2011). In addition to these two pilot projects, there are several other REDD+ projects that have been initiated under the different institutional jurisdictions of the RGC. Additionally the RGC has developed a jurisdictional REDD+ concept, submitted 2014 to FCPF, for the Northern Plains regions (Oddar Meanchey and Preh Vihear). The program was not pursued by the FCPF at this time. However, jurisdictional REDD+ development is still being pursued through other possible financial mechanisms. The following table lists the potential and current REDD+ pilot project sites in Cambodia.

Pilot and potential REDD+ pilot sites in Cambodia

Forestry Administration	Ministry of Environment	Fisheries Administration
<ol style="list-style-type: none"> 1. Oddar Meanchey Community Forest REDD+ Pilot Project 2. Seima Protection Forest REDD+ Pilot Project 3. Southern Cardamom Mountains 4. Central Cardamom Mountains 5. Cardamom Mountains REDD+ project 6. Siem Reap REDD Project 7. Prey Lang REDD Project 8. Western Siem Pang Important Bird Area 	<ol style="list-style-type: none"> 1. Kulen Promtep Wildlife Sanctuary REDD+ Pilot Project 2. Phnom Oral REDD Project 3. Phnom Samkos REDD Project 4. Lomphat Wildlife Conservation Area 	<ol style="list-style-type: none"> 1. Koh Kong mangrove and flooded forest REDD Project 2. Kampong Chhnang REDD Project 3. Sihanouk Ville REDD Project
1. Samlout REDD+ Project		

Source: Information collected through interviews and desk review

Oddar Meanchey Community Forest REDD+ Pilot Project and Seima Protection Forest REDD+ Pilot Project are the most advanced of these 16 projects.

The Oddar Meanchey REDD+ pilot project has been implemented by the FA, communities of the Oddar Meanchey province, Pact Cambodia, Terra Global Capital, the Children's Development Association and the Monk's Community Forestry Association. It has partnered directly with local communities to establish Community Forest groups that implement project activities in order to reduce deforestation, to improve livelihoods and to protect biodiversity. The project is the first community-based mosaic REDD+ project to achieve registration under the Verified Carbon Standard (VCS) and, in recognition of its exceptional social and biodiversity benefits, Gold level validation under the Climate, Community and Biodiversity (CCB) Alliance's standard. Over its 30-year lifetime (2008-2038), the project is expected to result in the generation of 8.1 million tons of emissions reductions (Forestry Administration, 2011).

The Seima REDD+ pilot project was officially launched by the Council of Ministers with the collaboration between the FA and the Wildlife Conservation Society (WCS). It aims to expand and improve law enforcement activities, to register existing communities land claims, and to provide incentives for communities to protect forests. According to Winrock International's feasibility study, the project is highly feasible and under a conservative scenario, it would avoid millions of tons of carbon emissions. It is estimated that 1.5 million tons of carbon will be sequestered over the 2008-2012 period if deforestation is decreased by 50 percent in the project area. The Seima project was validated in December 2014 and is currently under verification.

Clean Development Mechanism Projects

Additional to REDD+ pilot projects, as a member of the Non-Annex I countries of the UNFCCC, the RGC is eligible for hosting emission reduction projects under the Clean Development Mechanism (CDM). In general, CDM projects have two key goals: (i) to assist developing countries who host CDM projects to achieve their sustainable development objectives, and (ii) to help developed countries partially meet their GHG reduction commitments by allowing them to take credits from emission reducing projects undertaken in developing countries (MoE 2004). For Cambodia, CDM projects represent a new source of investment on environmentally friendly technology and capacity building in the fields of energy, forestry, agriculture and waste management. Furthermore, the RGC expect that CDM projects will provide many environmental benefits and services such as watershed protection, control of soil erosion and degradation, biodiversity conservation, provision of non-timber products (MoE 2004).

On 15 July 2003, the RGC appointed the Ministry of Environment (MoE) as the Interim Designated National Authority (DNA) for CDM projects (Government Decision No. 01). As of now, MoE is the national implementing agency for a number of projects that aim to generate broad understanding and develop institutional and human capacity to fully participate as equal partner with developed countries in the formulation and implementation of potential CDM projects in Cambodia (MoE 2004). Furthermore, the Cambodian DNA is responsible for assessing proposed CDM projects against national sustainable development criteria and is authorized to provide written approval for proposed CDM projects in accordance with these criteria. Cambodia uses a sustainable development matrix as a tool for assessing the contribution of CDM projects in four aspects of sustainable development: economic, social, environmental and technology transfer. As of October 2014, there are 10 CDM projects listed under the Cambodia Climate Change Office of the MoE. The following table summarizes the projects.

Name of CDM Project Activity	Type of Project	Supplemental Information	Approval Date (D/M/Y)	Annual emission reduction (tCO ₂ /per year)	Project Participants (Host Country)	Project Participants (Others)	Status
Angkor Bio Cogen Rice Husk Power Project	Biomass	Rice Husk	19/11/2006	51,620	Angkor Bio Cogen Co., Ltd.	Mitsubishi UFJ Securities Co., Ltd.	Registered
T. T. Y. Cambodia Biogas Project	Biogas	Agricultural Waste	4/7/2007	50,036	T. T. Y. Agricultural Plant Development and IMEX Co., Ltd.	None	Registered
Methane Fired Power Generation Plant in Samrong Thom Animal Husbandry	Biogas	Animal Waste	15/10/2007	5,593	Samrong Thom Animal Husbandry	Mitsubishi UFJ Securities Co., Ltd.	Registered
Kampot Cement Waste Heat Power Generation Project (KCC-WHG)	Waste heat/ gas utilization	Cement Production Line	20/11/2008	17,107	Kampot Cement Company Co., Ltd.	None	Registered
Kamchay Hydroelectric BOT Project	Hydro	New Reservoir	20/11/2008	370,496	RGC's Electricite du Cambodge	Sinohydro Corporation Limited	Under validation
Biogas Project at MH Bio-ethanol Distillery, Cambodia	Biogas	Agricultural Waste	29/6/2009	52,831	MH-Bio-Energy Co., Ltd.	None	Under validation
W2E Siang Phong Biogas Project Cambodia	Biogas	Agricultural Waste	3/11/2010	27,121	W2E Siang Phong Ltd.	None	Under validation
Lower Stung Russei Chrum Hydro-Electric Project	Hydro	New Reservoir	2/11/2011	701,199	China Huanan Lower Stung Russei Chrum Hydro-Electric Project (Cambodia) Co., Ltd.	Vitol S. A. Switzerland	Under validation
Cambodia Stung Atay Hydropower Project	Hydro	New Reservoir	3/1/2012	266,472	C. H. D. (Cambodia) Hydropower Development Co., Ltd.	Carbon Asset Management Sweden Pte Ltd.	N/A
Stung Tatay Hydroelectric Project	Hydro	New Reservoir	16/1/2012	563,074	Cambodian Tatay Hydropower Limited	Gazprom Marketing & Trading Singapore Pte. Ltd.	N/A

Source: Cambodia Climate Change Office's Database, Ministry of Environment



4.

Conclusions and Recommendations – A Proposed Action Plan for Development of a Cambodia Forest Finance Strategy

The forest finance options assessment has identified several promising opportunities for the Forestry Administration to consider as it strategizes the long-term conservation of Cambodia's protection forests. This assessment builds from the dialogue developed during an initial forest finance workshop carried out with 70 participants in Phnom Penh on May 26, 2014. This workshop provided an overview of the legal context in which any finance strategy must be developed. The workshop also examined existing forest financing sources being used to support forest management in Cambodia, including taxes levied on the legal trade in forest products, non-timber forest product (NTFPs), and wildlife permit; bilateral and multilateral funding for forest sector; income generated from Economic Land Concessions, or breeding or trade of wildlife species; government investment funds allocated to forestry development and conservation; tourism revenues; and donors funding.

Attention in the workshop was then given to financial tools that will have the most political and social acceptance; and identification of actions necessary to administer and manage the use of forest finance funds. It was suggested that four conditions can ensure the sustainability of a finance instrument:

- (1) Markets and capital exist to support the instrument over the long term
- (2) Political will and commitment exist to support the use of the financial instrument
- (3) Financial instruments have the support of communities, CBOs, NGOs, and the business community
- (4) The management and use of funds is transparent and well organized

Examples of innovative forest finance instruments being applied outside of Cambodia were then reviewed, including Payments for Ecosystem Services (PES); Debt Relief – Debt Exchanges; Trust Funds; Bonds and other investment funds; Offset and compensation payments; and Forest Enterprises. A comprehensive review of the information covered in this workshop is included in Annex 2 to this report.

The more detailed review of each of these potential financial instruments included in this assessment report suggests that each may hold potential for contributing to the financial resources needed to manage Cambodia's protection forests and secure their ecological integrity for future generations. Ultimately, it is expected that the Forestry Administration will work together with other appropriate government agencies to design and implement a comprehensive strategy that includes several of the financial instruments described here. However, the development of this strategy will still require the following information:

- A more thorough assessment of the legal framework available or required to support the use of each instrument to support the procurement of funds to support government actions to manage public protection forests;
- An up to date market analysis to determine the approximate amount of income that may be accessible to the FA through use of each financial instrument, including a review of Cambodia's competitive advantage for each instrument to be pursued;
- A prioritization of the most promising financial instruments based on the results from the market analysis;
- A determination of the most effective management framework that can best support the administration and disbursement of any funds raised, including the feasibility of public-private partnerships in the form of trust funds or para-statal organizations;
- A business plan to create a 3-5 year roadmap for financial success. The business plan will define the immediate and long-term objectives of the Forestry Administration and the specific financial needs the plan will fulfill; a summary of the market analysis; an action plan to guide the implementation and fulfillment of the finance strategy; and an operations and management plan to describe the administration and use of funds.

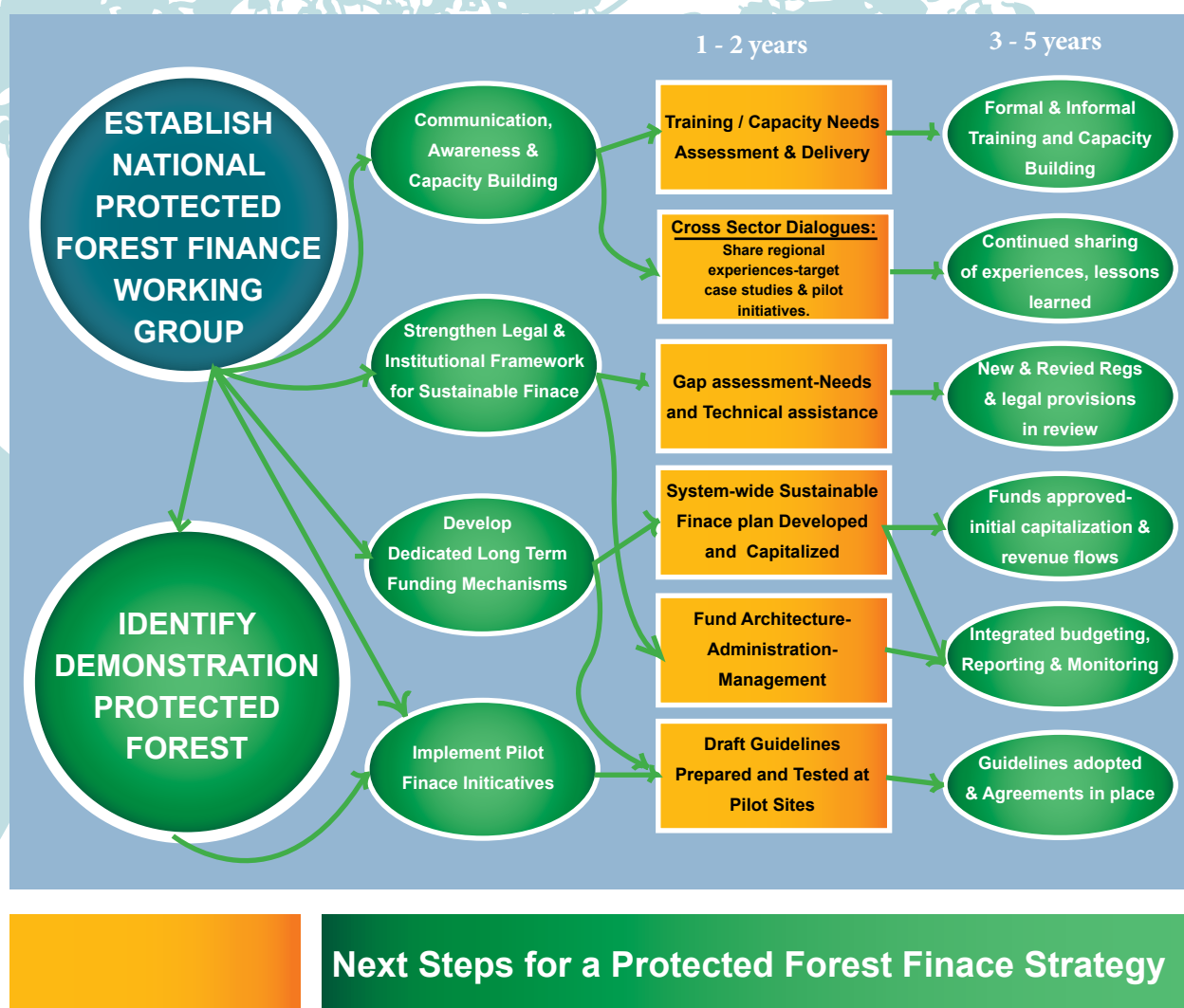
It is also recommended that protected forest financing measures and instruments mechanisms to ensure that the following three factors are achieved:

- A. Increase the size and diversity of financing sources and funding portfolios;
- B. Enhance revenue retention and promote direct reinvestment in conservation; and
- C. Streamline protected forest financial planning, costing and allocation procedures.

