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Nation Religion King



National Committee for Sub-National Democratic Development (NCDD)

**MANUAL FOR
PERFORMANCE BASED GRANTS
TO SUB-NATIONAL
ADMINISTRATIONS**

2019

Preface

NCDD is responsible to manage and take lead in the implementation of the Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans, Law on Administrative Management of Communes/ Sangkat and policies on Decentralization and Deconcentration; through the formulation of the national program on sub-national democratic development. The program is financed by the Royal Government of Cambodia and development partners and implemented by ministries/ institutions, subnational administrations (SNAs), CSOs and relevant stakeholders (the implementers).

In the implementation of the national program, NCDD provides technical and financial assistance to the implementers especially the SNAs for capacity building and promoting delivery of public services and local development.

The financial assistance is provided to the SNAs through grant programs called “Performance Based Grants”. The Grants will be awarded by NCDD and overseen by a Grants Committee.

The Performance Based Grants Manual sets forth the framework for performance based grants, design of the performance based grants, implementation of the performance based grants including monitoring and evaluation; and the cross-cutting issues (Accountability, Gender, and Climate Change).

Essentially this manual includes criteria and conditions for access to grants, grant allocation formula, performance measures and eligible expenditures under which the SNAs may wish to participate in and access to the grant program. The manual also identifies grant award process, selection of grant-financed activities, screening and implementation including monitoring and evaluation.

The application manual is intended to expedite, simplify and standardize the administration of this performance based grant program. NCDD hopes the SNAs and relevant stakeholders will find this manual useful and practical.

This Performance Based Grants Manual will be updated continuously on the basis of the feedback received from the NCDD staff, the national program implementers and relevant stakeholders.

Phnom Penh Capital, 27 June 2019

Deputy Prime Minister, Minister of Interior and
Chairman of NCDD

Samdech Krolahom Sar Kheng

List of Abbreviations

Abbreviation	Meaning
C/S F	Commune / Sangkat Fund
D/M F	District / Municipal Fund
PBG	Performance Based Grant
PBCRG	Performance Based Climate Resilience Grant
APA	Annual Performance Assessment
PM	Performance Measures
MC	Minimum Conditions
SNA	Sub-National Administration
NCDD-S	National Committee for Sub-National Democratic Development Secretariat
SMART	Specific, Measurable, Attainable, Relevant, Time-Bound
LGCC	Local Governments and Climate Change Project
RGC	Royal Government of Cambodia
DSA	Daily Subsistence Allowance

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Chapter 1: Framework for Performance Based Grants

1 Introduction

This Manual defines the framework for management of performance based grants from NCDD-S to sub-national administrations (SNA). The manual applies to the management of performance based climate resilience grants, and to other types of performance based grant, subject to agreement with the donor agency.

The Manual is divided into four main Chapters.

- Chapter 1 describes the framework for Performance Based Grants.
- Chapter 2 provides guidance on design of Performance Based Grants.
- Chapter 3 describes the process for implementation of Performance Based Grant activities.
- Chapter 4 deals with cross-cutting issues.

A Grant Agreement for Performance Based Climate Resilience Grants is annexed to the manual (Annex 1). Grant agreements for other types of grant should follow the model of the Grant Agreement.

2 Glossary

Many of the terms used in this manual may not be familiar. This Section of the manual provides brief explanations of the technical terms used in the manual.

Annual Performance Assessment: an assessment carried out each year, in each SNA that receives a Performance Based Grant. The Annual Performance Assessment is based on the Performance Measures and results in a **Performance Score**.

Basic Allocation: The part of the grant award that is calculated by a formula that does not include the Performance Score;

Co-Financing: part of the cost of a Performance Based Grant project, paid from the general budget of the SNA or another fund source.

Conditional Grant: a grant to an SNA that is linked to an assigned or delegated function;

Eligible Expenditures: Activities (for example infrastructure, services) and categories of expenditure (for example capital costs, recurrent costs) that can be financed by the Performance Based Grant.

Grant Agreement: An agreement, signed by the grantor (NCDD-S) and the grantee (the SNA) that sets out the terms and conditions for use of the Performance Based Grant.

Grant Award: The amount of the Performance Based Grant awarded to an SNA in one year. The Grant Award consists of a Basic Allocation and a Performance Allocation;

Grantee: A person or an entity that receives a grant. In this manual, the grantee will always be a sub-national administration (Province/Capital, District/Municipality/Khan or Commune/Sangkat).

Grants Committee: A Committee, chaired by a senior leader of NCDD-S and with representatives of donors and other stakeholders, that reviews and approves key decisions on management of Performance Based Grants.

Minimum Conditions: Conditions that the SNA must comply with to be eligible to receive a Performance Based Grant;

Performance Allocation: the part of the Grant Award that is calculated from the Performance Score.

Performance Based Grant: a grant that includes an incentive for good performance by the grantee. Usually, good performance in one budget year results in an increased grant in the next year.

Performance Measures: A standard set of indicators used to measure the performance of the SNA in relation to the purpose of the Performance Based Grant.

Targeting Criteria: Objective criteria, based on available data, that are used to select the SNA with the highest priority to receive Performance Based Grants. Targeting Criteria must be clearly linked to the Purpose of the Performance Based Grant.

Trigger Condition: Similar to a Minimum Condition but specifies a condition that the SNA must comply with AFTER the grant award and BEFORE the grant funds are transferred.

3 What is a Performance Based Grant?

3.1 Definition of a Performance Based Grant

A Performance Based Grant is a grant a grant that includes an incentive for good performance by the grantee (the sub-national administration). The amount of the Performance Based Grant is calculated using a formula taking into account the capacity and success of the grantee in performing functions related to the purpose of the grant.

Linking grant awards to performance has the following advantages:

- The grantee has an incentive to improve performance;
- Avoid wasting money by giving it to grantees that cannot use it effectively;
- Identify what type of capacity building support is needed to improve performance.

For NCDD-S, the grantees are sub-national administrations (SNA). Performance Based Grants could be transferred to Province / Capital, District/Khan/Municipality or Commune/Sangkat level. According to the priorities of the National Programme for Sub-National Democratic Development (NP-SNDD) to transfer responsibilities for service delivery to the District/Municipality level, most Performance Based Grants will be to this level.

Performance Based Grants from NCDD-S to SNA are designed to support a specific purpose, such as increased climate resilience. The SNA can only use the grant to finance investments and activities that support the purpose. Eligible expenditures, that support the purpose, are defined in the Grant Agreement.

Performance Based Grants are transferred to the budget of the SNA and can be used in combination with other budget resources. The SNA receives an annual grant award. The SNA can select investments or service delivery activities to be financed by the grant, provided that these investments or activities are consistent with the eligible expenditures.

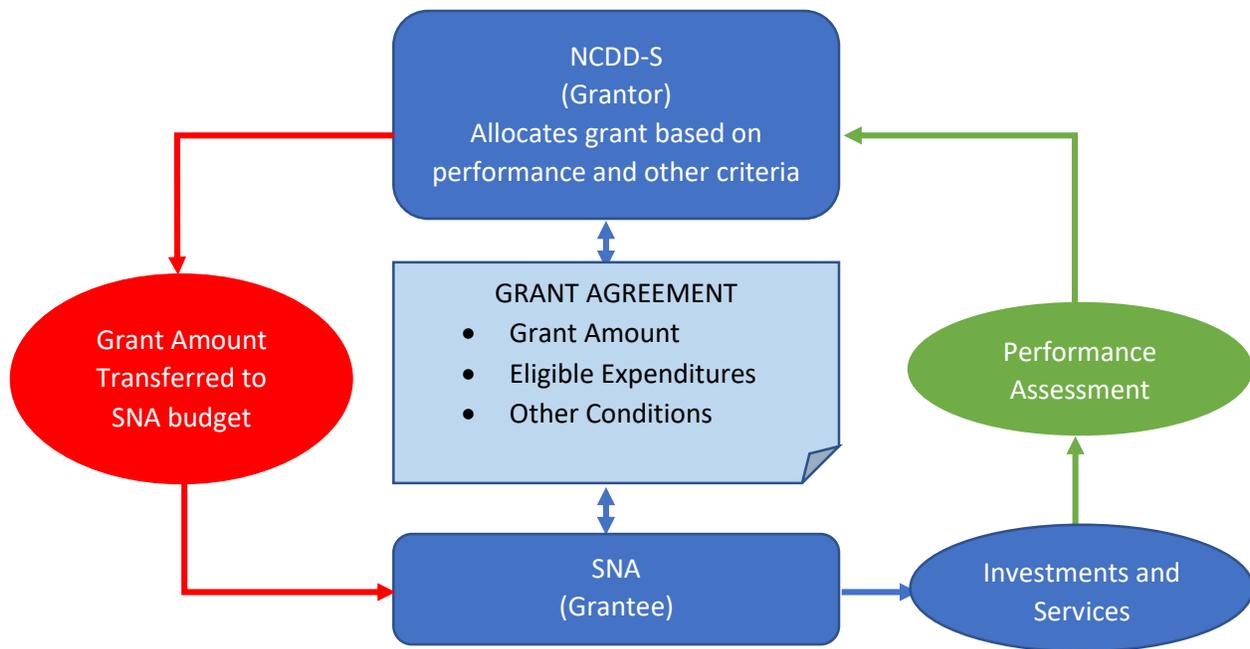


Figure 1: Concept of Performance Based Grants

3.2 Performance Based Grants and Conditional Grants

According to the Sub-Decree No. 06 ANR BK on Principles for Conditional Grants to Sub-National Administrations, a Conditional Grant is transferred to an SNA in accordance with the principles of functional transfer, to support functions that are either assigned or delegated to the SNA by a sector Ministry.

Performance Based Grants can support either assigned or delegated functions, or cross-cutting purposes such as climate resilience.

The Conditional Grants sub-decree does not specifically mention performance assessment as a tool for the management of Conditional Grants.

However, Performance Based Grants are similar to Conditional Grants in that they:

- Are designed to support a specific purpose;
- Provide the SNA with “local autonomy” meaning that the SNA can decide, consistent with the grant agreement, on how to use the grant effectively according to the actual local situation.

Therefore, subject to the differences noted above, the framework for management of Performance Based Grants should be consistent with the sub-decree, regulations and guidelines for Conditional Grants.

3.3 Features of a Performance Based Grant System

The key features of a Performance Based Grant system will include:

- Purpose of the Grant;
- Outcome Indicator, linked to the Purpose;
- Criteria for selecting grantees (targeting) and calculating grant allocation amounts;
- Minimum Conditions, that the grantee must comply with to receive a grant;
- Performance Measures: these are indicators that will be used to measure performance;

- Rules for use of the grants, including eligible expenditures and other conditions;
- Annual Performance Assessment.

Chapter 2 of the manual provides guidance on design of each of these features of a Performance Based Grant.

4 Roles and Responsibilities

4.1 The Grants Committee

Performance Based Grants awarded by NCDD-S are overseen by a Grants Committee. The purpose of the Grant Award Committee is to maintain fairness and transparency in the award of grants, to review actions taken in response to any complaint about the use of the grants, and to disseminate information on results achieved.

The Grants Committee must include:

- Senior leadership of NCDD-S, as chair,
- Representative of the donor agency;
- Representative of the Association of Local Governments;
- Representative of a sector Ministry or a Ministry or agency responsible for a cross-cutting issue relevant to the purpose of the grant (for Performance Based Climate Resilience Grants this is the National Council for Sustainable Development);
- Representative of the Ministry of Economy and Finance.

The Grants Committee is responsible to review and approve the following matters, based on proposals prepared by NCDD-S:

- Purpose and eligible expenditures of the Grant;
- Minimum Conditions and Performance Measures;
- Criteria for selection of target Districts;
- Grant allocations.

In case any complaint about the use of the grant is received (see Section 21 below) NCDD-S will report to the Grants Committee on the complaint received, actions taken by NCDD-S and how the issue was resolved.

NCDD-S will present an annual report on the use of the grant to the Grants Committee, including a summary of expenditures, physical outputs and progress measured by the purpose level indicator.

The Grants Committee may instruct NCDD-S to reconsider or take further action as appropriate, on any of the matters reported to it.

4.2 NCDD-S

NCDD-S is responsible to manage the Performance Based Grant system and to report to Royal Government of Cambodia (RGC) and the donor agency on results achieved. Specific responsibilities include:

Select grantees (target SNA) in accordance with the targeting criteria;

1. Verify compliance with Minimum Conditions;

2. Calculate grant allocation amounts;
3. Propose the list of grantees and allocation amounts to the Grants Committee for approval;
4. Transfer grants to the budget and Treasury accounts of the SNA;
5. Screen lists of proposed expenditures and advise the SNA if any proposed expenditure is not consistent with the eligible expenditures for the grant;
6. Monitor use of the grant by SNA and compliance with the conditions of the Grant Agreement (including cross-cutting issues such as safeguards and gender mainstreaming);
7. Evaluate results achieved in relation to the Purpose and indicator;
8. Administer the Annual Performance Assessment;
9. Report to the Grants Committee on financial results, physical outputs, results and implementation issues;
10. Develop and implement capacity building programmes to support the capacity of SNA to maximise effective use of the grants.

4.3 The Sub-National Administration Council

The Sub-National Administration Council (i.e. Province/Capital Council, District/Municipal/Khan Council, Commune/Sangkat Council) is the key decision-making body for the Performance Based Grant, in line with its responsibility for the budget of the SNA. The SNA Council has the power to decide:

1. Having seen the conditions in the Grant Agreement, to decide to submit an application for a Performance Based Grant to NCDD-S;
2. To approve the annual budget of the SNA, including the Performance Based Grant;
3. To approve the list of proposed expenditures of the grant (the work plan) before it is submitted to NCDD-S.

The SNA Council (Province/Capital or District/Municipality) does not have any direct role in implementation of activities financed by Performance Based Grants.

4.4 The Sub-National Administration

The SNA, under the leadership of the Board of Governors, is responsible to:

1. Prepare the Performance Based Grant application and submit to the Council for approval before sending to NCDD-S;
2. Prepare the work plan (list of activities to be financed by the Performance Based Grant) and submit to the Council for approval;
3. Prepare designs and cost estimations for investments and service activities in the work plan;
4. Procurement of contracts to implement grant-financed activities;
5. Monitor implementation, and ensure full compliance with the Grant Agreement, including provisions for safeguards, gender mainstreaming etc;
6. Financial Management and Financial Reporting;
7. Reporting on physical progress and on the Outcome Indicator;
8. Facilitate the Annual Performance Assessment, including ensuring that necessary documents are kept in good order and are available for the Assessment team to inspect;
9. Review the results of the Annual Performance Assessment and identify actions needed to improve capacity;
10. Request capacity building support from NCDD-S and / or the Provincial Resource Centre.

Chapter 2: Design of Performance Based Grants

5 Purpose and Outcome Indicators

The Performance Based Grant must have a clearly defined Purpose.

The Purpose must be:

- Consistent with higher level policies of the RGC including the Rectangular Strategy, National Strategic Development Plan, sector plans (where relevant) etc;
- Consistent with the National Programme for Sub-National Democratic Development (NP-SNDD);
- Relevant to the mandate of the SNA (either the general mandate to improve the welfare of citizens in their jurisdictions, or a specific mandate for an assigned or delegated function);
- Not related to a function that is excluded from the mandate of the SNA.

The Purpose should help the SNA clearly understand what purposes the Performance Based Grant can be used for, and to identify investments and services that help to achieve the purpose in the specific situation in their local area.

Example: Purpose of Performance Based Climate Resilience Grants in LGCC

The Purpose of the Performance Based Climate Resilience Grants supported by the LGCC project is: Reduced vulnerability to climate change impacts of people and critical systems (natural and societal) in the most vulnerable rural Districts of Cambodia.

⇒ This Purpose is aligned with the Adaptation Goal of the Cambodia Climate Change Strategic Plan

Figure 2: Purpose of Performance Based Climate Resilience Grants

There should be at least one Indicator linked to the Purpose. Often, the Purpose will be a strategic objective (for example, increased climate change resilience) that is not easy to measure directly. Therefore, indicators should be designed as Outcome Indicators, i.e. they measure an observable change that contributes to achieving the Purpose.

In some cases, it may be necessary to have more than one Outcome Indicator but there should never be more than three. Indicators should be selected according to SMART principles (see Figure 3).

Criteria for SMART Indicators		
S	Specific	<ul style="list-style-type: none"> • Clear what to measure • Can be measured separately for men and women, poor and non-poor beneficiaries, etc.
M	Measurable	<ul style="list-style-type: none"> • Data for measuring the indicator are available or can be collected with the resources available for M&E • Indicator should be quantitative (something that can be measured in numbers) wherever possible

A	Attainable	<ul style="list-style-type: none"> Relates to a change that the SNA can achieve by its own actions within a short time
R	Relevant	<ul style="list-style-type: none"> Is a good way of measuring progress to achieving the purpose
T	Time-Bound	<ul style="list-style-type: none"> Sets a target to be reached by a specific date.

Figure 3: SMART Indicators meaning

Outcome Indicators may be expressed in a way that allows them to be disaggregated (for example, measuring impacts on women and men separately, or impacts on poor and non-poor beneficiaries. Performance Based Climate Resilience Grants have two Outcome Indicators including a disaggregated measure of beneficiaries (Figure 4).

Example: Outcome Indicators for Performance Based Climate Resilience Grants in LGCC

Performance Based Climate Resilience Grants have two Outcome Indicators that together show that the grants are being used in a way that contributes to the Purpose (see Figure 2).

The Outcome Indicators are:

1. By 2018, Performance Assessment demonstrates at least 90% of PBCRG funds used for climate-adaptive investments (clearly identified vulnerability and relevant solution)
2. By 2018, At least 50,000 vulnerable rural people including at least 25,000 women and at least 12,500 ID-Poor card holders benefit from PBCRG investments that comply with criteria for climate change adaptation investments.

Based on these indicators, SNA can clearly understand how investments that comply with the criteria for eligible expenditures, and particularly those that benefit women and poor households, will contribute to achieving the Purpose.

Figure 4: Outcome Indicators for Performance Based Climate Resilience Grants

6 Targeting of Performance Based Grants

6.1 Targeting Criteria

Targeting Criteria are objective criteria, based on available data, that are used to select the SNA with the highest priority to receive Performance Based Grants. Targeting Criteria must be clearly linked to the Purpose of the Performance Based Grant. Wherever possible, the selection criteria should make use of standard indices and be based on publicly available data (for example, selection of Districts for PBCR Grants under LGCC is uses the Climate Vulnerability Index based on the Commune Database (CDB) of the Ministry of Planning – see Figure 5.

Selecting target SNA based on criteria will strengthen:

- **Effectiveness:** the grants are given to the SNA where the impact will be biggest;
- **Fairness and transparency:** all SNA can clearly understand why they receive, or do not receive, a grant.

Selection of target SNA should be consistent with four principles:

- Selection is based on Targeting Criteria;
- SNA should not receive a Performance Based Grant in addition to funding from another source that is earmarked for the same purpose as the Performance Based Grant (example, a District that has climate change adaptation finance already cannot receive a Performance Based Climate Resilience Grant in addition);
- SNA must comply with the Minimum Conditions before they can receive a Performance Based Grant;
- Selection is based on an application approved by the SNA Council. The SNA Council can decide not to apply for the Performance Based Grant (for example, if it is not willing to provide co-financing that is required by the Grant Agreement).

All eligible SNA in the country should be considered for selection, based on these four principles. That is, wherever possible, NCDD-S should NOT pre-select target provinces, then select SNA only from within those provinces.

However, most Performance Based Grants will start with a pilot phase where only a small number of SNA can be selected. In that case, it will not be practical to select from all the SNA in the country. For the pilot phase, the four principles above should be observed. NCDD-S may also consider the following additional criteria:

- **Representative Conditions:** NCDD-S may want to test the grants in SNA that represent a range of different conditions (for example, more urban, more rural);
- **Logistics and Overhead costs:** for a small pilot, it is usually simpler and more economical to select SNA in one or two Provinces, rather than select SNA that are distant from each other in different parts of the country. It is usually best to avoid selecting areas that are very difficult to work in (for example, very remote areas) for a pilot phase.

After the pilot phase, and subject to available resources, the Performance Based Grant will be scaled up to a larger number of SNA. In the scale-up phase, selection of SNA should be based on criteria. Two types of Targeting Criteria are possible:

- **Yes/No Criteria.** In this case, all SNA that fit with the Targeting Criteria can receive a Performance Based Grant. For example, if the purpose of the grant is to support development in coastal communities, all SNA on the coast and no others might receive grants.
- **Ranking Criteria.** SNA are ranked according to the Targeting Criteria, then the highest ranked SNA are selected, according to the number of Performance Based Grants that can be funded. It is planned that Performance Based Climate Resilience Grants will be scaled up in this way (see Figure 5).

Targeting Criteria for Performance Based Climate Resilience Grants (Scale Up phase)

The Purpose of the Performance Based Climate Resilience Grants supported by the LGCC project is: Reduced vulnerability to climate change impacts of people and critical systems (natural and societal) in the **most vulnerable rural Districts** of Cambodia (see above).

Therefore, in the scale-up phase, all rural Districts of Cambodia will be ranked according to vulnerability, using the Climate Vulnerability Index developed by National Council for Sustainable Development.

Then, the highest ranked (most vulnerable) Districts will be eligible to receive PBCR Grants, except for those that (1) already receive climate change adaptation funding from another source, or (2) do not comply with Minimum Conditions.

So, if there is enough money to give grants to 50 Districts, the Districts ranked 1 to 50 would be selected first. However, if NCDD-S find that 10 of those 50 Districts already have climate change adaptation funding, the selection would continue down to the District ranked 60, or until the 50 highest priority Districts have been identified.

Figure 5: Targeting Criteria for Performance Based Climate Resilience Grants

6.2 Procedure for Selecting Target SNA

In general, selection of target SNA to receive Performance Based Grants is done according to the following procedure (figure 6):

1. Define the Targeting Criteria.
2. Identify eligible SNA (using yes/no criteria) or highest priority SNA (using ranking criteria);
3. Eliminate SNA that already receive funding for the same purpose from another source;
4. Eligible or high priority SNA should be informed about the purpose, Minimum Conditions, eligible expenditures and rules for using the Performance Based Grant, and invited to apply. Only SNA where the Council considers the conditions of the grant and decides to apply, should be considered further. If an SNA decides not to apply for the grant, that decision should be respected: NCDD-S or the Provincial administration should not pressure the SNA to apply.
5. For eligible SNA that submit applications, NCDD-S should verify that the SNA complies with, or can comply with, the Minimum Conditions for receiving the grant.

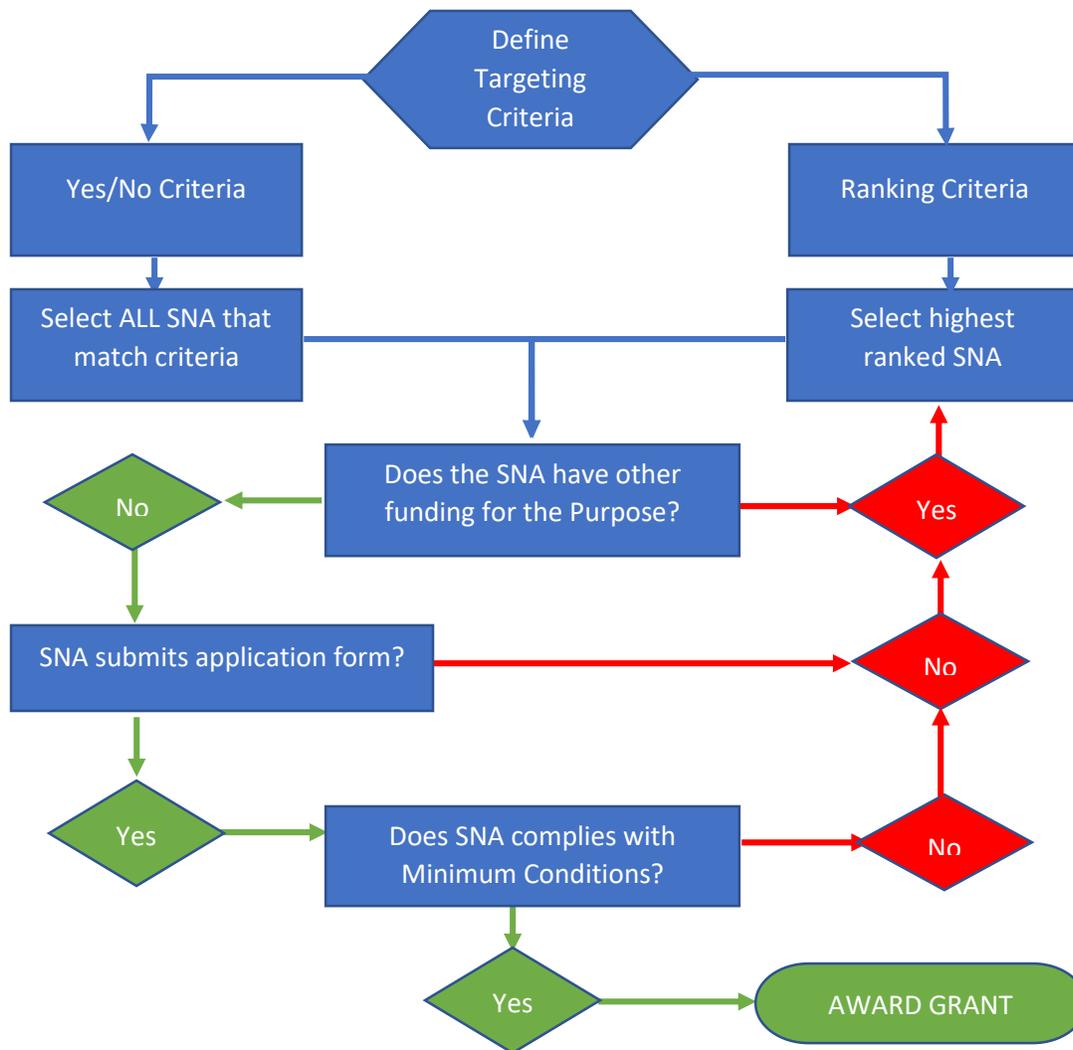


Figure 6: Flow Chart of Performance Based Grant Targeting

Normally, an SNA that is selected to receive the Performance Based Grant should continue to receive the grant for at least three years (subject to available funds). The performance incentive is not effective if an SNA can receive a grant for just one year (see Figure 6).