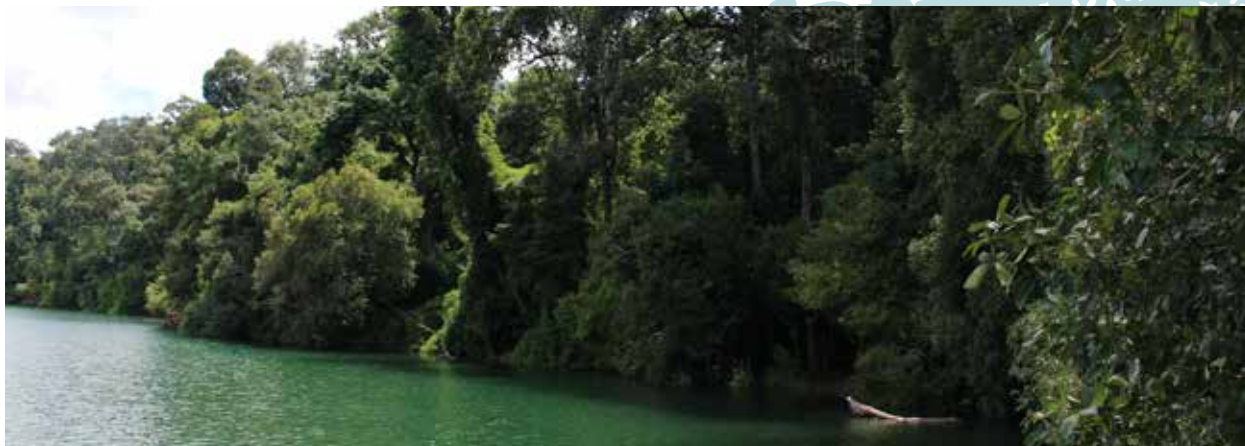
It is further recommended that TWG-FA now establish an action plan to carry out each of these steps. The results from this work will help provide more precise answers to each of the following concerns:

- The “Mission” and “Vision” of the proposed finance strategy;
- The approximate amount of funding required to ensure long-term conservation of Cambodia’s protection forest resources;
- The expected outputs and outcomes from the funding;
- Identification of the institutional structure and responsibilities of the management authority; and,
- Determination of the disbursement and accounting procedures for all leveraged funds.

A more detailed summary of the next steps that can be carried out to implement a sustainable finance strategy for Cambodia’s protected forests is shown in Figure.



The proposed action plan to move this work forward can proceed from the following:



A more detailed elaboration of the action has been produced as an outcome from the dissemination workshop held June 4, 2015.

Institutional Context for Going Forward

Further action on the forest finance assessment must occur in the context of existing and anticipated institutional policy. For the next five years, 2014-2018, the policy priorities for the RGC in terms of sustainable management of natural resources will focus on four areas.

1. Further managing forest and wildlife resources in a sustainable and equitable manner, in accordance with the “National Forest Programme 2010-2029”, in particular through better law enforcement and governance, demarcation, classification and registration of forest, effective management and exploitation of state and private forests, implementation of measures for improving the livelihoods of and promoting participation from forest-dependent communities, enhancement of management and effectiveness of conservation measures, reduction of deforestation and degradation of forests, intensified tree planting and forest rehabilitation, strengthening the conservation of wildlife and wildlife sanctuaries, development of institutional and human capacity, and promotion of research studies and their dissemination.
2. Further strengthening the management and conservation of fishery resources in a sustainable manner in line with the “Strategic Planning Framework for Fisheries Sector 2010-2019” and the “Declaration on the National Policy for Fisheries Sector”, especially through the suppression of all violations of laws, rules and regulations related to fisheries including tightened control of fishing gears and fishing period, elimination of overfishing, strengthening fishing communities’ capacity for the management, use and conservation of fisheries resources, protection of biodiversity and aquatic-animal habitats, control of freshwater and seawater quality through pollution minimization, protection and replanting of flooded forests and mangroves, demarcation of flooded forest and fisheries conservation zones, development of institutional and human capacity, and preparing research studies and their dissemination.
3. Intensifying the implementation of necessary measures to ensure the sustainability of the ecosystem, aimed at ensuring the quality of soil, and surface and underground water for serving the agriculture sector and the livelihood of Cambodian people by promoting the preparation and effective implementation of policies and regulations, as well as related action plans and programs for the management of protected natural areas such as national parks, wildlife sanctuaries, protected landscape areas, multiple use areas, wetlands, biodiversity conservation areas, natural heritage conservation areas, and maritime parks, and in particular, strengthening the implementation of “Law on the Environmental Protection and the Management of Natural Resources”, “Law on Protected Natural Areas” and “Guideline on the Development of Coastal Areas in the Kingdom of Cambodia”.
4. Stepping up cooperation with relevant development stakeholders under the framework of the “National Policy on Green Development” and the “National Strategic Plan on Green Development 2013-2030” through the development of regulatory frameworks and mechanisms for carbon trading, strengthening the capability, preparation and implementation of climate change adaptation measures, assessment of the scope of the use of environmental financing mechanisms including payment for environmental services and environmental fund, strengthening the management of protected natural areas including protection of biodiversity, rain forests, and wetland areas; and environment and ecosystem monitoring and control mechanism at both national and sub-national levels.

ANNEXES

Annex 1 is a list of relevant National Strategies, Laws, Policies and Regulations and literatures which used to compile the report. Annex 2 provides a summary result of the consultative meetings which aim to present and consult upon the context, framework, and approach to be taken in developing the forest financing options assessment, and share international experiences with regards to forest financing mechanisms. The meeting was held in May 2014 attended by a total of 60 participants including representatives from the Royal Government of Cambodia (Forestry Administration, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy and Finance), NGOs and Development Partners, Private Sector, and Civil Society Organizations. The list of all the participants in this consultative meeting can be found in Annex 3. In addition, Annex 4 highlights key articles from National Strategies, Laws, Policies and Regulations which enabling references in developing the forest financing options assessment. Annex 5 provides a legal assessment and some policy considerations that may affect the viability, or the practical reality of adoption, of each financial mechanism. Annex 6 gives a short description of a preliminary analysis of potential benefits and costs of the forest finance options proposed for the Royal Government of Cambodia's protected forests and protected areas, along with some recommendations.

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Annex 2: Results From Consultative Meeting May 26, 2014

Summary

The meeting was held on Monday 26th May, 2014 at the Sunway Hotel, attended by a total of 60 participants including representatives from the Royal Government of Cambodia (Forestry Administration, Ministry of Agriculture, Forestry and Fisheries, Ministry of Economy and Finance), NGOs and Development Partners, Private Sector, and Civil Society Organizations. The meeting started at 08:00am and finished at 15:30pm. The main objective of this consultative meeting was to present and consult upon the context, framework, and approach to be taken in developing the forest financing options assessment, and share international experiences with regards to forest financing mechanisms. The restitution workshop, to be held in July 2014, will present and consult upon the findings from the forest financing options assessment study.

The key outputs for this May 26th consultative meeting were to:

1. Review and consult upon the options for forest financing in Cambodia
2. Build the capacity of different stakeholders, especially relevant government line agencies, about the development of forest financing in Cambodia and international best practice
3. Produce an official report with the approval from the TWG-FR chair (Forestry Administration). This report will be used as a basic roadmap to support the development of forest financing in Cambodia. The results of the workshops will be posted in TWG-FR webpage to ensure the report is widely accessible.

Below is a summary of key points from each session.

1. **Welcome Remark, Dr. Ross Sinclair:** Dr. Sinclair started his welcome remark by reminding participants of the composition and key functions of the sustainable forest financing sub-group under the Technical Working Group on Forestry Reform (TWG-FR), a government and non-government platform that supports the implementation of the National Forest Programme (NFP). Dr. Sinclair mentioned that current work on sustainable forest financing will help contribute to keeping remaining forests in Cambodia by providing necessary finance for the implementation of key national policies and strategic plans on sustainable development and green growth.

Dr. Sinclair also stressed that the Forestry Administration has been very open and participatory in its approach to sustainable forest financing by inviting an NGO to be its co-chair for the sub-group. He ended his remark by encouraging participants to contribute to the activities planned for this consultative meeting as their comments will be taken up by the TWG-FR for its current work on sustainable finance to help with the conservation of Cambodia remaining forests.

2. **Opening speech, H. E. Chea Sam Ang, PhD :** For an opening speech, H.E. Dr. Chea Sam Ang welcomed all participants to this consultative meeting. He mentioned how this participation is a reflection of the collaboration between government and non-government counterparts on this important task to sustain Cambodia remaining forests and to improve the livelihood of communities living in and around the forest areas. His Excellency then focused his speech on the importance of sustainable financing in addressing some of the key challenges – human, resources, and collaboration with NGOs at the field – in the implementation of the NFP. Next, His Excellency highlighted some of the recent natural disasters in provinces such as Pailin and those near Tonle Sap that are attributable to climate change and its impacts on local communities and national economy to make his point regarding the roles of forests in reducing the impacts of climate change. Finally, His Excellency mentioned that study on options for sustainable forest financing should align with Cambodia existing legal context while at the same time taking into consideration international requirements and obligations that come with those options. His Excellency closed his opening speech by stating that the contributions from all participants will be very important in how the sub-group will be proceeding with this task to assess the feasible options for sustainable finance for conservation of Cambodia forests.
3. **Forest Conservation Financing in Cambodia: Status and Progress Forwards, Mr. Chhun Delux:** Mr. Chhun Delux made a presentation to explain existing legal context in Cambodia to be taken into account for conversations on sustainable financing for forest conservation. Mr. Chhun remarked that successful implementation of the NFP requires Cambodia to improve its ability to gather revenue from forestry sectors either from existing forest financing sources or innovative forest financing sources. He also stressed that in order to attract international funding, Cambodia would need to have transparent rules to manage funds; appropriate governance arrangements; and follow international best-practice principles. However, these principals have to align with existing laws and regulations relating to fund management in Cambodia, and must be aligned with the existing policies of other relevant government ministries such as the Ministry of Economy and Finance (MEF). Mr. Chhun closed his presentation by discussing existing forest financing sources in Cambodia, which include: taxes levied on the legal trade in forest products, non-timber forest product (NTFPs), and wildlife permit; bilateral and multilateral funding for forest sector; income generated from Economic Land Concessions, or breeding or trade of wildlife species; government investment funds allocated to forestry development and conservation; tourism revenues; and donors funding.
4. **Innovative Tools for Forest Finance, Dr. James Tolisano:** Dr. Tolisano focused on five key points in his presentation. First, he introduced participants to the main purposes of the Forest Finance Assessment, which include identification of financial tools and instruments that can be used to pay the costs for the management of Cambodia forests and habitats; assessment of the identified financial tools that will have the most political and social acceptance; and identification of actions necessary to administer and manage the use of forest finance funds. Second, Dr. Tolisano stated the four conditions that make a forest finance instrument sustainable, which are (1) markets and capital exist to support the instrument over the long term; (2) political will and commitment exist to support the use of the financial instrument; (3) financial instruments have the support of communities, CBOs, NGOs, and the business community; and (4) the management and use of funds is transparent and well organized. Dr. Tolisano then explored six examples of innovative forest finance instruments that have been tried in other countries. These instruments were: Payments for Ecosystem Services (PES); Debt Relief – Debt Exchanges; Trust Funds; Bonds and other investment funds; Offset and compensation payments; and Forest Enterprises. For each of these instruments, Dr. Tolisano first defined what they are, then explained how they could be set up, and finally highlighted some examples of where (which countries) these instruments have been piloted. Fourth, Dr. Tolisano informed participants of the next activities that will be conducted to complete the Forest Finance Assessment. According to the proposed timeline, the Assessment report will be completed by the second week of August 2014. To close his presentation, Dr. Tolisano shared with the participants key chapters that will be included in the Assessment report.
5. **Question and Answer Session:** After the presentation by Mr. Chhun Delux and Dr. James Tolisano, the floor

was open for questions from participants.

Question 1 (H. E. Than Sarath, MAFF): H. E. Than asked how/ what processes will be required to establish forest as an asset for the purposes of forest financing? How would government extract revenue from these financing options? Before asking his question, H. E. Than mentioned the difficulties of managing public property, for example a national park, where various stakeholders are involved.

Answer 1 (Dr. James Tolisano, WCS): Answer to H. E. Than's question would depend on which specific sustainable forest financing tool has been selected for a particular land area because each financing tool comes with different details on how land, forest and/ or natural resources should be managed. Similar to this point, the question on how government could extract revenue from these financing options is in fact one of the underlying factors that would indicate the constraints or feasibilities of certain financing options. **Mr. Chhun Delux** mentioned that he agreed with Dr. Tolisano's points. He also added that to ensure that revenues from these financing options reach the government, various policies and measures might need to be established depending on which option is selected for implementation. In addition, Mr. Chhun stated that this conversation highlighted the significance of having existing sources of funding for conservations well-coordinated amongst NGOs and development partners.

Question 2 (Dr. Tim Boyle, UN-REDD Regional): Dr. Boyle asked two clarifying questions. First, how money would be raised and managed for sustainable forest financing? Based on the concept note for the consultative meeting, Dr. Boyle's second question was why is REDD+ not included as one of the potential forest financing options?

Answer 2 (Dr. James Tolisano, WCS): Dr. Tolisano mentioned that the current Assessment report that he is working on with the help from Mr. Chhun Delux does not look at implementation of any financing option in particular. Thus Dr. Boyle's question on how fund should be managed will be answered at a later stage of the assessment.

- 6. Group Discussions:** After the coffee break, participants were divided into four groups to discuss two main questions following the presentations by Mr. Chhun Delux and Dr. James Tolisano. Except for one group where members are non-Khmer speakers, each discussion group composed of representatives from government ministries, private sector, NGOs and CSOs. The group discussed two questions: (1) what conservation finance mechanisms have been tried in Cambodia? (2) If you were in charge of this process, which finance mechanisms would you choose? It should be mentioned that before breaking into group, each participant was given 10 minutes to write their own answers to these questions on the Q-cards.

Each group received a flip chart. The group appointed one person to record the information shared on the flip chart. This person was also responsible for reporting the group's results to the full group of participants. A facilitator was assigned for each group, and was responsible for keeping the group on task and making sure everyone gets an opportunity to talk. Each group member started by sharing the answers they wrote on the Q-cards with other members while the recorder wrote down those mechanism identified by each participants on the flip chart. The group then discussed each of the identified mechanism in terms of its pros and cons in order to identify 3 to 5 prioritized mechanisms for conservation finance in Cambodia. The group also took into consideration the risks (social, economic, institutional, and environmental) that each of the mechanism might impose. Below are the summary from the group discussions.

Question 1: What conservation finance mechanisms have been tried in Cambodia?