Example of Three-Year Period for Targeting

In 2019, 50 Districts can receive PBCR Grants. District A is the District ranked 50th most climate-vulnerable out of those that comply with Minimum Conditions, and do not receive other climate change adaptation funding. Therefore District A is selected to receive a PBCR Grant.

In 2020, it is found that based on new CDB data, District A is now ranked the 55th most vulnerable District. In a new selection, District A would not qualify to receive a PBCR Grant. However, because District A was selected as eligible in 2019, it will continue to receive PBCR Grants in 2020 and 2021.

Figure 7: Example of Three-Year Period for Targeting

7 Minimum Conditions for Access to Grants

7.1 Defining Minimum Conditions

Minimum Conditions (MC), sometimes called Minimum Access Conditions, are conditions that the SNA must comply with before it can receive a Performance Based Grant. An SNA that does not comply with the Minimum Conditions does not receive any grant, even if it is high priority according to the targeting criteria.

The purpose of Minimum Conditions is:

- To avoid wasting grant funds by giving them to SNA that have no commitment to meet the Minimum Conditions, or that face such severe capacity challenges that they cannot use the grant funds effectively; and
- To provide an incentive for SNA that want to receive a grant, to carry out some simple preliminary steps to achieve the Minimum Conditions.

Therefore, Minimum Conditions should be simple and should not be too challenging for the SNA to achieve. Any SNA that has enough commitment and capacity to use the Performance Based Grant effectively, should be able to comply with the Minimum Conditions.

Minimum Conditions may be either:

- Specifically related to the purpose of the Performance Based Grant. Often, this will mean completing a planning step to identify relevant planning priorities. For example, Districts must prepare a Climate Change Adaptation Strategy before they can receive a Performance Based Climate Resilience Grant;
- General indicators of good governance and sound financial management. For example, a minimum level of budget execution (actual expenditures as a percentage of planned expenditures) in the previous financial year could be a suitable Minimum Condition. An SNA that failed to spend its budget in the previous year, is not likely to make effective use of additional funds, next year.

There should not be too many Minimum Conditions – usually two or three is enough. It is also possible to start with one or two very simple Minimum Conditions, in the first year an SNA receives a Performance Based Grant, then add more Minimum Conditions in later years.

7.2 Measurement of Minimum Conditions

In the first year, Minimum Conditions should be measured using information that is easily available to NCDD-S. This could include:

- Information that NCDD-S already collects for another purpose;
- Information that can be submitted by the SNA on the Grant application form;
- Information that can easily be verified by the Provincial Administration or by NCDD-S staff based at Provincial level.

In the second year and later, Minimum Conditions should be measured through the Annual Performance Assessment. This could allow additional Minimum Conditions to be used. Options could include:

- Performance Assessment measures pass / fail Minimum Conditions as well as scoring Performance Measures;
- It can be a Minimum Condition that the SNA achieves an acceptable Performance Score on the whole Performance Assessment (for example, in LGCC a Performance Score of 50% or higher is applied as a Minimum Condition);
- It can be a Minimum Condition that the SNA achieves an acceptable score on some part of the Performance Assessment, for example, quality of projects, or beneficiaries reached, or timeliness of implementation.

8 Performance Measures

8.1 Purpose of Performance Measures

Performance Measures (PMs) are the indicators used to measure the capacity and achievements of the SNA, in relation to the purpose of the Performance Based Grant. Each year, an Annual Performance Assessment is carried out and a Performance Score awarded for each SNA. SNA that achieve a high Performance Score can receive a higher grant allocation for the following year.

The Performance Measurement system gives the SNA an incentive to improve its own capacity and performance. By studying the Performance Measures, the SNA can see clearly which areas of performance it should focus on. By studying the detailed scores for each area in the Annual Performance Assessment, the SNA can identify weaknesses and plan capacity building actions so it can achieve a higher score in the following year.

8.2 Previous Experience with Performance Measurement

Performance Measurement is used routinely in some other countries (for example, Bangladesh) a part of the allocation formula for general-purpose fiscal transfers (similar to C/S Fund and D/M Fund). However, Performance Measurement has not been used routinely in this way in Cambodia in the past.

NCDD-S has piloted Performance Measures through the LGCC project. The experience with LGCC shows that it is not easy to design an effective performance measurement system. Some of the problems encountered included:

- Indicators not clear, or not directly relevant to the purpose of the grant;
- Indicators that are too difficult or too costly to measure accurately;
- Indicators that are not challenging enough for the SNA, so that all SNA score 100% on that indicator.

8.3 Characteristic of good performance Measures

Based on the experience of LGCC, Performance Measures should be:

- **Objective**, based on indicators that are binary (yes/no) or readily quantifiable, so that the result does not depend on the person doing the assessment;
- **Relevant**: Indicators should either measure (1) capacity directly related to the purpose of the Performance Based Grant; (2) performance in use of the Performance Based Grant resources;
- **Measurable**: Indicators based on data that are readily available; i.e. data that NCDD-S has already (e.g. in databases); data held at the SNA office or data that can be easily collected in short field visits;

- **Cost-Effective:** Time and resources required are not excessive (the costs of the Annual Performance Assessment should not be more than 1% - 2% of the Performance Based Grant. If the Performance Measures need a lot of time and effort the cost can easily become higher than this);
- **Responsive:** Focus on indicators that are under the control (or potentially under the control) of the SNA;
- **Understandable:** Focus on indicators that local governments can understand, and perceive as fair;
- **Fair:** Overall results are perceived as fair to all participating SNA;
- **Sensitive:** The APA should be capable of differentiating between strong and weak performance, and of measuring continued improvement even in the stronger performers. In practice this means that scores should be distributed fairly broadly around an average in the range 50% -75%. The APA should not result in 100% scores (or there is no room for further improvement).

The choice of Performance Measures will depend on the purpose of the Performance Based Grant. In LGCC, Performance Measures are organised in a Balanced Scorecard (a standard method of measuring the capacity and performance of a business or agency) with four areas of assessment: Projects, Process, Beneficiaries and Capacity. The Performance Measures used in LGCC are summarised in the figure below.

Note that the LGCC Performance Measures include a Participatory Evaluation score based on an evaluation by project beneficiaries. The Participatory Evaluation is the most important single indicator with 20% of the total Performance Score. The Participatory Evaluation is similar to a Citizens’ Scorecard methodology. However, it must be designed carefully so that it (1) takes only a very limited amount of time: one hour should be sufficient for one evaluation; and (2) results in a score that genuinely reflects the participants’ views of the success of the project.

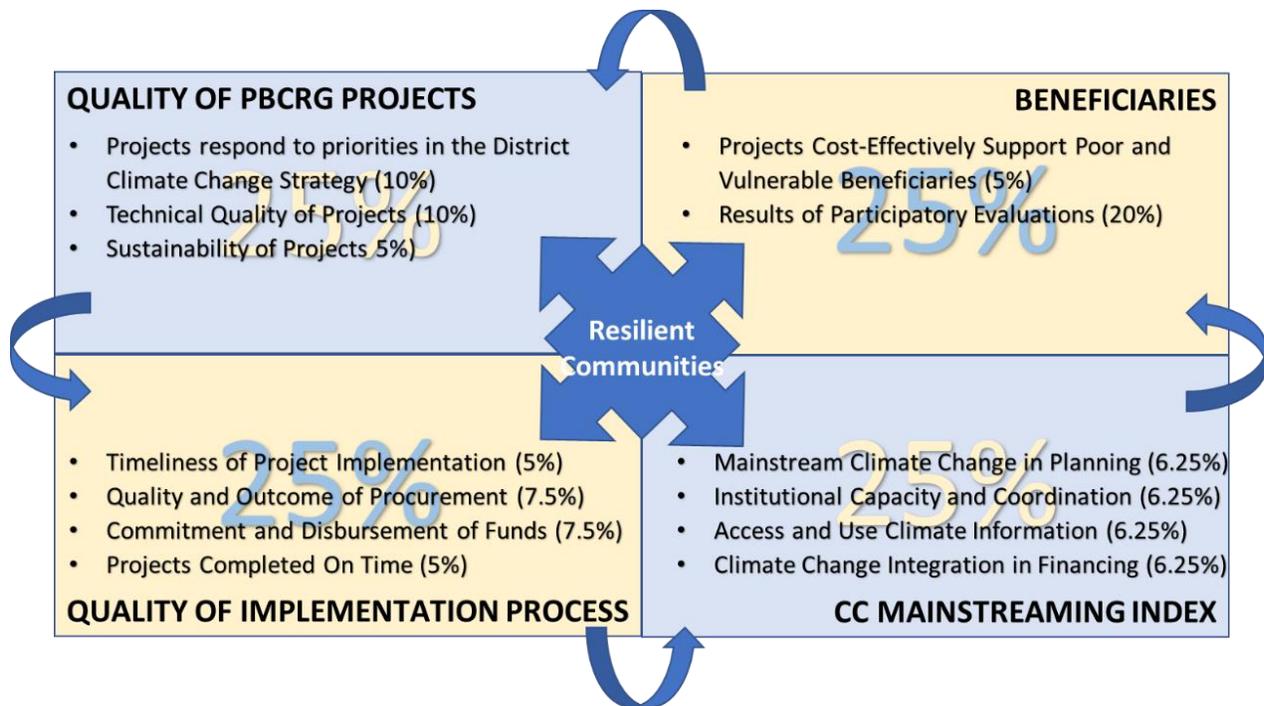


Figure 8: Performance Measures for PBCR Grants

9 Grant Allocation Formula

9.1 General

The Performance Based Grant must be awarded according to a formula that is clear and transparent.

Each SNA must be able to understand how the amount of its Performance Based Grant award was calculated.

Performance Based Grant Awards must be published on the NCDD website so that the amount of the grant award is public knowledge.

The size of the awards will depend on the number of SNA and the total funds available for the Performance Based Grant. However, this is not the only consideration.

- Performance Based Grant awards must not be so small that they are not useful to the SNA;
- Performance Based Grant awards must not be so big that they become more important to the SNA, than its regular budget finances.

The following factors may be taken into consideration in calculating the size of Performance Based Grant awards:

- **Adequate:** is the grant amount big enough, so that the SNA can use it effectively for activities related to the Purpose of the grant;
- **Proportionate:** how big is the grant compared to the total budget of the SNA. Probably Performance Based Grants should not be more than 25% of the total budget of the SNA;
- If **co-financing** is required, are the general budget resources of the SNA big enough to provide the co-financing?
- **How big is the need** for the grant (related to the purpose)? For example, for a Performance Based Climate Vulnerability Grant, how vulnerable is the SNA to climate disasters?
- **Other allocation criteria** that are not directly related to the purpose of the grant, for example, population size, poverty level;
- **Performance Scores.**

The Performance Based Grant should consist of a Basic Allocation and a Performance Allocation.

All eligible (target) SNA will get a Basic Allocation, provided they fulfill the Minimum Conditions. The amount of the Performance Allocation depends on the Performance Scores, and SNA that have low Performance Scores may not receive any Performance Allocation.

The Basic Allocation and the Performance Allocation are calculated separately. Therefore, the first step is to divide the total available fund into two amounts, we can call the Basic Allocation Fund and the Performance Allocation Fund.

For PBCR Grants under LGCC, the Performance Allocation Fund is 25% of the total fund and the Basic Allocation Fund is 75% (Figure 9).

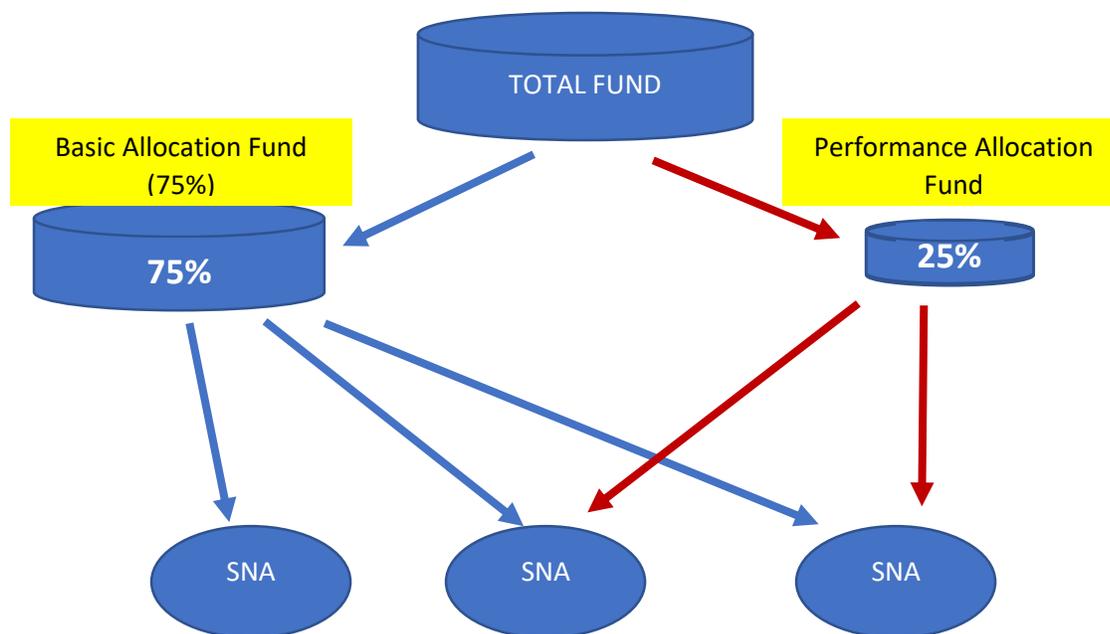


Figure 9: Basic Allocation Fund and Performance Allocation Fund

9.2 Formula for Basic Allocation

The formula for the Basic Allocation may be based on:

- An equal amount per SNA;
- Proportionate to population of SNA;
- Include factors for poverty etc.

However, in LGCC the Basic Allocation for the PBCR Grants is proportionate to the general budget resources (D/M Fund and C/S Fund) of the Districts/Municipalities and their constituent Communes / Sangkats. This approach has the following advantages:

- The “top up” amount from the PBCR Grant is proportionate to the general resources; and
- The C/S Fund and D/M Fund are allocated based on population, poverty etc, so the Basic Allocation of the PBCR Grant automatically includes these factors (i.e. a poor District gets more C/S Fund, so it automatically gets more PBCR Grant as well).

9.3 Formula for Performance Allocation

Three possible ways to calculate the Performance Allocation are:

- Based on the actual score achieved by each SNA;
- Based on the year-on-year improvement of each SNA (how much better the SNA scores this year, compared to last year);
- Based on fixed amounts, triggered by pre-defined score levels.

In the first two methods, the SNA compete against each other for a share of the Performance Allocation Fund. In the first method, SNA that have high capacity and resources

In the last method, SNA do not compete for the same money. If an SNA achieves its target, it will get the performance allocation, even if all other SNA achieve their targets as well. However, because NCDD-S do

not know how many SNA will reach the target each year, this can make budgeting difficult. One approach is to calculate the Performance Allocations first, then, if any SNA do not reach their targets, add the remaining amount of the Performance Allocation Fund to the Basic Allocation Fund (so if an SNA does not reach its target, its Performance Allocation is shared out to all SNA).

The table below shows advantages and disadvantages of each method, with example formula to use for each method.

NB that these are just examples of how to do the calculation. Many more variations are possible (Figure 10).

Method	Advantages	Disadvantages	Example Formula
Allocation based on actual performance score	Simple to calculate SNA with most capacity get most money	SNA that have less resources (small, remote) are disadvantaged	$A_X = F_P \times \frac{S_X - S_{MIN}}{\sum(S - S_{MIN})}$
Allocation based on improvement in performance score	Fair to SNA with less resources Strong incentive for SNA to improve performance	Need to conduct a baseline Annual Performance Assessment	$C_X = S_X - S'_X$ $A_X = F_P \times \frac{C_X - C_{MIN}}{\sum(C - C_{MIN})}$
Based on fixed threshold amount	SNA know what they have to achieve, and how much performance allocation they will get Allocation only depends on what the SNA does itself, not on what other SNA do	NCDD-S do not know what the total amount of performance allocation will be, which makes budgeting difficult	$\text{IF } S_X \geq 80\% \text{ THEN}$ $A_X = \$10,000$ $\text{IF } S_X < 80\% \text{ THEN}$ $A_X = \$0$
Meaning of Expressions in Formula			
F_P	Total amount of the performance fund		
A_X	Performance Allocation for District X		
S_X	Performance score for District X (this year)		
S'_X	Performance score for District X (last year)		
S_{MIN}	Performance score for the District with the lowest score		
$\sum(S - S_{MIN})$	Total of Performance Score minus Minimum Performance Score, for all Districts		
C_X	Change in Performance Score ($S_X - S'_X$) for District X		

Figure 10: Examples of Performance Allocation Formulae

NB that it is not correct to simply allocate the Performance Allocation Fund in proportion to the performance scores. That way, even the lowest-performing SNA will get a large performance allocation, so the effectiveness of the system is very small. The worst performing SNA (in Method 1 and Method 2) or an SNA that does not reach its target (Method 3) should get zero performance allocation.

Performance Based Climate Resilience Grants

In LGCC, the Performance Allocations for the PBCR Grants are calculated using Method 2

Therefore, the District with the biggest **improvement** in performance score, gets the biggest performance allocation.

Figure 11: Performance Allocation for PBCR Grants

10 Eligible Expenditures

10.1 Overview

Eligible Expenditures means the **types of activity** (for example infrastructure, services) and **categories of expenditure** (for example capital costs, recurrent costs) that can be financed by the Performance Based Grant.

It is very important to make the rules for eligible expenditures of the Performance Based Grant carefully so that:

- Performance Based Grant funds are only used for activities that are related to the Purpose of the grant, and that have been agreed with the donor;
- SNA can understand the rules clearly, and NCDD-S can easily verify that the rules are complied with;
- Avoid activities that are not cost-effective, have a high risk of failure, or negative social or environmental impacts.

The rules for eligible expenditures will include rules for:

- What type of activities can be financed from the Performance Based Grant?
- What categories of expenditure (operations, capital costs, etc) can be financed?
- What co-financing rules apply to each activity type and expenditure category?

In addition, the eligible expenditures may include rules allowing NCDD-S to retain a specified proportion of the grant in order to finance centrally contracted services; i.e. services that are contracted by NCDD-S and provided as in-kind support to the grantee.

As a general principle, any activity that is NOT eligible for funding from the general budget of the SNA (e.g. D/M Fund or C/S Fund) also must NOT be financed by a Performance Based Grant.

10.2 Type of Activities

The type of activities that are eligible for financing from a Performance Based Grant may be defined by:

- A general statement of how the activities must contribute to the purpose of the Performance Based Grant; and / or
- A “Positive List”, i.e. a menu of specific activities that can be financed; and / or
- A “Negative List”, i.e. a menu of specific activities that can NOT be financed.

One approach, used for PBCR Grants, is to link eligible expenditures to the development plan and investment programme of the SNA (Figure 12).

Example: Planning Related Criteria for Eligible Expenditures of PBCR Grants (In LGCC)

Activities financed by PBCR Grants from LGCC must:

- Respond to a climate change problem identified in the District Climate Change Strategy;
- Be located in a place where the relevant climate change problem happens, according to the District Climate Change Vulnerability Map;
- Be a type of activity that is identified as a response to the climate change problem, according to the District Climate Change Strategy.

Figure 12: Example of Planning Related Eligible Expenditure Criteria

Performance Based Grants may be used to finance infrastructure, or services, or both (Figure 13).

Example: Types of Eligible Expenditures of PBCR Grants (In LGCC, ASPIRE and SRL)

Activities financed by PBCR Grants from LGCC can be either:

- Climate Proofing of Infrastructure (to protect the infrastructure from effects of climate change);
- Climate Adaptive Infrastructure (infrastructure that supports a change in the way people live, work, etc in response to climate change);
- Services for Climate Change Adaptation.

However, PBCR Grants from the ASPIRE and SRL projects can only be used for infrastructure (because those projects have other components that finance related services).

Figure 13 Examples of Eligible Expenditures Criteria by Activity Type

The criteria for eligible activities should be defined as clearly as possible so that (1) the SNA know clearly what activities they can finance; and (2) NCDD-S can easily check that the activities are eligible (screening) based on a work plan submitted by the SNA.

10.3 Categories of Expenditure

Categories of expenditure that can be eligible for financing from Performance Based Grants can include all or some of:

- Operational Costs of the SNA;
 - Administrative costs of the SNA;
 - Field expenses (travel and DSA for SNA staff);
- Operational Costs of Government Technical Agencies (e.g. District Office of a technical Ministry):
 - Administrative costs of the technical agency;
 - Field expenses (travel and DSA for technical agency staff);
 - Investments
- Works (infrastructure and similar things);
- Goods;

- Services procured from an external (non-Government) service provider.

Performance Based Grants must be used only to pay for **incremental costs**: that means costs that occur directly because of the Performance Based Grant activity. Performance Based Grant funds must not be used to finance costs that the SNA, technical agency or external contractor would have had to pay even there was no Performance Based Grant financed activity. For this reason, government staff salaries, water and electricity bills, etc, cannot be financed from Performance Based Grant funds.

One option is to exclude all operational costs of the SNA including DSA, travel costs etc. In this option, 100% of the Performance Based Grant must be used to finance contracts for works, goods or services. All contracts are subject to procurement rules. All payments of grant funds must relate to a contract. In this case, operational costs must be paid by co-financing, either from the operational budget of the SNA (e.g. D/M Fund or C/S Fund), or from operational budgets of a government technical agency. An example of this arrangement is shown in Figure 14.

Example: Funding Agriculture Extension Activities from a Performance Based Grant

District A has received a Performance Based Grant for agriculture support and wants to use the grant to finance agriculture activities. The rules for eligible expenditures say that operational costs cannot be financed by the grant. Options for implementation could be:

- Contract the extension activity to an external service provider; or
- Implement in partnership with the District Agriculture Office (DAO). The DAO will need to use its own funds for travel and DSA costs, while the Performance Based Grant funds are used to procure agriculture inputs (goods).

Figure 14: Example of Investments-Only Criterion

If operational costs are NOT eligible, this may reduce the range of activity types that the SNA can implement. However, advantages of this approach are:

- Clarity;
- Simplicity of financial management and reporting;
- Remove the temptation to select activities that have a high proportion of DSA costs, in order to benefit the staff who will implement.

In past experience, Performance Based Grants are sometimes shared out between different technical agencies so that each agency gets a very small activity (often “dissemination”) with 100% of the costs being operational costs (DSA, travel etc). Often, it is difficult to understand what the sustainable benefits of these activities are.

10.4 Co-Financing

If co-financing is required, the Performance Based Grant cannot be used to pay 100% of the cost of investments or services. SNA must finance part of the cost from their general budgets (e.g. D/M Fund or C/S Fund) or from another source.

The advantages of requiring co-financing include that:

- Many types of service or investment have benefits that are directly related to the purpose of the Performance Based Grant, and other benefits that are not related to this purpose (climate change projects are a common example – see box). Therefore, the Performance Based Grant can be used to pay the cost of achieving the benefits that are directly related to the purpose of the grant, but not for other types of benefit;
- The Performance Based Grant can support a larger number of activities if some finance is contributed from other sources;
- The SNA will have a stronger sense of ownership and commitment if they use some of their general budget funds for the activity;
- After the Performance Based Grant stops, SNA are more likely to continue supporting activities that relate to the purpose of the Performance Based Grant if they are already used to the idea of financing these activities from their general budget.

Normally, the rules for the Performance Based Grant will not specify the **source** of the co-financing.

Climate Change Projects – Co-financing and Co-benefits

Many projects that contribute to climate change adaptation are very similar to “normal” development projects. The SNA might choose to implement the same project (using its general budget resources) even if there was no climate change. However, with climate change there can be:

- **Additional costs**, e.g. because a drain has to be bigger, because climate change will cause bigger rainstorms. We can call these “climate proofing costs”;
- **Additional benefits**, e.g. an irrigation scheme allows farmers to grow a second rice crop in the dry season (this benefit is not related to climate change) but also ensures that their wet season crop will not be damaged if there is a drought in the wet season (because of climate change).

We can say that the benefits of the project, that are not directly related to climate change, are “co-benefits.”

We can say that co-financing (from general budget resources such as C/S Fund) should pay for:

- The basic costs, not including climate proofing costs;
- The co-benefits, that are not related to climate change.

Figure 15: Co-Financing and Co-Benefits in Climate Change Adaptation

Co-financing can be either by:

- directly using two sources of funds to pay for one activity (**direct co-financing**, sometimes called co-mingling of funds);
 - **Example:** Performance Based Climate Resilience Grant is used to pay for climate proofing of a road in a flooding area. There is one contract, with 67% of payments financed by C/S fund and 33% of payments financed by the PBCR Grant.