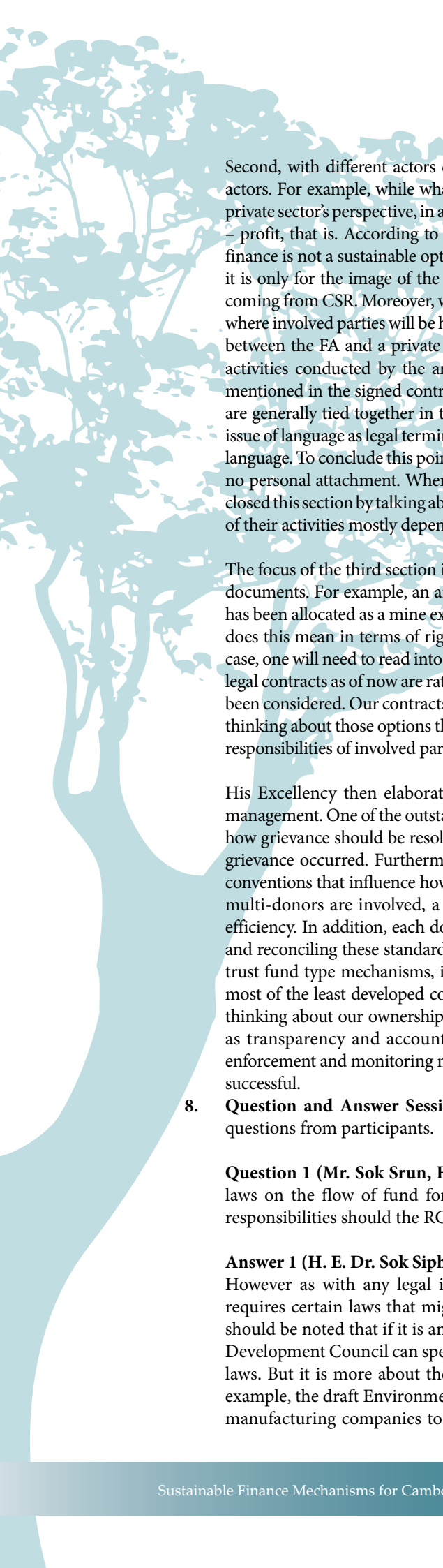
Group 1	Group 2	Group 3	Group 2
<ol style="list-style-type: none"> 1. REDD+ 2. Forest Management 3. Government Investment Fund 4. Development Partners' Fund 5. Climate Change Trust Fund 6. Ibis Rice Project 7. Nature-based Tourism 8. PES 9. Proposed Trust Fund 10. NTFP-based Enterprise 11. Pilot Forest Production Enterprise 12. CIP (NCDD) NRM 13. Revolving Fund 	<ol style="list-style-type: none"> 1. Pilot REDD+ 2. Wild Cattle Conservation Fund 3. Government Investment Fund 4. Commune/ Sangkat Fund 5. National Social Security Fund 6. Cambodia Climate Change Alliance Trust Fund 7. TWG-FR 8. NGOs Trust Fund 	<ol style="list-style-type: none"> 1. Government Investment Fund 2. Development Partners' Fund 3. Bilateral and Multilateral Fund 4. Commune/ Sangkat Fund 5. National Social Security Fund 6. Cambodia Climate Change Alliance Trust Fund 7. Private Sectors 8. International NGOs Fund 	<ol style="list-style-type: none"> 1. National Budget 2. Bilateral Funding 3. Grants from Donors, NGOs 4. PES 5. Tourism 6. REDD+ 7. Offsets/ Lease from ELCs 8. Cambodia Climate Change Alliance Trust Fund 9. Conservation Agreements 10. Conservation Enterprises

Question 2: If you were in charge of this process, which finance mechanisms would you choose?

Group 1	Group 2	Group 3	Group 2
<ol style="list-style-type: none"> 1. REDD+ 2. Nature-based Tourism 3. PES/ PEFF 4. NTFP Enterprise 5. Climate Change Trust Fund 	<p>There should be further studies on these options:</p> <ol style="list-style-type: none"> 1. TWG-FR 2. Cambodia Climate Change Alliance Trust Fund 3. NGOs Trust Fund 	<ol style="list-style-type: none"> 1. Government Investment Fund 2. Development Partners' Fund 3. International NGOs Fund 4. Private Sectors 	<ol style="list-style-type: none"> 1. National Budget 2. Trust Fund Development 3. PES 4. REDD+ 5. Private Sector

7. Legal considerations for development of forest financing options in Cambodia, H. E. Sok Siphana, PhD:

His Excellency mentioned that from the legal perspective, there are three points that one should think about when it comes to discussions on sustainable forest financing options, which were rights, responsibilities, and actors. Starting with actors, His Excellency mentioned that this could include government (e.g. ministry), private sector (e.g. banks), and civil society. In this category, actors such as the World Bank or the International Finance Corporation would impose on actors such as national government their standards/ conditions/ requirements as payments will be based on compliance with these standards. To think back to the different options that Mr. Tolisano presented in the morning, the discussions on actors that will be involved in these different options and the complications that it entail would depend on the scale of implementation for these options. For example, a micro level PES program in a rural area in Cambodia where the project is simply paying for local communities to stop what they are doing could not be compared to a national or international level of finance, for example bond, where the issues of credit rating will bring into the equation various international organizations. A very good example to illustrate this point is the US government shut down which affected the US credit rating, which in consequence affected the various actors that are involved with the US bond market. The point is, we should think of actors' involvement in conservation finance options as a funnel from international to national to local. Doing so, we will be able to see the different actors and their responsibilities at these various levels.



Second, with different actors come different responsibilities, some of which are beyond the control of certain actors. For example, while what has been mentioned so far are the responsibilities of the government, from the private sector's perspective, in addition to rights and responsibility, there is an added dimension for any discussions – profit, that is. According to His Excellency, corporate social responsibility (CSR) as a source of conservation finance is not a sustainable option because first of all it is a limited amount for a specified timeframe, and second it is only for the image of the company. Thus, government should really think more about the money that are coming from CSR. Moreover, when working with any private sector, one should be cautious of the legal procedure where involved parties will be held responsible to protect an investment. For example, a REDD+ contract is signed between the FA and a private company to protect a forest area. After the contract is signed, there was logging activities conducted by the army. In this case, the FA would be held responsible for this loss of forest area mentioned in the signed contract. The point is, when it comes to legal conversations, actors and responsibilities are generally tied together in the form of a contract. An additional comment to be made about contracts is the issue of language as legal terminologies are most of the time different in their meanings in comparison to everyday language. To conclude this point about private sector, one just has to remember that it is all about business, there is no personal attachment. When a signed contract is breached, someone will be responsible. His Excellency then closed this section by talking about the responsibilities of civil society organizations (CSOs), where implementation of their activities mostly depends on the agreements with their donors in order to receive funding.

The focus of the third section in His Excellency's presentation focused on government's responsibilities and legal documents. For example, an area has been allocated by MAFF as an ELC while at the same time this very same has been allocated as a mine exploration site by MIME. How would the government deal with this overlap? What does this mean in terms of rights and responsibilities of those involved? According to His Excellency, in such a case, one will need to read into the contracts that were signed by those involved. The difficulty however is that our legal contracts as of now are rather loose in comparison to international agreement where different scenarios have been considered. Our contracts are in general 5 to 6 pages in length, thus very difficult to interpret. In this context, thinking about those options that Mr. Tolisano presented this morning, one must think about these overlapped of responsibilities of involved parties, then clearly elaborate these responsibilities in the contracts.

His Excellency then elaborated on different issues one should think about in terms of trust fund and its management. One of the outstanding issues in terms of trust fund is the management of conflicts. In order words, how grievance should be resolved. In most cases, this issue has often been addressed outside the country where grievance occurred. Furthermore, most countries including Cambodia are signatories to various international conventions that influence how grievance shall be addressed. In terms of management of trust fund where there multi-donors are involved, a huge percentage of the fund would go to administrative costs - a question of efficiency. In addition, each donor or development partner operates according to their standards of operations, and reconciling these standards in general is not possible. Specific to Cambodia, in terms of ownership of these trust fund type mechanisms, in the next few years Cambodia will become a middle income country, and thus most of the least developed country's privileges would no longer apply. Therefore, Cambodia should now start thinking about our ownership and management of these trust funds in way that would address the issues such as transparency and accountability. His Excellency concluded his speech by stressing the importance of enforcement and monitoring mechanisms that must be in place for any conservation finance options for it to be successful.

8. **Question and Answer Session:** Following H. E. Dr. Sok Siphana's presentation, the floor was open for questions from participants.

Question 1 (Mr. Sok Srun, FA): Mr. Sok asked two questions. First, could you elaborate on RGC's existing laws on the flow of fund for forest management? Second, in terms of sources from private sector, what responsibilities should the RGC have in place to manage this fund?

Answer 1 (H. E. Dr. Sok Siphana): RGC has almost all the basic laws covering most activities in the country. However as with any legal issue, the specificity of the activity for sustainable conservation finance will requires certain laws that might already exist. In short, the contract will determine what law to be used. It should be noted that if it is an agreement, law would not be relevant in most cases. In general, the Cambodia Development Council can specify the content of the agreement. For your second question, we do have general laws. But it is more about the effective implementation of these laws that is the point of conversation. For example, the draft Environmental Impact Assessment (EIA) law specifies the standards and requirements for manufacturing companies to comply. However, in reality we (the RGC) do not have the resources nor the

technology to implement these requirements. In general, it is difficult to exactly estimate relevant stakeholders that should be responsible for the true costs of business activities on the environment.


Question 2 (H. E. Than Sarath, MAFF): H.E. Than asked two questions. First, how can we ensure that the procedure that Cambodia will use for establishing sustainable forest financing option will be compliant with both national and international requirements to be able to attract funding? Second, in terms of rights and responsibilities for economic growth, how can we ensure that private sector comply/ fulfill their responsibilities in the management of Economic Land Concessions?







Answer 2 (H. E. Dr. Sok Siphana): First we need to understand who is included in the partnership so that we can understand the enforcement and implementation of the contract for relevant stakeholders involved in this partnership. There is no one size fits all for these issues. Any one of the forest financing options we discussed so far will vary in terms of its rights, responsibilities and conditions. As for the second question, in any ELC agreement there are rights and responsibilities for parties involved when it comes to implementation. However, these ELC agreements are in general 6 or 7 pages in length, thus interpretation of articles in these agreements are very much open-ended. This type of agreement is where the weakness lies in terms of effective implementation of ELC agreements, for parties involved, in particular private sector. Therefore, we (the RGC) need to address these poorly articulated agreements to avoid the possibility of being sued by the private sector actors.

9. **Conclusion and Next Steps, Mr. Chhun Delux:** Mr. Chhun provided a short summary of activities conducted throughout the consultative meeting. He then reminded participants of the upcoming activities that will be required to complete the Assessment report. These include analysis of results from this consultative meeting, supplemented by a review of existing literature on the options prioritized by participants through group discussion activities and further consultation with key stakeholders. Mr. Chhun also informed the participants that the first draft of the Assessment report will be completed by mid-July, and a dissemination workshop of the results from this first draft will be conducted. The final draft of the Assessment report will be completed by mid-August, 2014.
10. **Closing remark:** H.E. Chea Sam Ang, Ph.D: H.E. Dr. Chea Sam Ang started the closing remark by mentioning that our efforts to further explore the feasibility of sustainable forest financing options in Cambodia should build on what we have at the moment. As such, we have looked at options such as PES and ecotourism. However, His Excellency mentioned that Cambodia is still learning about how we could get access to those potential options that Mr. Tolisano presented. His Excellency stated that there are various fund available for this task from development partners, but as His Excellency Sok Siphana mentioned there need to be better coordination of these supports to help with the implementation of existing strategies and policies that contribute to financing conservation of remaining forests in Cambodia. His Excellency then discussed the importance of the sustainable finance feasibility study which he hopes would contribute to a better coordinated sources of conservation finance current available in Cambodia and the potential of setting up innovative financing tools, to be completed by July 2014 (see Mr. Tolisano's presentation). His Excellency mentioned that if this feasibility study indicates that there are gaps in current policies/ laws/ regulations that would stymie the establishment of potential innovation conservation financing tools in Cambodia, actions could be taken to amend those identified gaps. His Excellency concluded his closing remark by reminding each participant to think about not just the finance that could come from these potential innovative conservation financing tools, but also the responsibilities that will be bestowed on relevant stakeholders. He mentioned that these responsibilities could be inter-generational, thus we must be careful on the decisions we make today. His Excellency then thanked all participants for joining today consultative meeting, and the organizers for making this meeting possible.



Annex 3: Participants in Assessment Scoping Session, May 26, 2014







No.	ឈ្មោះ Name	តួនាទី Position	អង្គភាព Organization	ទំនាក់ទំនង Contact		ហត្ថលេខា Signature
				លេខទូរសព្ទ Tel	អ៊ីមែល E-mail	
1	ឯ.ឧ បណ្ឌិត ឆេង គឹមស៊ុន	ប្រធានរដ្ឋបាលព្រៃឈើ	រដ្ឋបាលព្រៃឈើ	012-671-222	chheng.kimsun@yahoo.com	
2	ឯ.ឧ ជា សំអាង	អនុប្រធានរដ្ឋបាលព្រៃឈើ	រព	012-862-730	chsang@online.com	✓
3	បណ្ឌិត កែវ អូម៉ាលីស្ស	ប្រធាននាយកដ្ឋានសត្វព្រៃ និង ជីវចម្រុះ	រព	012-755-558	omaliss@gmail.com	
4	លោក ប៊ុន វណ្ណា	ប្រធាននាយកដ្ឋានសុរាហកម្មព្រៃ ឈើ និងសហប្រតិបត្តិការអន្តរជាតិ	រព	012-880-303	vannabun@yahoo.com	
5	លោក ហួត ពន្លឺ	ប្រធាននាយកដ្ឋានផែនការ និង ហិរញ្ញវត្ថុ	រព	017-664-378	houptponloeu@yahoo.com	
6	លោក បណ្ឌិត សូ ធា	អនុប្រធានវិទ្យាស្ថានស្រាវជ្រាវ និង អភិវឌ្ឍន៍ព្រៃឈើ-សត្វព្រៃ	រព	097-620-7925	sothea67@hotmail.com	
7	លោក ឡាវ សេដ្ឋាផល	អនុប្រធាននាយកដ្ឋាននីតិកម្ម និង ពង្រឹងការអនុវត្តច្បាប់	រព	077-827-063	laosethaphal2007@yahoo.com	
8	លោក សំរិត វណ្ណា	អនុប្រធាននាយកដ្ឋានព្រៃឈើ និង សហគមន៍ព្រៃឈើ	រព	092-720-071	samrethv@yahoo.com	
9	លោក ឈាង ដានី	អនុប្រធាននាយកដ្ឋានសត្វព្រៃ និង ជីវចម្រុះ	រព	012-867-447	vanhachang@gmail.com	