- or by using two fund sources to pay for two separate, but complementary, types of expenditure: this is called **Parallel Financing**.
 - **Example:** District Agriculture Office finances DSA and travel costs for its staff, and Performance Based Grant pays for agriculture inputs (see box on previous page);
 - **Example:** C/S Fund finances a road construction, and Performance Based Climate Resilience Grant pays for a bridge on the same road. The two outputs are implemented through two separate contracts.

Parallel co-financing (using two different contracts) has the following advantages:

- Transparency: it is easy to show what expenditures the Performance Based Grant was used for;
- Flexibility: the co-financing can be from the budget of the SNA that receives the grant, or from another SNA (e.g. the District receives the Performance Based Grant, and the Commune co-finances with C/S Fund) or from another agency (e.g. DAO in the example).

However, if parallel co-financing is used, it may cause difficulties in coordinating the two sources of funds.

There may be one co-financing rule for all activities financed by a Performance Based Grant, or there may be different co-financing rules for different types of activity. This approach can be used to reflect the different types of “co-benefits” from different activities, or to encourage SNA to select certain types of activity (that do not need co-financing) rather than others. Both these approaches are used for PBCR Grants in LGCC (Figure 16).

Example: Different co-financing rules for different activities		
Type of Activity	Reason	Rule
Climate Proofing Infrastructure	Co-financing should pay for the basic costs, and PBCRG should pay for climate proofing	67% co-financing
Climate Adaptive Infrastructure	Co-financing should pay for co-benefits, and PBCRG should pay for climate adaptation benefits	67% co-financing, but could be reduced in future
Services for Climate Change Adaptation	Encourage SNA to use part of the PBCRG for services, not all for infrastructure	No co-financing

Figure 16: Example of Different Co-Financing Rules for Different Project Types

It is best to keep co-financing rules simple, so that the SNA can know clearly how much co-financing they will need.

10.5 Centrally Contracted Services

For some types of technical service that are needed to support activities financed by Performance Based Grants, it can be best for NCDD-S to contract the service directly, then provide the service to the SNA in-kind, instead of transferring money to the SNA so that it can contract the service.

This approach can be appropriate to support technical services for design, cost estimation and construction supervision of infrastructure. In the Performance Based Climate Resilience Grant programme of LGCC, from 2012 to 2017, SNA have been allowed to spend up to 12.5% of the PBCR Grant to pay for

the costs of services provided by a Technical Services Consultant (TSC). However, this approach encountered challenges, including:

- The SNA cannot start the process of recruiting the TSC until the PBCR Grant is transferred, which happens after the SNA have already selected the infrastructure projects to finance with the grant. So there is a long delay between selecting projects and starting feasibility studies and design work;
- The recruitment process is slow and cumbersome;
- It has been difficult to process payments to the TSC from the District Budget.

Therefore, an alternative approach could be that NCDD-S retains part of the PBCR Grant and contracts a company to provide technical services. The company would employ engineers and technicians to support the SNA for feasibility study, design, cost estimation and contract supervision. These services would be considered as a grant in-kind from NCDD-S to the SNA.

This approach can also be used to finance the costs of the Annual Performance Assessment, if this is contracted out to a service provider.

Centrally contracted services, paid from the grant, should always be contracted out. Operational costs of NCDD-S and the Provincial Administration should be funded separately, not considered as part of the grant.

Example of Centrally Contracted Services

District A receives a Performance Based Grant of \$50,000

The Grant Agreement states that NCDD-S will retain 12.5% of the grant to pay for two centrally contracted services: technical support (11%) and Annual Performance Assessment (1.5%).

- ⇒ Therefore, the amount actually transferred to the District budget is $87.5\% \times \$50,000 = \$43,750$
- ⇒ NCDD-S uses $11\% \times \$50,000 = \$5,500$ to pay the costs of technical support services, by making a contract with a company (one company will support all Districts);
- ⇒ NCDD-S uses $1.5\% = \$750$ to pay the cost of the Annual Performance Assessment, which is contracted out to an independent service provider.

NB that in this example, the APA must be contracted to a different company from the one providing the technical services, so that it is not evaluating its own work.

Figure 17: Example of Centrally Contracted Services

Chapter 3: Implementation of Performance Based Grants

11 Grant Award Process

The Performance Based Grant award process follows the steps shown in Figure 18.

The key decision makers in the Performance Based Grant Award process are (1) the SNA Council, which approves the decision to apply for a grant award, and in doing so accepts responsibility to ensure grant funds are used in compliance with the terms and conditions of the Grant Agreement; and (2) the Grant Award Committee, which approves the list of target SNA and grant allocations.

The Grant Award process should be completed by October in the year previous to the year the grant will be awarded. This is so that the grant amount can be announced at the same time as the D/M Fund allocation (for District / Municipality level) or the C/S Fund allocation (for Communes and Sangkats), and included in the SNA budget.

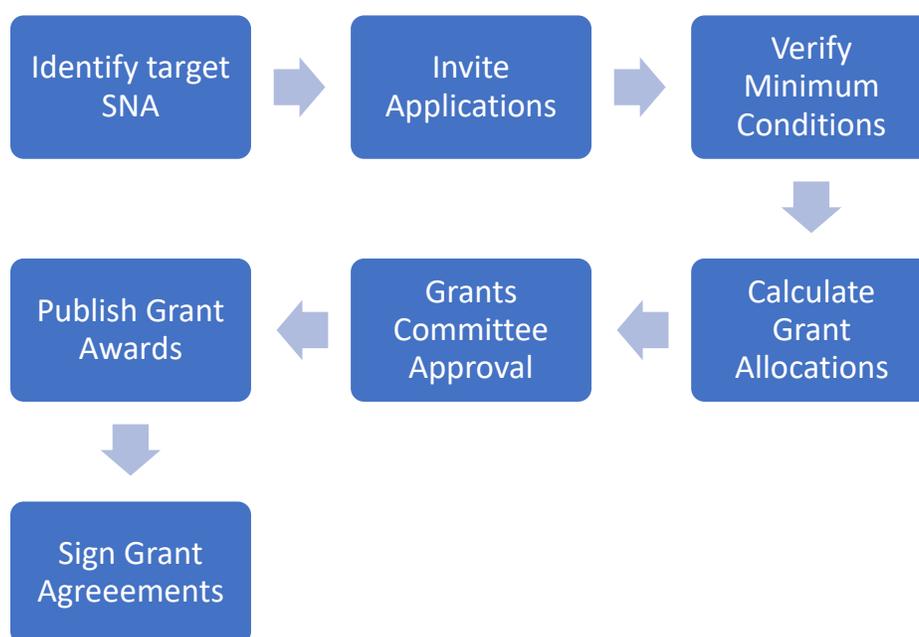


Figure 18: Performance Based Grant Award Process

11.1 Step 1: Identify Target SNA

Target SNA will be either:

- SNA that are automatically eligible because they have been included in the programme in a previous year (e.g. an SNA is automatically entitled to stay in the Performance Based Grant programme for 3 years); or
- Newly selected SNA. The process for selecting new SNA according to the targeting criteria is:
 - Calculate how many SNA can be included, based on the available budget for Performance Based Grants;
 - Rank SNA in order of priority;
 - Select the SNA starting with the highest ranked, but omitting SNA that already have access to funds that support the same purpose as the Performance Based Grant.

See also Section 6 for information on the target selection process.

11.2 Step 2: Grant Applications

Selected SNA are invited to complete and submit an application form. A model application form is attached as Annex 2. The application form must be approved by the SNA Council. This step is very important because, by approving the application, the SNA Council accepts responsibility to use grant funds in accordance with the terms and conditions of the Grant Agreement. The SNA is free to decide not to submit an application. If this happens, then the next highest priority SNA can be invited to apply for a grant.

11.3 Step 3: Verify Minimum Conditions

The Grant Application Form should show how the SNA complies with the Minimum Conditions. NCDD-S can also consider additional information, including the results of the Annual Performance Assessment.

For any SNA that does not comply with the Minimum Conditions yet, NCDD-S must consider if the SNA can comply with the Minimum Conditions by the start of the next budget year.

If the SNA can comply with the Minimum Conditions, NCDD-S should (1) instruct the SNA what it has to do to comply with the Minimum Conditions and qualify for the Performance Based Grant; and (2) recommend to the Grants Committee to approve the grant award, with a “**trigger condition**” that the grant cannot be released until the SNA complies with the Minimum Conditions. Note that in this case, if the SNA still does not comply with the Minimum Conditions, it will be too late to select a replacement SNA.

A Trigger Condition is similar to a Minimum Condition but it specifies a condition that the SNA must comply with AFTER the grant award and BEFORE the grant funds are transferred.

Figure 19: Definition of Trigger Condition

If NCDD-S find that any SNA does not comply with the Minimum Conditions, and will not be able to comply by the start of the budget year, NCDD-S should reject the application from that SNA and invite a replacement SNA (the highest priority SNA that was not invited to apply previously) to submit an application.

11.4 Step 4: Calculate Grant Allocations

NCDD-S calculates the grant allocations according to the allocation formulae for the Basic Allocation and the Performance Allocation (see Section 8).

11.5 Step 5: Grants Committee

NCDD-S convenes a meeting of the Grants Committee to approve the grant allocations.

At least one week before the Grants Committee meeting, NCDD-S should copy to the Grants Committee members (1) the list of target SNA, with explanation of how they were selected; and (2) the list of grant allocations, with explanation of how the allocations were calculated.

When the Grants Committee meets, NCDD-S makes a short presentation on the process of targeting and calculating the grant awards.

Usually, the Grants Committee will approve the awards proposed by NCDD-S.

The Grants Committee can instruct NCDD-S to review the target list and the allocations to ensure that they comply with the rules (which have been approved by the Grants Committee previously).

However, the Grants Committee cannot instruct NCDD-S to change the selection of target SNA or the amount of the allocations, in a way that does not comply with the rules.

11.6 Step 6: Publish Grant Awards

After the grant awards have been approved by the Grants Committee, they should be published on the NCDD website.

The information published should include, at a minimum:

- The purpose of the grant awards;
- The source of funds (donor);
- The names of the SNA receiving the awards;
- The amounts of the awards.

The criteria for selecting SNA and the formulae for allocating the grants can also be published. The detailed analysis leading to selection of the SNA, and calculation of the grant awards, should not be published.

11.7 Step 7: Signing the Grant Agreement

A model Grant Agreement is attached as Annex 1.

The Grant Agreement will normally be signed by the Chair of the Board of Governors (on behalf of a Province/Capital or District/Municipality/Khan level SNA) or by the Commune/Sangkat Chief; and by the Head or Deputy Head of NCDD-S, on behalf of NCDD-S. For lower tier SNA, a member of the Provincial Board of Governors may sign as a witness.

Because the SNA Council has already approved the Grant Application, it should not be necessary for the Council to approve again on the Grant Agreement. However, the Council should be informed of the amount of the Grant Award, at the next meeting of the Council.

12 Budget and Financial Management

12.1 Including the Performance Based Grant in the SNA Budget

1. NCDD-S will announce the amount of the grant award to each SNA.
2. The SNA will conduct planning activities and prepare an activity plan and cost estimate for use of the grant funds. The work plan will be sent to NCDD-S for screening and approval.
3. NCDD-S will liaise with National Treasury to confirm the appropriate budget codes. NCDD-S will then advise the SNA on the grant amount in Cambodian riels, and the budget codes to use in preparation of the budget¹.
4. SNA includes the amount of the Performance Based Grant award as a revenue in the annual Budget, under a code indicating a revenue from an external donor;

¹ In the case that NCDD-S finances the grants from a project budget in US dollars, the first announcement can be in US dollars and the amount in Cambodian riel can be confirmed when the SNA need the information to finalise their budget. Even with this procedure, it will probably be necessary for the project AWPB to include a contingency amount to guard against changes in the exchange rate.

5. SNA includes grant-financed expenditures in the annual budget of the SNA, under the appropriate expenditure codes.
6. NCDD-S sends an official letter to the National Treasury (General Department of Treasury of Ministry of Economy and Finance) confirming the grant amounts to be included in the budget of each SNA that receives a Performance Based Grant award.

12.2 Transferring the Performance Based Grant to the SNA Treasury Account

1. NCDD-S transfers the amount of the Performance Based Grants to an account in Cambodian riel held by National Treasury at the National Bank of Cambodia (NBC)
2. National Treasury instructs Provincial Treasuries to credit the Performance Based Grant amount to the Treasury accounts of the SNA receiving the grant.

12.3 Financial Management and Reporting

Financial management of Performance Based Grants follows the same rules and procedures as financial management of other parts of the SNA budget.

Performance Based Grant funds are managed through the Treasury Account of the SNA. Therefore, the Provincial Treasury are responsible to maintain accounting records.

Treasury financial reporting is based on the Chart of Account codes which assign codes for different types of expenditure. So, if an activity is funded partly by Government revenues and partly by the Performance Based Grant, the expenditure record will not show clearly how much was grant funding.

The SNA must maintain sufficient records to fulfill its financial reporting responsibilities. This is the same requirement as for Conditional Grants, according to Sub-Decree 06 ANR BK On Principles for Conditional Grants to Sub-National Administrations

When the SNA issues an instruction to Provincial Treasury to disburse the Performance Based Grant funds, this will be stated clearly on the Payment Request. If more than one source of funds is used, the Payment Request will show how much from the Performance Based Grant and how much from other sources.

The SNA will then keep a record of:

- All expenditures of Performance Based Grant funds shown on payment requests to Provincial Treasury;
- Any expenditures of petty cash financed by Performance Based Grant funds;
- The balance of Performance Based Grant funds, by expenditure account code and in total;
- Copies of the Payment Requests.

The SNA must maintain a Contract Register for each contract that is financed by a Performance Based Grant. NCDD-S should provide the SNA with a suitable format for the Contract Register. At a minimum, the information on the contract register should include:

- Identify the Performance Based Grant Work Plan activity that the contract relates to;
- Name of the contractor;
- Brief description of the contract outputs;
- Contract price;
- Contract signing date and planned completion date;
- Planned payments, with date and source of funds;

- Actual (approved) payments, with date and source of funds.

SNA will report to NCDD-S on the use of the Performance Based Grant funds. NCDD-S should provide the SNA with templates for the financial reports. Separately, National Treasury will prepare a consolidated report of the disbursement of Performance Based Grant funds. NCDD-S will:

- Consolidate the financial reporting from the SNA;
- Cross-check against the reporting from National Treasury;
- Identify and resolve any discrepancies.

12.4 Use of Unspent Funds

SNA are expected to prepare a work plan for full utilisation of Performance Based Grant Funds. The total allocated for activities in the Work Plan should equal the total Grant Award. There is no amount for contingencies (any contingencies have to be met from SNA general budget funds).

NCDD-S should not transfer grant amounts beyond the amount in the Performance Based Grant Work Plan.

There may be unspent funds at the end of the year because:

- Some activities have not been completed;
- The contract price for some activities is less than the cost estimated in the Work Plan.

Unspent funds at the end of the budget year may be either:

- Funds committed to contracts;
- Funds not committed to contracts, including any amount planned for operational costs but not spent.

Funds committed to contracts should be carried over into the SNA budget for the following year. These amounts are not deducted from the Performance Based Grant in the following year.

Funds not committed to contracts may be either:

- Carried over into the following year budget, as additional Performance Based Grant funds in the new budget;
- Carried over into the following year budget, but deducted from the Performance Based Grant transfer for the next year (so that NCDD-S transfers the grant allocation minus the carried-over amount);
- Returned to National Treasury. NCDD-S will then instruct National Treasury to use the unspent funds to finance Performance Based Grants in the following year, or to return the money to NCDD-S bank account, as appropriate.

If there is a surplus at the end of the year because the actual price for a contract was less than the estimated price for that contract, the surplus amount can be carried over as additional Performance Based Grant funds for the following year. This gives the SNA an incentive to get a good price in the procurement process.

A surplus for any other reason (because an activity was not implemented, or because no contract was signed for the activity) can be carried over and deducted from the following year Performance Based Grant award.

If the SNA does not have a Performance Based Grant award for the following budget year, any surplus of Performance Based Grant funds, that is not committed to signed contracts, must be returned to MEF.

12.5 Audit Arrangements

Performance Based Grant funds should be included in the Annual Audit of NCDD-S accounts.

The scope of the audit should include audit of SNA receipts and expenditures of Performance Based Grant funds, including records of the Provincial Treasury.

NCDD-S will liaise with National Treasury to facilitate audit of the Performance Based Grant funds.

13 Selection of Grant-financed activities

After the grant award is announced, the SNA should immediately proceed to prepare the Performance Based Grant Work Plan which is the list of activities to be financed from the Performance Based Grant during the budget year.

The SNA should prepare the work plan based on its planning priorities. The SNA should seek to select activities that are:

- High priority, in the SNA development plan and investment programme;
- Are eligible expenditures of the Performance Based Grant;
- Have maximum impact, measured by the Purpose Indicator of the Performance Based Grant;
- Can contribute to a high-performance score in the Annual Performance Assessment.

The Performance Based Grant Work Plan is drafted by the Technical Facilitation Committee (for Province/Capital or District/Municipality/Khan level SNA) or by the Planning and Budgeting Committee (Commune/Sangkat) and is submitted to the SNA Council for approval.

The first step is for the Technical Facilitation Committee (or Planning and Budgeting Committee) to meet and decide what types of activity should have the highest priority for use of the Performance Based Grant funds. To do this, the Committee should review the SNA Development Plan and Investment Programme, together with any specific plan or strategy that is relevant to the purpose of the Performance Based Grant. The Committee should consider the four points mentioned in the paragraph above.

The Technical Facilitation Committee / Planning and Budgeting Committee should then disseminate information on the priorities for using the Performance Based Grant, and invite specific proposals. Proposals may be submitted by the SNA Administration, by lower-tier SNA (e.g. Communes, if the SNA receiving the Performance Based Grant is a District), or by technical agencies such as District technical offices.

Proposals should be submitted on a simple form that shows how the proposed activity meets the criteria for eligibility, and matches the priorities decided by the Technical Facilitation Committee / Planning and Budgeting Committee. The form should include the estimated cost of the activity and the co-financing that is available.

The Technical Facilitation Committee reviews the proposals and selects the highest priority activities through the following steps:

- Step 1: screening to ensure that the proposed activity is an eligible use of the Performance Based Grant funds;

- Step 2: rank the activities in order of priority, based on the priorities that were decided previously;
- Step 3: match the highest ranked activities to the available funds, starting with the highest ranked activity (see Figure 20).

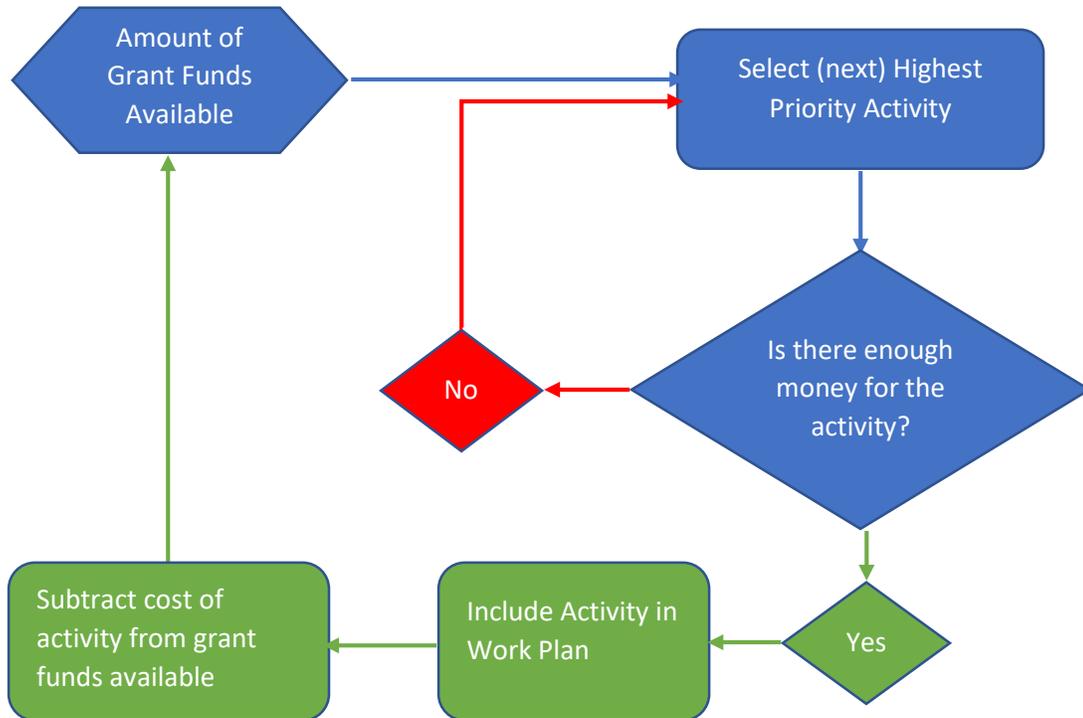


Figure 20: Allocating Grant Funds to Priority Activities

The Technical Facilitation Committee / Planning and Budgeting Committee submits the completed Performance Based Grant work plan to the SNA Council for approval.

The SNA Council can approve the work plan, or ask the Technical Facilitation Committee / Planning and Budgeting Committee to reconsider. The Council cannot add new activities, that were not proposed by the Technical Facilitation Committee / Planning and Budgeting Committee.

14 Screening

After the SNA Council has approved the Performance Based Grant work plan, the SNA should submit the work plan to NCDD-S.

NCDD-S should provide a format for the work plan that includes (at a minimum) the following information on each proposed activity:

- Name of implementing agency for each activity;
- Location of the activity;
- Information on how the activity is relevant to the Purpose of the Performance Based Grant (including target related to the Purpose Indicator, if possible);
- Information needed to show that the activity is an eligible expenditure;
- Number of beneficiaries (men/women, poor/non-poor etc);
- Amount of Performance Based Grant funding needed;

- Amount of co-financing;
- Type (direct or parallel) and source of co-financing.

NCDD-S should develop a simple yes/no checklist format to use to check that each proposed activity is eligible for financing from the Performance Based Grant.

NCDD-S should use the Work Plan information to create a database of Performance Based Grant projects that can be used later for monitoring and reporting.

If NCDD-S identifies that any proposed activity is not an eligible expenditure of the Performance Based Grant, it should inform the SNA as soon as possible. The SNA should then cancel the activity and identify an alternative activity.

NCDD-S should not delay the transfer of the Performance Based Grant funds because one activity in the Work Plan is found to be not eligible. However, an SNA that continues to implement a non-eligible activity, after it has been informed by NCDD-S, should not receive a Performance Based Grant in the following year.

15 Implementation

Implementation of activities financed by the Performance Based Grant follows the same budget execution rules and procedures that apply to other parts of the SNA budget. For Communes and Sangkats, the rules of the Commune/Sangkat Fund apply. For Districts / Municipalities / Khan, the rules of the District / Municipal Fund apply.

Implementation of Performance Based Grant activities may be subject to special requirements that are stated in the Grant Agreement. For example, for activities financed by Performance Based Climate Resilience Grant, the SNA may have to apply climate resilient technical standards. However, any special requirements should not conflict with the general rules and procedures of the SNA.

Implementation of Performance Based Grant activities may be supported by special technical assistance. For example, feasibility study, design and contract supervision of Performance Based Climate Resilience Grant projects is by a Technical Services Consultant. As explained in Section 10, NCDD-S may choose to retain part of the Performance Based Grant to finance a central contract for these services, which are then provided to the SNA as an “in-kind” grant.

NCDD-S should monitor procurement processes for Performance Based Grant activities. Transparency in procurement is often a key concern of donors.

NCDD-S should conduct overall monitoring of implementation of Performance Based Grant activities. However, NCDD-S should be careful not to intervene too much – the intention is to allow the SNA to implement and to “learn by doing”, not to direct their activities too closely.

16 Procedures for Suspension or Termination of Grant Activities

16.1 Reasons to Suspend or Terminate Grant Activities

The Performance Based Grant Agreement must give NCDD-S the right to instruct the SNA to suspend or terminate some or all activities financed by the grant if any of the following occurs:

- Performance Based Grant funds are used for a non-eligible purpose;

- Procurement of a contract financed by Performance Based Grant funds does not follow the correct procurement procedures;
- The quality of outputs of a project financed by Performance Based Grant are found to be unacceptable (in relation to technical standards specified in the Grant Agreement);
- Gender mainstreaming principles are not complied with;
- The correct Environmental and Social Safeguards procedures are not followed;
- There is non-cooperation by the SNA with an investigation into an alleged mistake that could lead to suspension or termination (for one of the reasons above).

16.2 Procedure for Suspending or Terminating Grant Activities

NCDD-S may receive information on an error that could lead to suspension or termination of the Performance Based Grant, through its own monitoring activities or through information supplied by a third party.

When NCDD-S receives information that an error has occurred, that could lead to suspension or termination of the Performance Based Grant, NCDD-S must:

- Inform NCDD-S senior leadership;
- Inform the SNA, and instruct the SNA to temporarily halt expenditures for the activity that the potential error relates to;
- Make a work plan to investigate whether the information is true. The work plan should be approved by NCDD-S senior management;
- Travel to the SNA to conduct an investigation.

The outcome of the investigation can be:

- No error has occurred, so the SNA can continue to implement the Performance Based Grant activities without any change;
- An error has occurred, and the SNA can correct the error through appropriate remedial action;
- An error has occurred, that cannot be corrected easily.