No.	ឈ្មោះ Name	តំណាង Position	អង្គភាព Organization	ទំនាក់ទំនង Contact		ហត្ថលេខា Signature
				លេខទូរស័ព្ទ Tel	អ៊ីមែល E-mail	
10	លោក ហុង គឹមហ៊ាន	អនុប្រធាននាយកដ្ឋានអភិវឌ្ឍន៍ចំការព្រៃ និងព្រៃឯកជន	រោ	012-955-702	kimhean-hong@hotmail.com	
11	លោក វីស័រ វិសាល	ប្រធានការិយាល័យគ្រប់គ្រងស្ថានីយ៍ផ្ទាល់បណ្តុះនិងស្ថានទូទៅ	រោ	017-792-727		
12	លោក ញឹក គនៈពេជ្រ	ប្រធានទូទាត់ស្ថានសត្វ និងមជ្ឈមណ្ឌលសង្គ្រោះសត្វព្រៃក្នុងតាម៉ៅ	រោ	012-934-093	ratanapichhok@gmail.com	
13	លោក លីម ប៊ុនណា	អនុប្រធានការិយាល័យស្ថិតិ និងប្រកាសប្រ	រោ	088-8787-878		
14	លោក ឈុន ឌីសុច	អនុប្រធានការិយាល័យគណនាកម្មវិធីព្រៃ និងការប្រែប្រួលអាកាសធាតុ	រោ	077-805-610	chhundeux04@yahoo.com	V
15	លោក ជុន ជន្មា	អនុប្រធានការិយាល័យគ្រប់គ្រងដែនជម្រក និងទេសចរណ៍ធម្មជាតិ	រោ	០៩៥ ៥០៤១១៥	huchphonlaxa@gmail.com	
16	លោក សុខ ស្រីន	អ្នកសម្របសម្រួល TWG-FR	រោ	012-940-936	twgfr@wikam.com.kh	
17	លោក ម៉េង ឡុត	មន្ត្រីវិទ្យាស្ថានស្រាវជ្រាវ និងអភិវឌ្ឍន៍សត្វព្រៃ	រោ	012 890 144	wengloth@gmail.com	M. Loth
18	កូន. ទី	កម្មវិធីសត្វ ឧស្សាហកម្ម	ឧស្សាហកម្ម	០៩ ៨២១០១		
19	នគ. សុខ	នាយកដ្ឋានសត្វ. ឧស្សាហកម្ម	ឧស្សាហកម្ម	០៩៥ ៨៨៥៥	sokhom-noungyalee.com	
20	សុខ សុខ	សុខ សុខ	រ. ឲ	០៩៥០៤៦១០	sokun theatong@gmail.com	

No.	ឈ្មោះ Name	តួនាទី Position	អង្គភាព Organization	ទំនាក់ទំនង Contact		ហត្ថលេខា Signature
				លេខទូរស័ព្ទ Tel	អ៊ីមែល E-mail	
21	គុណ្ណី ជ័យជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ម/ក. ភិបាលក្រុង	០៩៥៥៥៥៥៥	kom-techno@gmail.com	
22	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង	០១២៣៤៥៦៧		
23	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង	០១២៣៤៥៦៧	kom-techno@gmail.com	
24	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង	០១២៣៤៥៦៧	kom-techno@gmail.com	
25	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង	០១២៣៤៥៦៧		
26	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង			
27	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង	០១២៣៤៥៦៧	kom-techno@gmail.com	
28	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង		kom-techno@gmail.com	
29	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង	០១២៣៤៥៦៧		
30	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង	០១២៣៤៥៦៧	kom-techno@gmail.com	
31	គុណ្ណី ជ័យ	នាយកដ្ឋានបរិស្ថាន និង ធនធាន	ក.ក. ភិបាលក្រុង	០១២៣៤៥៦៧	kom-techno@gmail.com	

No.	ឈ្មោះ Name	តួនាទី Position	អង្គភាព Organization	ទំនាក់ទំនង Contact		ហត្ថលេខា Signature
				លេខទូរសព្ទ Tel	អ៊ីម៉ែល E-mail	
32	Thibault Leduc	Conversion Pig Manager	Went		Thibault.leduc@wspredtechmy.com	
33	Prak Munny	WCS - Advisor	WCS	012555486		
34	Teang David	Chief of OMC	CFA. Odd	012350997	davidteang@yahoo.in	
35	Sin Rosal	Chief of K.G	CFA. odd.	012.889733	kompengchimaif@fa- @yahoo.com.	
36	Chhidy Sany	CD	WWF	012929595		
37	Chhay Saran	Chief of Pursat FA - Contentment	FA	012565327	Saravichhay@yahoo.com	
38	Boe Kumthay	Translator	Sunthe (operation)	012602960		
39	Boe Koss	Secretary	ស.ព	01888088	chunthathannarakeyabocan	
40	វ៉ា. វ៉ា	19 km	MEF			
41	ស៊ី. ឈី	15.7 km	ស.ព	0976207925		
42	ស៊ី. ឈី	5 km	ស.ព	012881877		

No.	ឈ្មោះ Name	តំណែង Position	អង្គភាព Organization	ទំនាក់ទំនង Contact		ហត្ថលេខា Signature
				លេខទូរសព្ទ Tel	អ៊ីមែល E-mail	
43	Alex Diment	T.A.	WCS	012 434554	adiment@wcs.org	hi
44	Sofheany	Coordinator	BNHI	012249407	Soo.sothearng@gmail.com	Sofheany
45	Vibol Neth	Assistant to CEO	Wildlife Alliance	012 713774	neth@wildlifealliance.org	Vibol
46	ប្រាក់ ណូម៉ា	Chief of FA-Ky Chau	FA	017534496		
47	Prak Noma	DD of DPS	MAFF	012 231314	praknoma@yahoo.com	
48	THAN SARATH			012 812383	fsarath@yahoo.com	
49	Kim Moneth	Envi specialist	USAID	017535318	mls@ecsaider.com	Kim Moneth
50	Lu H. Kimhy	PC	RTS	011 911102	kimhy.luu@undp.org	
51	TRACY FARREL	TECHNICAL ASSISTANT	CI	095772287	tfarrel@cameraweb.org	Tracy
52	Moelco Sauto-Jusen	Programme Analyst	UNDP	017868835	moelco.sauto-jusen@undp.org	Moelco
53	Limchun Ht.	Country Coordinator	W	012365778	limchun@wfb.org	Limchun

No.	ឈ្មោះ Name	តួនាទី Position	អង្គភាព Organization	ទំនាក់ទំនង Contact		ហត្ថលេខា Signature
				លេខទូរស័ព្ទ Tel	អ៊ីមែល E-mail	
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Annex 4: Enabling Provisions under Cambodian Law for Options Identified

The Constitution of the Kingdom of Cambodia, 1993

Article 59: The State shall protect the environment and balance of abundant natural resources and establish a precise plan of management of land, water, air, wind, geology, ecological system, mines, energy, petrol and gas, rocks and sand, gems, forests and forestry products, wildlife, fish and aquatic resources.

Political Platform of the Royal Government of Cambodia of the Fifth Legislature of the National Assembly, 2013 **Section 3.11. Environment**

- Preserving and protecting biodiversity and ecosystem while exploiting onshore and offshore natural resources in a sustainable manner for the benefit of people now and in the future in order to respond to the increased pollution caused by industrial development and global climate change and to ensure socio-economic advancement and the public well-being.
- Hastening the protection of environment quality and preservation of natural resources to ensure their sustainability in the ecosystem by way of: enhancing the development of green economy with full participation from all strata of society, especially local communities; and through strengthening the institutional and legal framework relating to environmental protection.
- Streamlining environment sector into the socio-economic development plan, and deepening regional and international cooperation in this sector. Accelerating the implementation of the Law on Environment with the aim to preserve protected natural areas, prevent environmental quality degradation and mitigate disasters.
- Undertaking sound environmental impact assessments for all development projects in order to ensure sustainable use of natural resources for advancing socio-economic development. Reinforcing the management of land concessions so as to ensure sustainable land use for development projects with the aim to prevent forest land encroachment at core and protected zones all the while providing technical support to local people living in those areas. Promoting eco-tourism that will help protect the environment and natural resources.
- Increasing environmental control and reducing pollution including: the management of solid waste, dangerous substances, air quality monitoring and quality improvement; monitoring and prevention of land and water pollution, including sound and visual pollution.

Rectangular Strategy for Growth, Employment, Equity and Efficiency Phase III of the Royal Government of Cambodia, 2013

Paragraph 27: The Royal Government will continue to take a comprehensive development approach toward environmental management in Cambodia, through:

1. Sustainable management of natural resources.
2. Intensifying efforts to reduce the impacts of climate change by strengthening adaptation capacity and resiliency to climate change, particularly by implementing the “National Policy on Green Development” and the “National Strategic Plan on Green Development 2013-2030”.
3. Continuing to strengthen technical and institutional capacity to promote the mainstreaming of climate change responses into the policies, laws and plans at national and sub-national levels.
4. Continuing to introduce measures to control environment and ecosystems pollution.

National Strategic Development Plan 2014-2018

- **Paragraph 4.40 – see Paragraph 27 of Rectangular Strategy Phase III**

Cambodia Climate Change Strategic Plan: 2014-2023

Strategic Objective 3: Ensure climate resilience of critical ecosystems (Tonle Sap Lake, Mekong River, coastal ecosystems, highlands, etc.), biodiversity, protected areas and cultural heritage sites Strategies:

- a. Strengthen biodiversity conservation and restore ecosystems threatened by climate change;
- b. Promote and encourage community-based, ecosystem-based approaches and ecotourism as cost-effective ways of addressing climate change;
- c. Promote payment for ecosystem services including REDD+;
- d. Promote participatory land-use planning.

Strategic Objective 8: Strengthen collaboration and active participation in regional and global climate change processes Strategies:

- a. Promote regional cooperation on climate change within inter-governmental and non-governmental mechanisms:
 - i. Implementation of commitments under the UNFCCC
 - ii. Cooperation under ASEAN framework
 - iii. South-South and North-South collaboration
 - iv. Trans-boundary initiatives, e.g. within the Mekong River Basin framework
 - v. Cooperation through the Clean Development Mechanism (CDM), carbon market mechanisms and other relevant carbon credit schemes.

National Policy on Green Growth, 2013

Section 3.2: Objectives

- Developing an economy in balance with environment, society and culture;
- Create a favorably enabling environment for green growth in equity, balance, fraternity, and quality of socio-economic systems and ecology that uphold national cultural value;
- Effective management of Access to water resources management and sanitation, Access to food security and food safety, Access to development, forest conservation, and mixed resources water, and sustainable land use, Access to renewable energy, and energy efficiency, Access to information and knowledge and skill, Access to better social livelihood service means and environment, and Access to finance for creation of small medium } enterprise and investment associated with green growth;
- Enhancing education and training on green growth;
- Strengthening information exchange, knowledge, good experiences, technology and investment related to green growth;
- Stimulating green growth cooperation at a national and sub national level, region and the world.

Law on Forestry, 2002

Article 1: The objective of this law is to ensure the sustainable management of these forests for their social, economic and environmental benefits, including conservation of biological diversity and cultural heritage.

Article 7: The Forestry Administration shall perform the following duties: Study, collect data on State forests regarding scientific, economic, social and environmental factors in order to set a sustainable production level.

Article 51: The Forestry Administration shall collect the following Wildlife Conservation Fee and Wildlife Royalty:

1. A Wildlife Conservation Fee shall be paid to the Forest Development Fund; and
2. A Wildlife Royalty shall be paid to the National Budget.

The amount of a Wildlife Conservation Fee and Wildlife Royalty shall be determined by Joint-Prakas between the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Economy and Finance.

Article 52: Except as stated in Article 53 of this law, any individual or legal entity harvesting Forest Products & By-products for commercial purposes within the Permanent Forest Reserve shall pay royalties and premiums to the national budget through the Forestry Administration. The Royal Government of Cambodia shall determine the royalties and premiums upon the joint proposal of Ministry of Agriculture, Forestry and Fisheries and Ministry of Economy and Finance. The state will not require the payment of royalties or premiums for the harvesting of Forest Products & By-products from private forests. The Model Forest Concession Management Agreement shall include a table of royalties and premiums on Forest Products & By-products.

Article 56: Anyone with legal possession of a permit to harvest Forest Products & By-products shall pay all applicable royalties and premiums prior to transferring or selling any of these rights to a third party. The Minister of Ministry of Agriculture, Forestry and Fisheries, after consultation with the Ministry of Economy and Finance, may approve a delay in the payment of Royalties and Premiums on Forest Products & By-products for a permit holder who the Forestry Administration has recognized for practicing the sustainable forest management, and the delay of payment shall be based on rules and guideline under Article 55, 2nd paragraph of this law.

Article 62: The Royal Government of Cambodia shall establish a fund known as “National Forestry Development Fund” which shall be administered and managed under the responsibility of the National Forestry Development Committee, and co-chaired by the Minister of Ministry of Agriculture, Forestry and Fisheries and the Minister of the Ministry of Economy and Finance. The organization and functioning of the National Forestry Development Committee shall be determined by AnuKret.

Article 63: The National Forestry Development Fund shall have sources of revenues derived from:

1. Distributions from the Royal Government of Cambodia;
2. Premium on Forest Products & By-products;
3. Wildlife Conservation Fees;
4. Aid from international organizations;
5. Donations from charitable individuals and national and international non-governmental organizations, and
6. Revenue from other services in the forestry sector.

All of the above mentioned revenue should be deposited into the account of the National Forestry Development Fund.

Article 64: National Forestry Development Fund shall not be used for the organization and functioning of the Forestry Administration. This fund shall be used only for the following activities:

1. Reforestation;
2. Silviculture and forestry rehabilitation;
3. Forest Protection and Conservation and bio-diversity
4. Forest and wildlife scientific and technical research;
5. Extensions on Forest and Wildlife sector;
6. Development in Forest and wildlife sector;
7. Development of Community Forestry; and
8. Training human resources for the Forest and Wildlife sector.

Article 94: Any individual who has committed a forestry offense harming the forest ecosystem shall be liable for payment in order to restore or repair the forest ecosystem to its original condition.