In the case of an error that can be corrected, NCDD-S should instruct the SNA to suspend further implementation of the activity, until appropriate remedial action has been taken. Any cost of the remedial action should be paid from the general budget of the SNA. The instruction to suspend activities should be approved by NCDD-S senior leadership. When the remedial action is completed, NCDD-S should verify this has been done, then recommend to the senior leadership to remove the suspension.

In the case of an error that cannot be corrected, NCDD-S should (1) instruct the SNA to suspend further implementation; and (2) recommend to the Grants Committee to terminate all or part of the Performance Based Grant to that SNA.

16.3 Procedure for Recovery of Funds

In the case that the Grants Committee approves termination of all or part of a Performance Based Grant, NCDD-S should determine the amount of Performance Based Grant that has been misspent (or spent on the activity that has been terminated).

NCDD-S will work with National Treasury, using existing procedures, to recover any misspent funds.

The amount of misspent funds should be reimbursed (in the SNA accounts) to the Performance Based Grant funds from the general budget of the SNA.

The Performance Based Grant amount, or the part of the Performance Based Grant that was planned (in the Performance Based Grant work plan) for the activity that was terminated, should be returned to National Treasury. NCDD-S will then instruct National Treasury to use this money to fund future Performance Based Grant transfers to other SNA, or to return the money to NCDD-S, as appropriate.

Normally, an SNA that has had all or part of its Performance Based Grant terminated, will not be eligible to receive a Performance Based Grant in the following year.

17 Annual Performance Assessment

The purpose of the Annual Performance Assessment is to make an accurate, objective measurement of the performance of each SNA that receives a Performance Based Grant, based on the Performance Measures (see Section 8).

The Annual Performance Assessment is carried out each year, in each SNA. The Annual Performance Assessment must be carried out with enough time to analyse the results, calculate the Performance Based Grant allocation for the following year (Section 8) and integrate the Performance Based Grant in the Budget for the following year (Section 12).

In practice, this means that the Annual Performance Assessment should be carried out in July or August each year.

Because the Annual Performance Assessment is carried out in mid-year, it cannot be based only on performance in the same year when the assessment is carried out. In general, the Annual Performance Assessment looks at performance in the budget year before the assessment year (Figure 1).

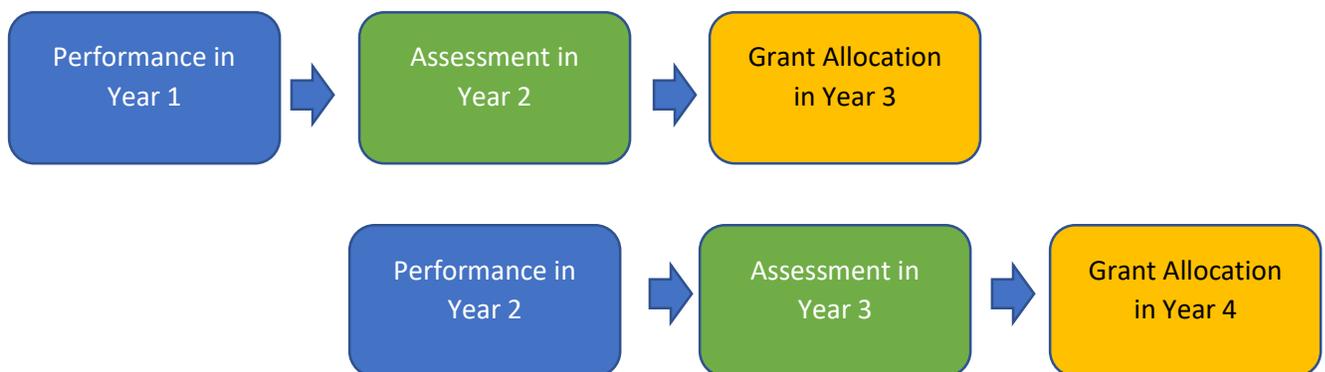


Figure 21: Performance, Assessment and Grant Allocation Sequence

Quality of projects should be assessed based only on completed projects. Because it is common for projects to become delayed and carried over from one budget year to another, the Annual Performance Assessment should focus on the set of Performance Based Grant financed activities that have been completed in the 12 months up to the time of the assessment.

NCDD-S is responsible to conduct the Annual Performance Assessment. However, NCDD-S can contract a service provider to carry out the assessments. The advantages of contracting out include:

- Save NCDD-S staff time and resources;
- External assessors may be seen as more fully impartial than NCDD-S staff.

In the first pilot of a Performance Based Grant, with a small number of SNA, it may be best for NCDD-S staff to carry out the Annual Performance Assessment directly. By carrying out the assessment, NCDD-S staff will understand clearly how the assessment is done and the strengths and weaknesses of the methodology. When the Performance Based Grant is scaled up to a larger number of SNA, NCDD-S should consider contracting out the Annual Performance Assessment.

If NCDD-S contracts out the Annual Performance Assessment, it should:

- Train the staff of the external service provider, so that they are clear how to carry out the assessment;
- Conduct quality control checks. This could be by repeating the full assessment in one SNA, or repeating part of the assessment (a limited number of indicators) in each of a number of SNA. Then, NCDD-S should compare the quality control results to the results reported by the external service provider.

The process for carrying out the Annual Performance Assessment should include:

- A training or workshop event so that all target SNA understand the process, and what they have to do to prepare;
- SNA are clearly informed of what documents they will need to have ready to show the assessment team;
- NCDD-S agrees a schedule with the assessment team and announces the schedule to the SNA;
- The assessment team visits each SNA to carry out the assessment. Normally there will be a team of two assessors who will carry out the assessment in one day or two days;
- The assessment team prepares a report and submits it to NCDD-S;
- NCDD-S check and approve the results of the assessment;
- The results of the assessment are announced to the SNA. If possible, this should be done in a reflection workshop where the SNA can discuss and understand the results and identify capacity building actions that are needed.

SNA are responsible to prepare the documents that the Assessment team needs to carry out the Assessment.

If the assessment team find that some documents are missing, for any indicator based on those documents, they should record a score of zero. The assessment team and the SNA must understand this clearly. There can be no alternative kind of evidence for an indicator except the documents the SNA have been asked to provide.

No Documents – No Score

Figure 22: No Documents, No Score

Any SNA that does not accept the result of the Annual Performance Assessment can ask for the assessment to be repeated.

In this case, the cost of the repeat assessment should be deducted from the Performance Based Grant for that SNA for the following year.

The cost of the repeat assessment should be deducted from the grant whether the performance score increases, decreases or stays the same after the repeat assessment.

Therefore, SNA should not ask for a repeat assessment just to get a small change in the score. They should only ask for a repeat assessment if they think it will result in big increase in the score, so it will make a big difference to the size of their Performance Based Grant.

Example

Because of an administrative mistake in District A, many documents that Assessment Team need are not available on the day of the assessment. Following the correct procedure, the Assessment Team gives District A a score of zero for the indicators that need these documents.

Because of this, District A receives a very low score and will get only a very small Performance Allocation.

District A decides to request for the assessment to be repeated. This time, all the documents are available and the District receives a good score.

NCDD-S calculate the Performance Score for District A based on the second assessment, then subtract the cost of one assessment from the total Performance Based Grant award for District A.

Figure 23: Example of Repeat Assessment

18 Monitoring and Evaluation

18.1 Physical Progress Reports

SNA are responsible to report to NCDD-S on the use of Performance Based Grant funds, including physical outputs achieved, outcomes (measured by the Purpose Indicator), and financial reporting.

Reporting should follow the same standards as for Conditional Grants.

Reports should consist of:

- Monthly, quarterly and annual financial reports;
- Mid-year and annual physical progress reports on activities financed by the Performance Based Grant, outcomes and other issues relevant to the Purpose of the Performance Based Grant.

NCDD-S should provide the SNA with templates for physical progress reports.

18.2 Outcome Monitoring by SNA

SNA should monitor and report on the Outcome Indicator for the Performance Based Grant.

As well as assisting NCDD-S in overall monitoring and evaluation of the results of the Performance Based Grant, SNA monitoring will help to improve the SNA's own understanding of the results of its activities financed by the grant.

To help SNA monitor, it is very important that the Outcome Indicator is written in a way that is easy to understand and simple to measure (see Section 5).

NCDD-S must provide the SNA with formats and training on how to monitor the Outcome Indicator.

18.3 Outcome Monitoring by NCDD-S

NCDD-S is responsible for overall monitoring and evaluation to assess the effectiveness of the Performance Based Grant. The key indicator is the Outcome Indicator.

NCDD-S compiles and consolidates the Outcome Indicator monitoring data from the SNA. NCDD-S should also conduct verification checks. The purpose of the verification checks is:

- Check that SNA reporting of the Outcome Indicator is complete and accurate (or study how actual outcomes might vary from the numbers reported by the SNA);
- Learn additional lessons about the results of the Performance Based Grant activities, including which types of activity are most cost-effective (meaning a large change in the Outcome Indicator compared with the cost of the project).

NCDD-S should conduct Outcome Monitoring one time or two times per year. The process should be:

- Random selection of a sample of projects financed by the Performance Based Grants;
- Study the expected results of each project, in relation to the Purpose and Outcome Indicator;
- Study available data (from the SNA) on the project;
- Visit the project site, inspect the project outputs, and conduct discussions with project beneficiaries;
- Make an estimate the change in the Outcome Indicator, resulting from the project.

Note the important difference between the Outcome Monitoring and the Annual Performance Assessment.

The Annual Performance Assessment is conducted in every SNA, every year, and measures a wide range of indicators (Performance Measures). Many Performance Measures relate to quality of the process and of physical outputs, rather than to the outcomes.

The Outcome Monitoring is conducted for a random sample of project activities. It is not conducted in every SNA. The Outcome Monitoring focuses only on the Outcome Indicator and closely related measures of the success of the project, in relation to the Purpose of the Performance Based Grant.

18.4 External Evaluations

NCDD-S should contract independent external assessors to conduct external evaluations of the Performance Based Grant. Normally, one external evaluation should be conducted every three years. The External Evaluation may look at many aspects of the Performance Based Grant, but the most important aspect is the effectiveness of the Performance Based Grant in relation to the Purpose.

NCDD-S should draft a Terms of Reference for the external evaluation. NCDD-S should submit the TOR to the Grants Committee for review and approval. The results of the external evaluation must be shared with the members of the Grants Committee.

Chapter 4: Cross-Cutting Issues

19 Gender Mainstreaming

NCDD-S and SNAs must manage Performance Based Grant activities in compliance with the Royal Government of Cambodia's principles on gender mainstreaming and women's empowerment.

The policy framework for this is the Neary Rattanak policy of Royal Government of Cambodia and the policy on Gender Equality for sub-national Democratic Development.

Women must be fairly represented in planning and decision-making on the use of Performance Based Grant funds. Where the relevant bodies (such as the Technical Facilitation Committee) do not have equal representation of women, additional steps should be taken, such as including Women and Children focal points on the Technical Facilitation Committee for the meetings that plan use of Performance Based Grant funds.

As well as ensuring that women's voices are heard in planning and decision making, management of Performance Based Grant funds must encourage financing of activities that specifically respond to the different needs of women. One option that can be considered is to invite the SNA Women and Children Committee to submit a proposal for financing from the Performance Based Grant.

Monitoring and evaluation of Performance Based Grant activities should use gender-disaggregated indicators wherever possible. This should include separately counting and reporting the number of women participating in planning meetings and in training events as well as number of women beneficiaries of projects.

Focus group discussions and participatory evaluations (or Citizens' Scorecard groups) should be designed to ensure that women's voices are heard, including by forming separate women's and men's focus groups where appropriate.

NCDD-S should conduct a gender analysis of the outcomes of the Performance Based Grant activities. Key questions for the analysis should include (1) are women fairly represented in decision making on the use of Performance Based Grant funds? (2) do women share equally with men in the benefits of Performance Based Grant activities? and (3) do the Performance Based Grant activities have any negative impacts on women, arising from the different roles of women and men in society. The gender analysis should produce recommendations for strengthening gender mainstreaming and women's empowerment in the management of Performance Based Grants.

20 Environmental and Social Safeguards

Environmental and social safeguards are measures to ensure that activities financed by Performance Based Grants do not have any harmful environmental or social impacts, and / or to minimise any negative impacts that do occur.

There are three key types of safeguard: environmental safeguards, land acquisition safeguards and safeguards of the rights and interests of ethnic minority peoples.

The purpose of environmental safeguards is (1) to identify any risk of negative environmental impacts; (2) to classify project activities according to the level of risk; (3) to formulate environmental management plans to mitigate environmental risks; and (4) to monitor implementation of the environmental management plan. NCDD-S manages an Environment Watch List of Communes / Sangkats with sensitive environments where special measures must be taken to avoid risk of environmental damage.

The purpose of land acquisition safeguards is to ensure that the rights of land users are respected. Land users (including users who do not have legal ownership of the land) who will be negatively affected by a project activity must be informed of their rights and offered appropriate compensation for loss of land or damage to their land and crops.