National Forest Programme: 2010-2029

Strategic objectives

1. Maximize sustainable forest contribution to poverty alleviation, enhanced livelihoods and equitable economic growth
2. Adapt to climate change and mitigate its effects on forest based livelihoods
3. Macro land-use planning that allows for holistic planning across sectors, jurisdictions and local government borders
4. Forest governance, law and enforcement at all levels
5. Develop a conflict management system
6. Raise awareness, capacity of institutions and quality of education to enable sustainable implementation of the National Forest Programme
7. Ensure environmental protection and conservation of forest resources
8. Apply modern sustainable management models adaptive to changing context
9. Develop sustainable financing systems

6. Sustainable Forest Financing

Sustainable Forest Financing provides an economically sustainable and transparent framework required in meeting all the NFP objectives. This will be achieved through:

Sub-programme 6.1 – Government Financing

Sub-programme 6.2 – Income from Forest Sector

Sub-programme 6.3 – Income from the Private Sector and Community Forestry

Sub-programme 6.4 – Financing via Donors

Sub-programme 6.5 – Innovative Financing from Payments of Environmental services and Carbon Credit

Law on Nature Protection Area/ Protected Areas Law 2008

Article 1: This law defines the framework of management, conservation and development of protected areas. The objectives of this law are to ensure the management, conservation of biodiversity, and sustainable use of natural resources in protected areas.

Article 4: The management of protected areas as mentioned in Article 2 of this law shall be under the jurisdiction of the Ministry of Environment. The Ministry of Environment has the “Nature Protection and Conservation Administration” (NPCA) as its own secretariat to manage the protected areas pursuant to the policy of the RGC. The organization and functioning of the Nature Protection and Conservation Administration in each protected area shall be determined by Prakas (Declaration) of the Ministry of Environment. The management of the protected area shall have to guarantee the rights of the local communities, indigenous ethnic minorities and the public to participate in the decision-making on the sustainable management and conservation of biodiversity.

Article 32: The Government shall establish a fund called “protected areas fund” which is organized, managed and given responsibility by a protected area committee with Minister of Environment and Minister of Economy and Finance as co-chairmen. The establishment and functioning of the committee shall be determined by a Sub-decree.

Article 33: Funding support for rehabilitation, improvement of protected areas and biodiversity shall come from:

1. National budget
2. Protected area entrance and other service fees
3. Environmental endowment insurance
4. Donations
5. Assistance from national and international organizations and friendly countries
6. Assistance from international environment funds

Article 34: Budget and funds from sources as stated in article 33 of this law may be used to support the following activities within the protected areas:

- The protection and conservation of biological resources and ecosystems;
- Rehabilitation and enhancement of biodiversity and ecosystems;
- Technical and scientific research study on the biological diversity and ecosystem;
- Maintenance and extension of eco-tourism services
- Training, human resource development and capacity building of the Nature Conservation and Protection Administration staff for effective protection and conservation of biodiversity and ecosystems;
- Programmes supporting the establishment of community protected area;
- Dissemination and education on protected area; and
- Construction, rehabilitation and maintenance of infrastructure.

Law on Environmental Protection and Natural Resource Management, 1996

Article 1: This law has an objective:

- To protect and upgrade the environment quality and public health by means of prevention, reduction and control of pollution.
- To assess the environmental impacts of all proposed projects prior to the issuance of decision by the Royal Government;
- To ensure the rational and sustainable preservation, development, management and the use of the natural resources of the Kingdom of Cambodia.
- To encourage and provide possibility to public to participate in the protection of environment and the management of the natural resources.
- To suppress any acts which may affect to environment.

Article 8: Natural resources of the Kingdom of Cambodia which primarily consist of land, water, airspace, air, geology, ecological systems, minerals, energy, petroleum and gas, rocks and sand, gems and stones, forests and forest sub-products, wildlife, fish and aquatic resources, shall be preserved, developed and managed to use in a rational and sustainable manner. Natural resource protected zones consists primarily of National Parks, wildlife sanctuaries, landscape protected areas, multiple use areas, shall be determined by Royal Decree.

Article 19: A special Treasury account, the Environment Endowment Fund, shall be crested, and administered by the Ministry of Environment for environmental protection and natural resource conservation in the Kingdom of Cambodia in accordance with the Finance Law. The Environment Endowment Fund, which comes from contributions from the Royal Government, grants from international organizations, donations from charitable individuals, donations from non-governmental organizations, and other lawful sums, shall be included in the National Budget in order to provide the above special account.

Article 21: Any person who refuses to allow access or obstructs the inspection officials from entering to examine or carry out an inspection inside the premise as provided for in the para.1 of the article 15 of this law, shall be subject to an administrative fine in cash from 500,000 (five hundred thousand) to 1,000,000 (one million) riels. In case of repeated offenses, shall be penalized a fine of 1,000,000 (one million) riels to 5,000,000 (five million) riels or shall be punished to imprisonment from 1 month to 3 months or to both punishments.

Any person who violate the article 20 of this law, shall be subject to administrative fine in cash of 1000,000 (one million) riels to 10,000,000 (ten million) riels. In case of repeated offenses, shall be penalized a fine from 21,00,000 (twenty one million) riels to 30,000,000

(thirty million) riels or shall be subject to punishment to imprisonment from 1 (one) month to 1 (one) year, or to both punishments.

Law on Mineral Resource Management and Exploitation, 2001

Article 1: The purpose of this law is to determine the management and exploitation of mineral resources, the manipulation of mines and all activities relating to the mining operation in the Kingdom of Cambodia save for the mining operation of petroleum and gas which shall be under a separate law.

Article 22: Guidelines on the form, plan expansion and increase and content of all necessary documents and work program, financial guarantee for proper implementation shall be determined by a Prakas of the Minister.

Article 23: In each necessary case, the Minister shall appoint competent officials to monitor the implementation of this law. Appointed officials shall:

1. Be responsible to the Minister for methods of administration in accordance with the provisions of the law.
2. Prepare an annual report on regulatory activities of exploration and mining during the preceding year and submit it to the Minister.
3. Collate information and maintain records of operations of explorations, mining, treatments, marketing and exportation of mineral resources and products.
4. Follow up and monitor to ensure that all provisions of this law have been implemented.
5. Make inspection to ensure that all regulations relating to the health and safety of workers and of the general public have been properly applied.

6. Perform other duties as determined by the Minister.

The power and duties of the officials appointed to monitor, inspect and report on all activities relating to the exploration, mining, research and analysis related to the methods of administration under the authority of this law shall be prescribed in Sub-decree.

Article 31: According to the applicable laws, a special tax regime shall be established for application to the output and revenue gained from the 6 (six) categories of the mining licenses as provided in Article 11.

Article 32: The rate of royalty on the value of mineral resources, methods of royalty payment to the State, and incentives for competent officials as provided in Article 23 shall be determined by Inter-Ministerial Prakas. Taxes, duties, tax on shares, tax on personal share, provision, method of expenditure, tax payment procedure, accounting and financial principles and practices, definitions of losses, exemption and incentives of investment in mineral sector shall comply with laws in force.

Article 33: Any person who conducts the operation of the mineral resource exploration without a mineral resource license shall be liable to a fine ranging from 500,000 (Five Hundred Thousand) Riels to 1,000,000 (One Million) Riels. In case of recalcitrance, the penalty shall be from 1,000,000 (One Million) Riels to 2,000,000 (Two Million) Riels, or such person shall be punished by 1 (one) month to 1 (one) year imprisonment, or both punishments.

Article 34: Any person who conducts the exploration operation in violation of the second paragraph of Article 7 or of Article 8 of this law shall be liable to a fine ranging from 5,000,000 (Five Million) Riels to 10,000,000 (Ten Million) Riels, or punished by 6 (six) months to 2 (two) years imprisonment or both penalties.

Article 35: Any person who conducts mining operation without a mining license or in violation of Article 7 and Article 8 of this law shall be liable to a fine of an amount equal to 3 (three) times the assessed value for a period the output of mineral has been extracted based on the size of apparatuses, used production machinery and quantity of minerals within such area, and shall be punished with a fine ranging from 1,000,000 (One Million) Riels to 10,000,000 (Ten Million) Riels per diem starting from the date such person illegally committed to the date the activities of mining operation have been ceased, and by imprisonment ranging from 1 (one) year to 5 (five) year regardless of compensation for damages. And the apparatuses and production machinery shall be confiscated into the State's property.

Land Law, 2001

Article 1: This law has the objective to determine the regime of ownership for immovable properties in the Kingdom of Cambodia for the purpose of guaranteeing the rights of ownership and other The Khmer version is the official version of this document rights related to immovable property, according to the provisions of the 1993 Constitution of the Kingdom of Cambodia.

Article 8: Only natural persons or legal entities of Khmer nationality have the right to ownership of land in the Kingdom of Cambodia. Thus, the following persons or entities may be owners of land in Cambodia: Cambodian citizens, public territorial collectives, public institutions, Cambodian communities or associations, public enterprises, Cambodian civil or commercial enterprises and any Cambodian organization which is recognized by law as a legal entity. A foreigner who falsifies national identity to become an owner of land in Cambodia shall be punished as determined under article 251 of this law. Any property bought under these circumstances will be seized as State property without compensation from the State.

Article 12: The State is the owner of the properties in the territory of the Kingdom of Cambodia enumerated in Article 58 of the 1993 Constitution and of all properties that are escheat, or that are voluntarily given to the State by their owners, or that have not been the subject of due and proper private appropriation or that are not presently being privately occupied in accordance with the provisions of Chapter 4 of this law.

Article 26: Ownership of the immovable properties described in Article 25 is granted by the State to the indigenous communities as collective ownership. This collective ownership includes all of the rights and protections of ownership as are enjoyed by private owners. But the community does not have the right to dispose of any collective ownership that is State public property to any person or group. The exercise of all ownership rights related to immovable properties of a community and the specific conditions of the land use shall be subject to the responsibility of the traditional authorities and mechanisms for decision-making of the community, according to their customs, and shall be subject to the laws of general enforcement related to immovable properties, such as the law on environmental protection. The provisions of this article are not an obstacle to the undertaking of works done by the State that are required by the national interests or a national emergency need.

Law on Public Finance 2008

Article 2: The Law has its objective to manage public financial system by complying with the principles of integrity, authority, unity, associability, universality, consistency, accountability, transparency, stability, comprehensiveness, and achievements. The public financial management covers national public finance including relations and interactions between national and international public finance, national and international private finance ensuring compliance with budget principles, financial accountability, linkages between budget and policies, and accountability for achievements.

Article 13: Permanent resources of the state include current and capital revenues.

■ Current revenue is divided into 2 groups and 3 categories, namely:

- Group 1: Real revenue
 - ◆ Category 1: Fiscal revenue
 - ◆ Category 2: Non-fiscal revenue
- Group 2: Revenue by order
- Category 3: Revenue by order

■ Capital revenue is divided into 2 groups and 3 categories, namely:

- Group 1: Real revenue
 - ◆ Category 1: Revenue from own sources
 - ◆ Category 2: Revenue from external sources
- Group 2: Revenue by order
 - ◆ Category 3: Revenue by order

Each type of revenue is classified by chapter, account, sub-account, and eventually can be in more detail by the Prakas issued by the Minister of Economy and Finance.

Article 16: Taxes, excises, and other fiscal revenues shall be determined by laws, collected and supervised by the Minister of Economy and Finance. The rates of taxes, excises, basis for taxation, tax exemption, and disputes related to the identification, collection, and control of taxes shall be determined in the framework and formalities stated in the law pertaining to the types of each tax and excise. No regulations of any kind, no international conventions shall induce changes leading to losses of revenue. The above case can only happen unless implementation of the formalities of similar laws and orders after having the approval from the Minister of Economy and Finance. The collection of non-fiscal revenue shall be under the supervision of the Minister of Economy and Finance.

Article 68: Under the limits defined by the Law on Finance and under the authority of the Prime Minister, only the Minister of Economy and Finance has the rights to prepare debt repayment schedules for either debt liable to and from others. The preparation of debt schedule shall be defined by the Law on Finance.

Law on Tourism, 2009

Article 2: The purposes of this Law are as follows:

- Govern the development of the tourism sector in a sustainable manner effectively and qualitatively and to reduce poverty;
- Protect and conserve the natural resources, culture and customs, which serve as the foundation of the tourism sector;

- Ensure and promote the quality of tourism services in the Kingdom of Cambodia through the introduction of a quality assurance system by providing security, safety, and comfort and by increasing tourists' satisfaction;
- Minimise negative impacts and maximise positive impacts of the tourism sector;
- Seek markets and enhance publicity with participation of both the public and private sectors;
- Develop human resources in the tourism sector; and
- Contribute to the development of international friendship and understanding through the tourism industry.

Article 21: Funds for the development and the management of the tourism sector shall be financed by:

- Allocation of the annual budget of the Ministry of Tourism;
- Cooperative finances from development partners;
- Contributions from charitable persons, customers, charity organizations, and the Tourism Industry Associations;
- Donations from the Cambodian Tourism Marketing and Promotion Board;
- Contributions from tourism operators; and
- Other financing sources or legitimate incomes.

The management and utilisation of funds for the development of tourism sector shall be determined by an interministerial regulation of the Ministry of Tourism and the Ministry of Economy and Finance.

Article 36: An application for the grant of or renewal of a tourism license shall be made by the operators of the tourism business and shall be in the form and accompanied by the supporting documents and other information as required by a Prakas (regulation) of Minister of the Ministry of Tourism. An application of tourism licence must thereof attach the license fees which were determined by an inter-ministerial Prakas (regulation) of Minister of the Ministry of Tourism and Minister of the Ministry of Economy and Finance.

Article 55: The types of complaints and disputes for which are in the jurisdiction of the Ministry of Tourism to undertake the role of ombudsman include complaints from and disputes between tourism businesses operators, their agents, employees, contractors, government officials concerned with tourism, tourists and other stakeholders. The Tourism Ombudsman Committee shall consider justly undertaking the dispute including the complaint. If the ombudsman is unable to resolve the dispute, any party may then refer the matter to the courts for resolution according to law. The expenditure and fee of the Tourism Ombudsman Committee shall be determined by a Prakas (regulation) of Minister of the Ministry of Tourism and Minister of the Ministry of Economy and Finance.

Article 69: Any tourist or leisure traveler who causes damages to the environment, cultural and natural heritages shall be guilty of an offence and subject to a legal liability in accordance with laws and regulations in effect.

Sub-Decree 19 on Social Land Concessions, 2003

Article 1: This sub decree has the objective to define the criteria, procedures and mechanism for the granting of social land concessions for residential use and/or family farming.

Article 16: The maximum size of social concession land granted for residential purposes is one thousand two hundred (1200) square meters, except in rural areas where land is available, the size of social concession may be increased up to three thousand six hundred (3600) square meters. In appropriate cases, particularly in urban areas, social land concessions for residential purposes may granted in the form of co-ownership.

Article 17: The maximum size of social concession land granted for family farming purposes is two (2) hectares, but for some areas the size of social concession land may be increased up to five (5) hectares based on the characteristics and potentiality of the land or the type of crop, and labor.

Sub-Decree 79 on Community Forestry Management, 2003

Article 1: This Sub-Decree aims at determining rules for the establishment, management and use of community forests throughout the Kingdom of Cambodia.

Article 4: Power in leading and managing a CF Community is gained through the election of community members.

Article 10: Roles and duties of CF Community members are as follows:

- Follow the instruction of the Forestry Administration and MAFF;
- Participate in developing and implementing Community Forestry Regulations, Community Forest Agreement and Community Forest Management Plan in compliance with Prakas of MAFF;
- Participate in forest resources management in compliance with Community Forestry Regulation, Community Forest Management Plan and other legislation related to forestry sector;
- Participate in sharing benefits from the community forest;
- Participate in monitoring the use of community forest resources by secondary users;
- Participate in conserving, protecting and planting the forest to ensure the sustainability of forest resources and environment.

Article 11: The User Rights of CF Community members include:

- Customary User Rights prescribed in Article 40 of the Forestry Law.
- The rights to barter, process, transport and sell NTFPs as described in Article 40(B) in point 5 of the Forestry Law.
- CF Community may continue to practice traditional swidden agriculture during specific periods of time as determined in the Community Forest Management Plan, as authorized in Article 37 of the Forestry Law.
- The right to appeal decisions which impact CF Community rights.
- The rights granted under a Community Forest Agreement within a specific area that shall ensure the sustainable use of forest resources.

Article 31: The Forestry Administration may use the national forest development budget to support the development process of Community Forestry consistent with provision prescribed in Article 62, 63 and 64 of the Forestry Law. Community Forestry Management Committee can seek direct financial sources to support the development process of Community Forestry from charity people, national and international organizations.

Sub-Decree 146 on Economic Land Concessions, 2005

Article 3: Economic land concessions may be granted to achieve the following purposes:

- To develop intensive agricultural and industrial-agricultural activities that requires a high rate and appropriate level of initial capital investment.
- To achieve a specific set of agreements from the investor for developing the land in an appropriate and perpetual manner based on a land use plan for the area.
- To increase employment in rural areas within a framework of intensification and diversification of livelihood opportunities and within a framework of natural resource management based on appropriate ecological system,
- To encourage small as well as large investments in economic land concession projects, and
- To generate state revenues or the provincial or communal revenues through economic land use fees, taxation and related services charges.

Article 6: There are two permissible ways to initiate economic land concession projects:

1. Solicited proposal, where a Contracting Authority proposes a project for solicitation of proposals from investors.
2. Unsolicited proposal, where an investor proposes a project proposal to the state for approval
 - o Contracting Authority refers to the authorities who have the legal power and exercise such power as granted by the Prime Minister to enter into Economic Land Concession Contracts on behalf of the Royal Government of Cambodia and who carries out duties in accordance with provisions of this sub-decree.



Annex 5: Opinion on the Legal and Policy Considerations of the financing Mechanisms for Protected Areas

Prepared for the Cambodia Forestry Administration, MAFF
By Dr. Sok Siphana
April 13, 2015

BACKGROUND:

process of Community Forestry consistent with provision prescribed in Article 62, 63 and 64 of the Forestry Law. Since the 1990s the Forestry Administration (FA) of the Ministry of Agriculture, Forestry and Fisheries (MAFF), and the Ministry of Environment (MoE) have received the mandate from the Royal Government of Cambodia (RGC) to secure protected forests in ecologically important landscapes and to establish new protected areas. One of their challenges is the ability to secure long-term financial arrangement necessary to pay for the full costs incurred in sustaining and safeguarding existing on-the-ground achievements, as well as ensuring the long-term integrity of standing forests.

Through a consultative process with key stakeholders the FA has reviewed the following finance mechanisms, which were thought to be technically achievable:

1. Taxes, fees, and fines levied on the legal trade in forest and non-timber forest (NTFPs) products;
2. Donor funding;
3. Payment for Environmental Services (PES), including payment for tourism, water and watershed services, and carbon and climate revenues;
4. Debt relief ('Debt-for-nature swaps');
5. Loans, bonds, and sustainable investment funds, including impact investments, allocated to forestry development and conservation;
6. Biodiversity and Forestry offsets and compensation agreements with industry;
7. Public-private partnerships, in which revenues from products and services sold are directed to a trust or other fund established for the explicit purpose of forest conservation, with primary attention given to possible income generated from Economic Land Concessions;
8. Establishing a forest conservation trust fund, with revenues generated from multiple sources;

This analysis provides a legal assessment and some policy considerations that may affect the viability, or the practical reality of adoption, of each financial mechanism.

1. GOVERNMENT BUDGET SUPPORT – PUBLIC TAXES, FEES, FINES, AND OTHER DIRECT ALLOCATIONS FROM THE STATE

Government revenue allocations should be the primary source of financial support for protected areas. Government budget allocations are done on an annual basis as part of the Financial Law, where fees collected directly from public taxes, fines, and other payments from concessions and businesses using Cambodia's natural resources are typically re-apportioned back through a centralized revenue system to support costs for management of protection forests.

The legal framework legislating and regulating the revenues collection through a centralized revenue system for natural resources conservation from environmental taxes, fines, fees, and/ or royalties are well in place:

1. The Law on Forestry provides for the collection of both Wildlife Conservation Fee and Wildlife Royalty,¹ the exact amount of which are regulated in a Joint- Prakas of MAFF and Ministry of Economy and Finance (MEF).
2. Payment of royalties and premiums are directed to the national budget through the FA:
 - a) for harvesting forest products and by-products for commercial purposes within the Permanent Forest Reserve.²
 - b) for any transfer of the rights under any permit to harvest forest products and by-products to a third party.³
3. Payment for forestry offenses collected by the FA are as well for the account of the national budget (payment to be used for the restoration or repair of the forest ecosystem to its original condition).⁴

New sources of public finance may be accessible through additional public taxes, fees or fines derived from natural resources exploitation or use. Taxes, fees and fines related to natural resource use can also be charged in sectors

such as petroleum, mining, hydropower and other energy production, fisheries, land, water supply, and tourism:

1. In the mining sector, payment of royalty on the value of mineral resources, methods of royalty payment to the State, i.e. through its centralized revenue system, is provided for in the Law on Mineral Resource Management and Exploitation.⁵
2. Fees, taxes and fines for environmental licensing and environmental impact assessment (EIA) are also collected for the account of the State.

LEGAL OPINION:

We are of the opinion that the public finance is the best and viable long term and sustainable option, provided the FA in full collaboration with the MoE and other stakeholders can undertake the following sequential actions:

1. *Undertake a fair assessment of the market value for various sources of public taxes, fees or fines and other services and products derived from or use of natural resources exploitation. The gist of such an assessment is to ensure:*
 - a) *proper market valuation of various revenue sources and benchmark it with global or regional standard or practices:*
 - (i) *licensing or permit system;*
 - (ii) *royalties from logging in the intact evergreen areas;*
 - (iii) *royalties and legal fees from logging in community forest areas and concessions areas, including from non-timber forest products;*
 - (iv) *sales of services in forestry;*
 - (v) *property tax on private plantations;*
 - (vi) *sale of carbon credits based on reduced impact logging and REDD+;*
 - (vii) *entrance fees to protected forest areas; and,*
 - (viii) *sale of hunting rights.*
 - b) *adequate cost recovery to finance conservation, restoration and redevelopment of damages ecosystem, i.e. sufficient funding available to cover transportation, community meeting, or facility maintenance costs of forest guards, bearing in mind that their basic salaries are covered under the regular national budget;*
2. *Renegotiation with the MEF for a fair re-allocation of these revenue collection with the FA and the key local forestry communities. Such a renegotiation can take into account:*
 - a) *the rewards or incentives for performance of forest guards or rangers, in addition to their low basic salaries;*
 - b) *adequate financing resources for the local communities: (i) to protect and preserve their respective natural resources, and (ii) to start an endowment system for generating regular revenues to support their sustained livelihood development from these natural resources.*
 - c) *the ability of the FA to devise a transparent well governed and managed fund designated for forest conservation uses.*
3. *In light of the trends of economic growth of the country, where public finance revenues are on the increase, competition with other line ministries for redistribution of these revenues will be fierce, although the prospect is more than viable provided the FA can provide the negotiation leadership backed by evidence based solutions.*
4. *However, taking into account the nascent nature or recent development of other natural resource sectors, (i.e. oil and gas, mining, hydropower and other energy production, fisheries, land, water supply, and tourism) and their thirst for financial resources to develop their own sectors, it is very unlikely that the FA and the MoE can argue for the MEF to tap these sectoral resources for protected areas conservation.*

¹ Law on Forestry, Article 51.

² *ibid*, Article 52.

³ *ibid*, Article 56.

⁴ *ibid*, Article 94.

⁵ Law on Mineral Resource Management and Exploitation, Article 32.

2. FUNDING FROM DEVELOPMENT PARTNERS

Funding for protected forests in Cambodia through Development Partners (DPs) has been and will continue to be an important source, in particular from major bilateral and multilateral agencies. The role of smaller and more ad hoc players, which include NGOs, private charitable foundations, and private companies, and some individual donations, can't be ignored.

Procedurally and agenda wise, DPs' interests and procedures can vary significantly and generally are well beyond the control of the RGC or the FA. DPs' respective approaches to providing funding are idiosyncratic, and although they are well appreciated by the government and the local communities, they are not in the long run sustainable. With the pressure to move their gradually limited financial resources to other post crisis countries, Cambodia's importance will fade away from their radar screen in the near or medium term.

LEGAL OPINION:

We are of the opinion that DPs' financial support for protected areas still remain a strong and viable long term sustainable financing option, provided the FA, the MoE and other stakeholders, can position it as a complementary source to the public finance. The FA should position their needs to reflect the new reality or concerns of the world, i.e. dramatic effects of climate change, sustainable forest management, etc. The following sequential actions could be envisaged to achieve that objective and to retain DPs' interests:

- 1. Redirect the major DPs to support to long term financing mechanisms, such as conservation trust funds and public-private-community partnerships.*
- 2. Refocusing DPs' efforts to strengthen the capacity of FA and MoE and their stakeholders to capitalize on opportunities to generate sustainable revenues from payments for ecosystem services.*
- 3. The FA can initiate a mapping process of the long-term development needs of many protected forests so as to provide a coherent framework for interventions by smaller and ad hoc players such as NGOs, private charitable foundations, and private companies, and some individual donations. As the human resources of the FA is finite, it is crucial that they are not diverted or distracted by small and unsolicited petty projects.*

The harsh reality of dealing with DPs is that they are here but each one of them has its own set of rigid rules of engagement, which leaves very space for the FA to maneuver. As such from the legal arrangement standpoint, there is not much the FA can design or take leadership. The FA needs to bear this legal and institutional reality for as long as the DPs are operating in Cambodia: DPs have their own standard agreements, Memorandums, and programme and project templates for the FA to populate, with minor efforts.

3. PAYMENTS FOR ECOSYSTEM SERVICES (PES)

The RGC has stated unambiguously in many of its key national development strategic plans the possibility of PES as an option to generate revenues for financing sustainably conservation activities. Ecosystem services are the many diverse benefits that people derive from nature and those providing ecosystem services should be compensated by those receiving ecosystem services.

Legally speaking, the process to operationalize the PES process should not be in principle difficult nor complex. The complexity lies upstream with the FA and the MoE to define, design and negotiate projects with clear mechanisms to measure, value, incentivize, and create payment schemes for one or more of the recognized services provided by ecosystems. Such process generally involves: (i) establishing a set of parameters for measuring the stocks and flows of a specific ecosystem service, such as drinking or irrigation water; (ii) quantifying the economic (or social) value of the service in collaboration with affected stakeholders. In voluntary markets the value can be arbitrarily set by the affected stakeholders working in collaboration with an independent third party to facilitate transactions; and (iii) determining compensation by public or private interests who benefit from the protection of the ecosystem service to landowners for the use of best management practices to ensure protection.

LEGAL OPINION:

We are of the opinion that while the design of the legal mechanism to implement the PES is not difficult, the real challenges will be in its subsequent enforcement. The issue of minor versus substantial breaches, the latter of which could lead to defaults and therefore of non payments are issues of significant importance; a potential post transaction

loss of publically recognized right over an environmental service that provides a flow of benefits to the demanding party could nullify the agreed compensation scheme; the need to secure independent third party monitoring intermediaries is another issue related to the right of payment or non payment.

A strong feeling of comfort on the viability of the PES mechanism is the success of existing pilot PES programs in Cambodia as a complement to improving conservation strategies in protected areas. To date, there are three pilot PES projects in two Protected Areas in the Northern Plains landscape -- the Kulen Promtep Wildlife Sanctuary managed by MoE and the Preah Vihear Protected Forest managed by MAFF -- that have been supported by Wildlife Conservation Society (WCS) and a pilot Incentives for Ecosystems Services scheme at a hydroelectricity facility in the Cardamom Mountain Landscape by Flora and Fauna International (FFI).

4. DEBT RELIEF (“DEBT FOR NATURE” SWAPS)

Debt Relief generally is not well practices in the case of Cambodia. The Cambodian authorities have in vain negotiated with the Russian and U.S. authorities at least on an annual basis to find solution to its decades old debts. A few years ago, there is an exceptional case with the IMF, which provided 100 percent relief of outstanding debt incurred before January 1, 2005. These additional resources freed up from the outstanding debt were made available to help Cambodia make progress toward its Millennium Development Goals (CMDGs). Reallocation of these resources were thus for general poverty reduction related initiatives.

LEGAL OPINION:

We are of the opinion the Law on Public Finance System provides the mandate for the MEF to oversee the debt repayment process⁶ and as such the overarching parameters MEF generally follow are directly related to major development agenda of the country, i.e. MDGs and in the next several year the Sustainable Development Goals (SDGs) in the UN Post 2015 Development Agenda. Other key priorities are related to initiatives to generate growth in the lead up to the imminent integration to the ASEAN Economic Community, the focus on remaining competitive and generating new jobs under the recently enacted “Industrial Development Policy (IDP)”. All these elements, combined with the little or no experiences by MEF in existing debt relief, let alone the sophisticated debt-for-nature-swap, lead to a pessimistic conclusion that this financing option will not be considered by the RGC, at least in the near term.

5. LOANS, BONDS, AND SUSTAINABLE INVESTMENT FUNDS

A bond is a written promise to pay back a specified amount of money, with interest earned on the principal, at a specific date or dates in the future. It is very similar to a loan, with the exception that a bond can be traded in the marketplace to generate revenue. Government backed bonds are typically developed and issued through a relatively simple process whereby (i) the government determines how much money is needed to fund specific projects for a particular period of time, and (ii) the Government then legally authorizes the creation of a bond to raise money from investors to fund the projects.

The real challenges in developing a bond market in Cambodia are the missing soft infrastructure to administer the mechanism. In other words, Cambodia still lack key participants such as (i) bond rating companies (Moody’s Investor Services, Standard and Poor’s Ratings Service, or Fitch Ratings) that provide a wide range of credit services, including establishing a rating that indicates how the financial market views the risk associated with the bonds, and (ii) debt service administrators to facilitate the payment schedule on the bond (principal and interest), where payments typically are made every 6 months for 20 or 25 years.

Institutional coordination wise, the tasks related to bond market infrastructure are still unclear with the MEF delegating its roles and responsibilities to the Securities and Exchange Commission of Cambodia (SECC) and the Cambodia Securities Exchange (CSE) on the one hand, and the National Bank of Cambodia (NBC) on the other. This explains in simple term why at the moment, there is no government bond market in Cambodia.

LEGAL OPINION:

Despite the RGC’s policy commitment as highlighted in the Financial Sector Development Strategy 2011-2020, that it

⁶ Law on Public Finance System, Article 68.

will consider issuing government bonds starting in 2017, we are of the opinion that such a timeframe is unrealistic. And assuming the optimistic scenario, if the RGC will decide to move so to launch its first bond market, the priorities will be more to raise crucially needed financing to develop and transform Sihanoukville into a Special Administrative Region (SAR) whereas the entire region will be developed into a sort of multi-purpose model Special Economic Zone. This SAR is highlighted as one of the four key practical measures to promote the implementation of the IDP to be achieved by the end of 2018.

6. BIODIVERSITY OFFSETS AND COMPENSATION

Biodiversity offsets are measurable actions taken to respond to significant residual impacts from project development on biodiversity and ecosystems. Offsets are intended to correct adverse impacts that have not been avoided, minimized, or mitigated through other project actions. Offsets are generally developed in accordance with the protocol outlined in the mitigation hierarchy.

Although no standards have been adopted at the international level for biodiversity offsets, more than 30 countries have laws requiring biodiversity offsets or compensation, which could include the followings:

- Strengthening ineffective protected areas by investing in capacity building for management staff and additional needed management activities;
- Establishing new protected areas or no-go zones in collaboration with communities and government in order to conserve particular species and increase available habitat;
- Establish movement and dispersal corridors for wildlife;
- Establish or strengthen buffer zones adjacent to protected areas;
- Work with communities to develop alternative livelihoods that can reduce or eliminate unsustainable activities and hunting pressures.

The RGC has thus far piloted various carbon and biodiversity offset projects across different sectors in Cambodia. These pilot projects could be grouped into two categories:

1. Forest specific offset projects, as in Reducing Emissions from Deforestation and Degradation (REDD+) pilot projects in Oddar Meanchey province launched in May 2008, followed by the second REDD+ pilot project in the Seima Protection Forest, Mondulkiri province launched in 2009.
2. Non-forest offset projects, taking the form of Clean Development Mechanisms.

In addition to these two pilot projects, there are several other REDD+ projects that have been initiated under the different institutional jurisdictions of the RGC.

Additional to REDD+ pilot projects, there is the Clean Development Mechanism (CDM), under which Cambodia is eligible for hosting emission reduction projects. In general, CDM projects have two key goals: (i) to assist developing countries who host CDM projects to achieve their sustainable development objectives, and (ii) to help developed countries partially meet their GHG reduction commitments by allowing them to take credits from emission reducing projects undertaken in developing countries. As of October 2014, there are 10 CDM projects listed under the Cambodia Climate Change Office of the MoE.

LEGAL OPINION:

There are initial precedence in carbon and biodiversity offset projects and other projects under the Clean Development Mechanism are well tested. As such the relevant government institutions are very familiar with the legal and procedural aspects to ensure permanent funding to deliver conservation outcomes over the long term.

There are currently 14 projects at various phases, which could benefit from the experiences of the Oddar Meanchey Community Forest REDD+ Pilot Project and Seima Protection Forest REDD+ Pilot Project. However, current funding governance and its disbursement mechanism needs to be revisited to ensure timely redistribution of these funds to the local Forest communities.

7. PUBLIC-PRIVATE PARTNERSHIPS TO GENERATE REVENUES FROM FOREST ENTERPRISE PRODUCTS AND SERVICES

Public-private partnerships (PPP) is another mechanism, which can be developed by the government to establish a business with an explicit mission to generate revenues for the conservation of forests, biodiversity, and ecosystems, and income for communities and regions. Like any business, there is some risk in developing public-private enterprises

since considerable initial capital outlay in the form of grants and affordable loans will be required to finance a business start up. Moreover, all funding proposals to select and fund collaboration ventures would require other upfront costs to undertake feasibility studies, business plans and possibly seed grants to support start-up enterprise concepts. There is

also the cost of capital even though loans at low interest rates (0-11% per annum) can be provided by NGO, private foundation, or investor partners. Generally PPPs are very attractive for the power and road infrastructure and there is clearly a large critical mass of consumers who are consuming or buying round the clock energy in their households or their businesses, or travelling on a toll road, thus providing a good steady flow of proceeds to repay the loans. There is virtually no PPP investment in social sectors such as health and education and cross-sectoral sectors such as environment and conservation.

LEGAL OPINION:

While the possibilities of public-private partnerships exist to create forest-based enterprises that can generate revenues and become commercially viable, there is a clear need for an initial endowment or subsidies support from development partners to kick start upstream preparatory works such as feasibility studies, business plans, marketing plans as well as on-going technical support to ensure optimization of business operations, i.e. accounting, sourcing, legal compliance.

Moreover, the existing legal framework governing infrastructure concessions, i.e. the 2007 Law on Concessions, is neither appropriate nor applicable for PPP investments in environment and conservation sectors. As such, the viability of this option is slim.

8. CONSERVATION TRUST FUNDS

Conservation Trust Funds (CTFs) are private, legally independent grant-making institutions that provide sustainable financing for biodiversity conservation and natural resource management. Conservation trust funds are often established to anchor other sustainable financing mechanisms by providing a transparent and efficient way to manage funding for conservation purposes. Conservation trust funds can manage endowment funds (e.g., only investment income is spent), sinking funds (e.g., both capital and investment income is disbursed) or revolving funds (e.g., pass-through sources of revenue are disbursed), or a combination of any of these. Most funds combine 2 or 3 of the fund types as a way to diversify their sources of funding and take advantage of emerging opportunities.

Despite the efforts of the MEF in the past several years to draft a Trust Law with the assistance of the Asian Development Bank, Cambodia has yet to have an overarching law or any sub-decree that guides or regulates the establishment of funds generally. The more general trust principles are laid in the 2008 Law on Public Finance System, which explains the creation on an ad hoc basis of existing funds in Cambodia through special subject-matter laws:

1. The 1996 Law on Environmental Protection and Natural Resource Management provides the foundation for the establishment of an 'Environment Endowment Fund', a special Treasury account to be created and administered by the MoE 'for environmental protection and natural resource conservation' in Cambodia.
2. The 2002 Law on Forestry enables the establishment of a National Forestry Development Fund, which is to be administered and managed under the responsibility of the National Forestry Development Committee.
3. The 2008 Law on Protected Areas also contains provisions enabling the establishment of a Protected Areas Fund, which is to be organized, managed and 'given responsibility' by a protected area committee, with the Ministers of MoE and MEF as co-chairs.

On the Development Partners side, there are several examples of conservation trust funds that have been established in Cambodia, the biggest trust fund relevant for conservation activities operational thus far is the Cambodia Climate Change Alliance Trust Fund. This fund is a multi-donor trust fund established by donors and the RGC to apply a more coherent approach to climate change support for Cambodia. It is administered by UNDP, and implemented by a National Climate Change Committee within the MoE. A dedicated Trust Fund Secretariat appointed by government manages day-to-day operations, and reports to a Programme Support Board. A Trust Fund Administrator manages the Trust Fund, provides capacity development and financial assurance, and reports to the government and donors. Other trust funds that have been set up include the Marine Conservation Trust Fund and the Tropical Forest Conservation and Venture Trust Fund.

LEGAL OPINION:

The Conservation Trust Fund option is also another well tested concept, which have tremendous flexibility in terms modes of operations (Endowment Fund, Sinking Fund, Revolving Fund) and can absorb large contribution from development partners. In term of operational efficiency, scale and long term impact, but foremost appreciation and buy-in from the Government, this option should be pursued as much as possible.

CONCLUSION:

In light of the above review, we are of the opinion that, out of eight options, five options are quite viable though different in procedural approaches: Public finances generated from taxes, fees, and fines levied on the legal trade in forest and non-timber forest products; traditional donor funding; Payment for Environmental Services (PES), Biodiversity and Forestry offsets and compensation schemes; and conservation trust fund.

The remaining three options are considered as still premature for application in Cambodia; Debt relief ('Debt-for-nature swaps'); bonds, and other sustainable investment funds, including impact investments, allocated to forestry development and conservation; and public-private partnerships. In the medium term, all three options could be considered by the Government as additional options to secure long-term financial arrangement to meet the Government's objectives of sustaining and safeguarding the environment and its forests.

Annex 6: Benefits, Costs, and Follow Up Information Needs For Potential Forest Finance Options in Cambodia

A preliminary analysis of potential benefits and costs of the forest finance options proposed for The Royal Government of Cambodia's (RGC) protected forests and protected areas is outlined here, along with a summary of follow on recommendations. The purpose of a benefit-cost analysis (BCA) is to compare the potential social and economic benefits associated with each of the finance options policy or investment decisions with the anticipated financial or related costs required to implement the policy or investment. The feasibility of a policy or investment significantly increases if it can be shown that the sum of the benefits exceeds the costs. The accuracy and usability of the results from a BCA is greatly improved if benefits or costs can be measured and monetized. However, in practice, many BCAs are greatly limited by a lack of available information and methods for estimating and monetizing the consequences of the proposed investment or policy. Unfortunately, this is very much the case with the benefit-cost analysis of the options for financing the management and expansion of protected forests and protected areas in Cambodia. Very few data exist to quantify anticipated costs that will be associated with each proposed financial option. As a result, the current analysis is considered to be very preliminary and speculative, and has been designed to serve as a framework from which a more detailed BCA can be developed once the Cambodia Forest Authority (FA) determines the most feasible finance options.

The basic steps carried out to do this preliminary assessment included the following:

1. Define the Project Alternative considered in the analysis. For each alternative the following factors have been estimated:
 - a. Basic cumulative user costs
 - b. Selected economic factors that could affect user costs
 - c. Assumed user benefits.
 - d. Possible risks associated with the finance option
2. Recommendations for the preparation of a more thorough BCA once the preferred financial options for financing Cambodia's protected forests have been determined.

To simplify the benefit-cost-risk analysis, the Project Alternatives described in the Cambodia Forest Finance Assessment have been combined into three categories:

- Direct user fees and service charges, allocation of additional government revenues, voluntary levies and surcharges, along with cross-sectoral and sub-national fiscal transfers;
- Payments for ecosystem services, biodiversity offsets and leases, concessions and joint ventures;
- Debt relief, loans and bonds, and sustainable investment funds.

A summary of conclusions drawn from the preliminary analysis is included, along with recommendations for additional information that can produce a deeper assessment of potential benefits and costs associated with each option.

Alternative 1 - Direct user fees and service charges, allocation of additional government revenues, voluntary levies and surcharges, along with cross-sectoral and sub-national fiscal transfers.

Direct user fees and service charges can be derived from taxes, fees and fines related to natural resource uses that are charged in sectors such as petroleum, mining, hydropower and other energy production, fisheries, forestry, land, water supply, and tourism. A percentage of the fees, taxes and fines for environmental licensing and environmental impact assessment (EIA) can also be assigned to a government or independently managed fund designated for forest conservation uses. Fee structures should include "willingness to pay" surveys that are further linked with market surveys to determine a fair market rate for each service offered to private businesses for the use of Cambodia's natural resources. Government budget allocations are typically done on an annual basis, and protected forests typically are funding through a centralized revenue system. Thus revenues from taxes, fees or other charges within a specific protected forest or PA are not retained at the local level, but are delivered to a central agency or the national Treasury. Protected forests and PAs typically receive only a small portion of these collected fees through one annual allocation. Also, the separation of budget allocations from earnings reduces any incentives for protected forest managers to generate more revenue, and creates little responsibility or accountability for them to do so.

Economic Factors Affecting User Benefits and Costs: FA has been collecting royalties from timber products, fines and premiums for many years. For example, as stated in the National Forest Programme, the royalties for timber

collected between 1999 and 2009 was calculated at U.S. 56.5 million dollars (USD). In 2008, the royalties to FA from 36,785 m3 of round logs equalled approximately USD 2.5 million, while fines and premiums collected by FA was estimated at approximately USD 600,000. The revenues from forests have been derived from the sale of logs and timber as a sub-unit of the total value of the forests. Thus additional revenues that could add to the total income from fines, fees, and royalties could include:

- The value of NTFPs such as fuel-wood, charcoal, medical plants, furniture processing, and wildlife;
- Employment resulting from timber harvesting in the primary sector, in particular the considerable downstream processing;
- Significant increases in value-added through the chain of wood processing;
- Payments for environmental services; and,
- Revenues from eco-tourism.

FA will focus from the present time through 2029 on the RGC's ability to contribute to the financing of forest conservation by pushing for the reallocation of funds from the national budget, the contribution from royalties and fines collected, as well as any export duties on timber and non-timber forest products.

In the next 10-20 years, some of the approaches that FA will pursue to raise revenues for sustainable forest management will include:

- Collecting royalties from logging in the intact evergreen areas;
- Royalties and legal fees from logging in community forest areas and concessions areas, including from non-timber forest products;
- Sales of services in forestry;
- Property tax on private plantations;
- Sale of carbon credits based on reduced impact logging and redd+;
- Entrance fees to protected forest areas; and,
- Sale of hunting rights.

According to the National Forest Programme, it is expected that royalties from logging in the intact evergreen areas (1.25 million hectares, which is 50 percent of the production forest) for the next 20 years will bring in an estimated USD 728 million. The other 50 percent of production forest will bring in the royalties estimated at USD 455 million. Finally, it is expected that 75% of the 2 million hectares of community forest areas will consist of degraded deciduous forests, and 25% of logged semi-evergreen forests. Therefore, royalties from logging can be expected to commence once all of CF is operational with proper management plans in place. It is expected that within 20 years, royalties from logging in CF areas would total approximately USD 476 million, or an approximate gross yield of more than USD 20 million per year. Overall, the RGC expects that within the next 20 years, FA could be collecting about USD 1.6 billion from royalties from logging in the intact forest areas, production forest areas, and CF areas, or a cumulative gross income of USD 80 million per year.

The government has considerable experience collecting fees and charges for the use of public lands and resources. This expansion of this revenue source needs only to explore new possible funding sources from resources from which fees are not been collected, or where fee structures do not currently reflect fair market values. Government also has considerable experience with public-private partnerships.

From this coarse assessment it is evident that significant financial benefits can be accrued from this Alternative. Management costs are estimated at net present value of approximately USD 35 million per year, which suggests that financial benefits could significantly exceed anticipated costs. However, additional social and ecological costs could be incurred in the process of forest harvests unless stringent forest management practices are incorporated into harvest leases, including minimal impact felling practices, selective logging, and low impact skidding and transport policies, and on-going monitoring of the impacts of harvesting practices on biodiversity and ecosystem dynamics. Although actual cost estimates are not available to calculate the finances required to include these sustainable harvesting measures, it is obvious that including them in forest harvest leases will add significant costs to each lease agreement, and the costs will reduce net financial gain.

Conclusions: Despite the anticipated additional costs of sustainable forest harvest measures, the direct user fee options appear to have high potential, with greater benefits than costs. Each method is explicitly enabled by law, and is already under operation in Cambodia. The main opportunity lies in expanding the scope and scale of these arrangements, extending the range of sites in which they are applied, and rationalising fee levels in line with market prices and to consumer willingness to pay.

The voluntary levies and charge financial options are identified as having medium potential. All of these instruments tap into existing revenue streams, and do not require the development of new markets, products or services. Although earmarking and retention is not wholly consistent with the government's current stated policies, on-going public financial management reforms and decentralisation processes open the door to the possibility of these kinds of arrangements becoming more viable in the near future.

Alternative 2 – Payments for ecosystem services, biodiversity offsets and leases, concessions and public-private partnership (PPP) joint ventures

It may be useful for government and NGOs to identify suitable private sector partners for possible collaborative ventures involving sustainable forest-based enterprises. Government can then solicit funding and collaboration requests from potential partners through a formal proposal submission process, and then select and share the development costs for collaboration ventures. Each venture would then require the following:

- Feasibility studies, business plans and possibly seed grants to support start-up enterprise concepts.
- Capital loans at low interest rates (0-11% per annum) provided by NGO, private foundation, or investor partners allocated to the most promising enterprises for working capital and/or scaling up (either vertically or horizontally). Actual terms can be customized to the situation of each enterprise.
- Sustainable sourcing plans to ensure consistent high quality in product delivery.
- Marketing plans to identify and build demand, and ensure best price options for products and services.
- On-going technical support provided through NGO or investor partners to optimize business operations (accounting, sourcing, legal compliance), and ensure the adoption of sustainable business management and best practices, including monitoring support.

The feasibility of these public-private enterprises to generate significant revenues as part of a comprehensive forest finance strategy will require a comprehensive initial market survey to determine opportunities for proposed new ventures to gain entry into existing marketplaces or to stimulate new ones.

Examples of possible offset activities that may be included as a form of compensation could include:

- Strengthen ineffective protected areas by investing in capacity building for management staff and additional needed management activities;
- Establish new protected areas or no-go zones in collaboration with communities and government in order to conserve particular species and increase available habitat;
- Establish movement and dispersal corridors for wildlife;
- Establish or strengthen buffer zones adjacent to protected areas;
- Work with communities to develop alternative livelihoods that can reduce or eliminate unsustainable activities and hunting pressures.

Ideally, offsets should be designed and implemented as part of a national planning effort taking into account the cumulative impacts of development in the country, and contributing to and nested in existing national conservation strategies, including recovery plans for IUCN recognized threatened and endangered species and protected area strategies. Government-endorsed national offset and compensation strategies may also be most effective if supported and overseen by effective and transparent institutions, such as conservation trust funds, to ensure permanent funding to deliver conservation outcomes over the long term.

A key factor in the development of any compensation or offset strategy is the assurance that investments in conservation or offset activities do not simply provide a mechanism to allow inappropriate developments to move forward. This is particularly true in areas of rare, unique, or highly threatened species and ecosystems. Thus all compensation and offset strategies must ensure that appropriate monitoring, planning, and management mechanisms are in place and secure over the long term to guarantee that the compensation objectives are achieved.

Economic Factors Affecting User Benefits and Costs: To date, most PPP projects in Cambodia have been procured on a noncompetitive and unsolicited basis. Some of these projects are quite large, particularly in the power sector, and the International Monetary Fund (IMF) noted in a recent report on Cambodia's debt sustainability that the hydro-power projects presently being developed by the government as PPPs have the potential to create significant liabilities for the government. The IMF does recommend that the government implement a phased PPP development program that builds on project successes to create political support and investor confidence in order to broaden the scope and sector coverage for PPP projects.

While the number of PPPs is impressive, the overall level of private investment outside power in sectors such as water and transport is low. Data from the World Bank's Private Participation in Infrastructure (PPI) Projects Database show

that during the period 1990–2008 there was a total of 22 PPP projects in Cambodia. Slightly over half of these projects were in the energy sector, representing about 55% of total investments by number and investment value. While private investment in infrastructure has been increasing in recent years, the number of projects and the amounts mobilized continue to be small. It appears that in the road sector there has been little investment as the concessions were allocated for existing roads. There is virtually no PPP investment in social sectors such as health and education and cross-sectoral sectors such as environment and conservation.

Unfortunately, the potential financial revenues from PES and offset strategies remain highly speculative at this time, and predictions are too varied to provide a reliable estimate of potential financial benefits. However, based on experiences in similar environments, the costs of implementation for these projects are expected to be less than potential income, rendering the option as representing a financial gain for the RGC. The social and ecological benefits are also expected to be very significant, including retention of important hydrologic and ecological functions, reduced losses of biodiversity, and increased availability of non-timber forest resources.

Conclusions: These financial options are identified as having high-medium potential, with benefits most likely exceeding costs, and low risk associated with each venture. All have been recognized by the MOE for development, and work is already underway on identifying legal and operational modalities for their implementation. All respond to opportunities and interests associated with the recent opening up of the economy to outside investments, especially ongoing developments in the tourism, infrastructure and extractive industries sectors.

Alternative 3 – Debt relief, loans and bonds, and sustainable investment funds

Between 2008 and 2012, Cambodia received about USD 5.4 billion in development cooperation financing from development partners. Approximately USD 3.55 billion of this total was dispersed as grants, and US\$1.85 billion as loans. Based on projections in the NSDP 2014–2018, Cambodia is likely get USD 1.2 billion (USD 600 million as grant, and USD 600 million as loan) in the next 2–3 years. Development cooperation has accounted for approximately 10 percent of the country's GDP in the recent years. It has also probably contributed to the recent high economic growth rate, increased GDP per capita from USD 760 in 2008 to USD 1,036 in 2013, and reduced the poverty rate from around 47.8% in 2007 to 19.8% in 2011. Besides demonstrating the international community's support for the Royal Government's development program and reform effort, this increased level of external resources has also supported the creation of a positive enabling environment, which has been associated with expanded public and private investment, primarily in the infrastructure, garment, agriculture, construction, and tourism sectors.

Development partners provide an important source of funding for protected forests and PAs in Cambodia, with bilateral and multilateral agencies providing the largest source, along with some donations from individuals, NGOs, private charitable foundations, and private companies. However, donor interests and procedures can vary significantly. This means that fundraising approaches need to be tailored for each partner, and funding priorities can change quickly and dramatically. Most development partners provide support through two to five year projects, and this is often insufficient to fulfill the medium or long-term objectives and needs of many protected forests and PAs. However, some funders are increasingly willing to consider funding requests to catalyze long-term sustainable financing mechanisms and to capitalize financing mechanisms, such as conservation trust funds.

Government backed bonds are typically developed and issued through a relatively simple process:

- The government determines how much money is needed to fund specific projects for a particular period of time.
- The Government then legally authorizes the creation of a bond to raise money from investors to fund the projects.
- Underwriters from national or international private sector companies buy the bonds and resell them to large and small investors. The underwriters make money on their investment when they re-sell the bonds. The investors in the bonds are most commonly pension funds, mutual funds, and other large investors. In some cases small investors will find bonds appealing, typically if they feel that the value will increase rapidly over a short time period.

Other key participants in the bond market include:

- Bond rating companies that provide a wide range of credit services, including establishing a rating that indicates how the financial market views the risk associated with the bonds.
- Debt Service administrators facilitate the payment schedule on the bond (principal and interest), with payments typically are made every 6 months for 20 or 25 years.

As the issuer of a bond, the government may also decide to declare a debt limit that restricts the amount of bonds the state can issue. Investors in the bond must have transparency, and some form of verification as to how the projects to be carried out fulfill the mandates of the bond. It is also essential that monitoring data demonstrate the use of proceeds from bond sales.

Enterprise funds and other types of sustainable investment funds differ from bonds in that they channel capital – debt or equity – into environmentally-sustainable businesses. For-profit investments can be structured to provide financial returns for a private conservation trust or similar financial structure by tapping into the substantial financial resources of the private sector. In this way, these funds can provide both a direct financial benefit and promote adherence to environmental standards for use of resources.

Economic Factors Affecting User Benefits and Costs: At the moment, there is no government bond market in Cambodia. In the Financial Sector Development Strategy 2011-2020, it is stated that the Royal Government will consider issuing government bonds starting in 2017. Although the system no longer operates, Cambodia previously issued government bonds with maturities longer than 10 years, and it implemented a book-entry system. The Book-Entry System (BES) is a computerized registry for government bonds developed by the IMF that can process participant's details, auction outcomes, and secondary market transactions. BES also handles information on interest and redemption. In order to register, commercial banks need to create three accounts: securities account, customer account (one account for all customers of each bank that are trading on behalf of customers), and collateral account. A security account can be created for any large non-bank corporation that intends to participate in bond auctions on a regular basis, and a collateral account is also created when required. All submissions for bond auctions must be made on a standard physical form issued by the NBC. After all bid forms are validated, NBC enters all bid submissions in BES and selects accepted bids. The settlement date is 3 days (72 hours) after auction.

There are three patterns of bond sales and purchases in Cambodia: (i) between a bank and its customers, (ii) between two banks, and (iii) repo and reverse repo. For sales and purchases between a bank and its customers, the bank's securities account and bank's customer account are involved. The bank's customer account is one separate account whose current balance can be monitored by NBC. NBC occasionally requires a complete disclosure of a customer's particulars and the amount of securities held, the total of which must reconcile with the BES book-entry account held at NBC. All interest payments on bonds issued at face value with an annual rate of interest and a fixed maturity date are shown in BES. Interest can be paid to bond holders either once or twice per year depending on the terms of issuance. On the due date, NBC processes a fund transfer arising from interest payment by debiting a treasury account. NBC types and sends a letter to subscribers and also sends copies of an interest payment due report for to NBC's Internal Audit Department.

Unfortunately, all of the potential income options in this Alternative are minimally developed in Cambodia at this time, and the legal hurdles required to more fully develop each option could be substantial. The potential revenues that can be derived from each option (debt relief, loans and bonds, and outside investment) are also highly speculative and uncertain given Cambodia's fragile credit rating. Thus it is uncertain if the benefits from the investment in the legal and policy infrastructure required outweigh the probable costs.

Conclusions: These financial options are identified as have low to medium potential, with costs possibly exceeding benefits in most cases, and moderate to high risk associated with some of these finance strategies. The policy framework to pursue these strategies is only partially in place, and some legal and operational hurdles may exist to constraint their use. Much more information will be required on anticipated changes in market conditions, credit ratings, and expected commercial ventures associated with Cambodian public forests before greater confidence can be generated for these possible ventures.

Recommendations for Future B/C Analysis of the Cambodia Forest Finance Options

A more detailed review of each of the potential financial instruments included in this assessment report suggests that each may hold potential for contributing to the financial resources needed to manage Cambodia's protection forests and secure their ecological integrity for future generations. However, the emphasis should probably be placed on Alternatives 1 and 2, in that priority, with Alternative 3 assigned for more in depth legal and policy cost analysis. Ultimately, it is expected that the Forestry Administration will work together with other appropriate government agencies to design and implement a comprehensive strategy that includes several of the financial instruments described here. However, the development of this strategy will still require the following information:

- A more thorough assessment of the legal framework available or required to support the use of each instrument to support the procurement of funds to support government actions to manage public protection forests;

- An up to date market analysis to determine the approximate amount of income that may be accessible to the FA through use of each financial instrument, including a review of Cambodia's competitive advantage for each instrument to be pursued;
- A prioritization of the most promising financial instruments based on the results from the market analysis;
- A determination of the most effective management framework that can best support the administration and disbursement of any funds raised, including the feasibility of public-private partnerships in the form of trust funds or para-statal organizations;
- A business plan to create a 3-5 year roadmap for financial success. The business plan will define the immediate and long-term objectives of the Forestry Administration and the specific financial needs the plan will fulfill; a summary of the market analysis; an action plan to guide the implementation and fulfillment of the finance strategy; and an operations and management plan to describe the administration and use of funds.

It is also recommended that protected forest financing measures and instruments mechanisms to ensure that the following three factors are achieved:

- A. Increase the size and diversity of financing sources and funding portfolios;
- B. Enhance revenue retention and promote direct reinvestment in conservation; and
- C. Streamline protected forest financial planning, costing and allocation procedures.

Five particularly pervasive financial constraints to effective protected forest management are evident, and each of these factors will ultimately influence the ratio of benefits to costs required to fulfil each alternative:

1. There is insufficient funding at the present time to cover core site-level costs and coordinate national-level forest management activities;
2. Funding is distributed unevenly across the protected forest network;
3. Staff costs dominate public budgets;
4. Protected forests and PAs rely on a very narrow funding base and limited range of financial sources;
5. Protected forests and PAs operate according to a short-term financial planning horizon.

Again, this analysis remains very preliminary due to the very limited data available to assess potential benefits, costs, and risks associated with each forest finance opportunity. Future work will seek to increase the available data to allow a more robust and thorough CBA in order to facilitate greater confidence in the selection and development of specific finance options.

References

Cited in Annex 1 of full report