In areas where a significant part of the local population is from an ethnic minority group and lives according to customs and traditions that are different from the customs and traditions of the Khmer majority, SNA must take special care to ensure that project activities do not negatively affect the ethnic minority groups. NCDD-S maintains a Watch-List of villages where more than 5% of the population is from a highland minority people.

SNA have rules and regulations in place for environmental and social safeguards in the implementation of project activities, including projects financed by C/S Fund and D/M Fund. In general, the same safeguards provisions will apply to activities financed by Performance Based Grants. However, in some cases the Performance Based Grant Agreement may specify additional safeguard measures that have been agreed with the donor or that are required for the type of activity financed by the grant.

SNA are directly responsible for implementation of safeguards. However, NCDD-S also has a responsibility to ensure that Performance Based Grant funds under its responsibility are managed in compliance with environmental and social safeguards. NCDD-S does this by carefully monitoring the implementation of safeguards in projects financed by Performance Based Grants.

NCDD-S monitors implementation of safeguards through the following steps:

3. All project activities financed by Performance Based Grants should be classified as Low Risk, Medium Risk or High Risk, in respect of environmental risk, land acquisition and ethnic minority groups.
4. NCDD-S verifies that SNA implement the appropriate procedures, specified in the C/S Fund PIM or the D/M Fund Manual, appropriate to the level of risk in each category;
5. NCDD-S verifies that risk mitigation measures are properly carried out, including through site visits, particularly to projects categorised as high risk;
6. NCDD-S maintains records of risk categories, mitigation measures and monitoring reports for Performance Based Grant financed projects;
7. NCDD-S provides citizens with the opportunity to raise concerns and complaints, related to safeguards in Performance Based Grant financed projects, directly with NCDD-S. NCDD-S properly records and follows up on complaints received. This is discussed in more detail in Section 21 below.

21 Communications and Complaints Handling

NCDD-S is accountable for the proper use of Performance Based Grant funds, including ensuring that funds are not misused and that environmental and social safeguards are properly applied.

The accountability of NCDD-S does not reduce the responsibility and accountability of the SNA (likewise, the responsibility of the SNA does not reduce the accountability of NCDD-S to an external donor). SNA are fully responsible to manage Performance Based Grant funds in accordance with the laws, rules and procedures for execution of their general budgets. SNA have procedures for ensuring accountability including the Ombudsman system for receiving, managing and following up complaints submitted by citizens.

Citizens have the right to be informed about Performance Based Grant activities and also have the right to submit concerns and complaints directly to NCDD-S.

Information about Performance Based Grants that should be published by NCDD-S include:

- The names of SNA that receive Performance Based Grant awards;
- The purpose of the Performance Based Grant awards;
- The amount of the Performance Based Grant awards;
- Summary physical and financial reports on the use of Performance Based Grants;
- Outcomes of Performance Based Grant activities.

The main medium for publication of information on Performance Based Grant activities is the NCDD website.

Citizens must have the opportunity to raise concerns or complaints about Performance Based Grant activities directly with NCDD-S. Normally citizens will submit complaints through the NCDD website, although they should also have the option to submit complaints by telephone or in writing. Citizens may submit complaints anonymously if they so choose.

NCDD-S must maintain a register of complaints received, together with follow-up actions taken. Complaints procedures are described in the NCDD-S Operations Manual. In summary, the procedure for handling complaints is:

- All complaints received to be properly recorded, with responsibility for follow-up;
- Follow-up actions as appropriate, including investigating the truth of complaints and finding a fair resolution of issues;
- Inform the complainer of the outcome of the complaint (unless the complainer is anonymous);
- Report of the complaint, follow-up and resolution to be approved by senior management;
- Full records to be maintained.

Annex 1: Grant Agreement for Performance Based Climate Resilience Grants

Grant Agreement For a Performance Based Climate Resilience Grant

1 Agreement

This Agreement is made between the Royal Government of Cambodia's National Committee for Sub-National Democratic Development Secretariat (NCDD-S)

And

[Name of SNA], referred to below as the Grantee

The two Parties hereby agree as follows:

NCDD-S agrees to provide the Grantee with a Performance Based Climate Resilience Grant of [enter amount in words and numbers]. This amount will consist of

- [amount in words and numbers] to be transferred to the Budget of the Grantee for Fiscal Year [Year]; and
- [amount in words and numbers] to be retained by NCDD-S and used to finance central contracts for (1) Technical Support Services; and (2) Annual Performance Assessment. These services are considered as grant in-kind to the grantee.

The Grantee agrees to use the Performance Based Climate Resilience Grant for activities that (1) support the Purpose of the Grant as stated below; and (2) comply with all applicable laws and regulations of the Kingdom of Cambodia, the NCDD-S Manual on Performance Based Grants and the terms and conditions set out in this Agreement and its annexes.

2 Purpose of the Performance Based Climate Resilience Grant

The Purpose of the Performance Based Climate Resilience Grant is: Reduced vulnerability to climate change impacts of people and critical systems (natural and societal) in the most vulnerable Districts of Cambodia.

The following Outcome Indicators will be monitored:

- Proportion of the Performance Based Climate Resilience Grant that is disbursed or committed to signed contracts, for activities that comply with the criteria for eligible expenditures of the Performance Based Climate Resilience Grant, during budget year [year]; and
- Number of vulnerable people (including number of women and number of ID-Poor card holders) who benefit from investments that comply with the criteria for eligible expenditures of the Performance Based Climate Resilience Grant during Budget Year [year].

3 Terms and Conditions

The Grantee hereby undertakes to:

1. Comply with the Minimum Conditions for access to Performance Based Climate Resilience Grants, as set out in Appendix 1 to this Agreement;
2. Use the Performance Based Climate Resilience Grant only for activities that (1) support the Purpose of the Grant; (2) are eligible expenditures as defined by Appendix 2 to this Agreement; and (3) are not on the Negative List (Appendix 3);
3. Provide co-financing as required by Appendix 4 to this Agreement, either directly or through cooperation with a Commune Council within the Grantee District;
4. Prepare and submit to NCDD-S a Performance Based Climate Resilience Grant Work Plan in the format specified in Appendix 5 to this agreement;
5. On receiving approval from NCDD-S, implement the Performance Based Climate Resilience Grant Work Plan under the rules and regulations applicable to execution of the District Budget;
6. Keep financial records of receipts and expenditures of Performance Based Climate Resilience Grant funds, and submit financial reports in a format to be specified by NCDD-S.
7. Submit monthly, six-month and annual physical progress reports on implementation of the Performance Based Climate Resilience Grant Work Plan, in formats to be specified by NCDD-S.
8. Fully cooperate with and facilitate the activities of NCDD-S in monitoring implementation of this Agreement;
9. Comply with the policies of the Royal Government of Cambodia on gender mainstreaming and women's empowerment, including:
 - a. Ensuring that women are fully represented and able to express their views and preferences in all planning and decision-taking forums related to use of the Performance Based Grant;
 - b. Giving strong consideration to activities specifically designed to reduce climate change vulnerabilities of women; and
 - c. Monitoring the impact of Performance Based Climate Resilience Grant activities on women.
10. Ensure appropriate measures to prevent or mitigate any negative impacts of Performance Based Climate Resilience Grant activities on natural resources and the environment, including by:
 - a. Identifying the level of environmental risk associated with each activity in accordance with Appendix 6 of this Agreement, and notifying the level of risk to NCDD-S;
 - b. Implementing in full compliance with relevant laws and regulations for protection of natural resources and the environment, and with the environmental safeguards provisions of the District / Municipal Fund;
 - c. Fully cooperating with NCDD-S staff tasked with monitoring implementation of environmental safeguards.
11. Fully implement social safeguards provisions of the District / Municipal Fund, in relation to (1) any land acquisition needed for Performance Based Climate Resilience Grant activities, and (2) the rights and interests of ethnic minority peoples.
12. Comply with any instruction issued by NCDD-S to suspend or terminate any part of the Performance Based Climate Resilience Grant activity for reasons of non-compliance with these Terms and Conditions;
13. Reimburse NCDD-S for any part of the Performance Based Climate Resilience Grant disbursed in non-compliance with these Terms and Conditions;

14. Return any surplus funds, not disbursed at the end of the budget year, to NCDD-S, or use the surplus funds as directed by NCDD-S.

NCDD-S hereby undertakes to:

1. Transfer the amount of the Performance Based Climate Resilience Grant, as specified above, to the District Budget of the Grantee;
2. Use the retained amount of 12.5% of the Performance Based Climate Resilience Grant to contract Technical Support Services, and 1.5% of the Performance Based Climate Resilience Grant to contract an Annual Performance Assessment;
3. Advise and support the Grantee in preparation and implementation of the Performance Based Climate Resilience Grant Work Plan;
4. Screen the Performance Based Climate Resilience Grant Work Plan for compliance with Eligible Expenditures and respond to the Grantee within 15 working days of submission of the Work Plan;
5. Conduct regular monitoring of implementation of the Performance Based Climate Resilience Grant Work Plan, including (1) monitoring of the procurement process; (2) monitoring compliance with gender mainstreaming requirements; (3) monitoring implementation of environmental and social safeguards; and (4) general monitoring of the implementation of this Agreement.
6. Conduct an Annual Performance Assessment in accordance with the NCDD-S Manual on Annual Performance Assessment of Performance Based Climate Resilience Grants. The results of the Annual Performance Assessment will be notified to the Grantee and will be used in calculating the amount of the Performance Based Climate Resilience Grant (if any) for the following year.

Signatures

List of Appendices to the Grant Agreement

1. Minimum Conditions
2. Eligible Expenditures
3. Negative List
4. Co-Financing
5. Format for Work Plan
6. Environmental Risk Categories

Appendix 1: Minimum Conditions for Access to Performance Based Climate Resilience Grants

Access to the Performance Based Climate Resilient Grant is conditional upon the Grantee complying with the following Minimum Conditions:

1. Climate change adaptation has been mainstreamed in the local development planning process in the District and its communes, including:
 - a. Vulnerability Reduction Analysis carried out at Commune level;
 - b. Vulnerability Reduction Analysis consolidated into a District Climate Change Strategy and District Vulnerability Map.
2. The District has established a Climate Change Working Group under the leadership of the District Board of Governors.

Appendix 2: Eligible Expenditures of Performance Based Climate Resilience Grants

Eligible Activities

The Grantee may use the Performance Based Climate Resilience Grant to finance activities that:

1. Are within the mandate of the Grantee;
2. Are included in the District Investment Programme;
3. Respond to a climate change related problem identified in the District Climate Resilience Strategy and that is shown as a problem at the relevant location according to the District Climate Vulnerability Map;
4. Are a type of activity that is identified as a priority in the District Climate Change Strategy;
5. Are one of the following types of activity:
 - a. Services for strengthening climate resilience;
 - b. Climate proofing of infrastructure (to protect infrastructure against climate-related damage); or
 - c. Infrastructure that directly supports climate change adaptation.
6. Are not a type of activity listed on the Negative List (Appendix 4).

Eligible Types of Expenditure

The Grantee may use the Performance Based Climate Resilience Grant to finance the following types of expenditure:

1. Contracts for services for climate resilience;
2. Purchase of goods needed to support services for climate resilience;
3. Contracts for works.

Therefore, Performance Based Climate Resilience Grant may not be used to finance operational costs of any kind (such as travel, communications, office costs, staff costs etc).

Appendix 3: Negative List

Performance Based Climate Resilience Grants must not be used to finance any of the following types of activity:

1. Construction or repair of administrative buildings or security facilities of any kind;
2. Construction or repair of religious buildings of any kind;
3. Police, security and justice sector functions;
4. Any activity involving weapons, explosives, dangerous chemicals etc;
5. Any illegal activity of any kind.

Appendix 4: Co-Financing Requirements for Performance Based Climate Resilience Grants

The Grantee may use the Performance Based Climate Resilience Grant to finance the proportion of each type of expenditure as shown in the table below:

Type of expenditure	Maximum financing from Performance Based Climate Resilience Grant
Contracts for services for climate resilience	100%
Purchase of goods needed to support services for climate resilience	100%
Infrastructure directly supporting climate change adaptation	67%
Climate proofing of infrastructure	33%

Co-financing may be either:

- Direct co-financing, in which Performance Based Climate Resilience Grant funds are used together with general budget funds of the Grantee, to finance a single contract;
- Indirect co-financing, in which the co-financing consists of an activity implemented through a separate contract or implementing arrangement. In this case, the co-financing activity must be (1) closely related to the activity financed by the Performance Based Climate Resilience Grant; (2) of value equal to or greater than the co-financing requirement; and (3) implemented in the same budget year, through the budget of the Grantee or through the budget of a Commune Council in the Grantee District. The contract for the co-financing activity must be signed before the contract for the Performance Based Climate Resilience Grant activity.

NCDD-S will retain a proportion of the Performance Based Grant Funds to finance support services which will be centrally contracted and provided in-kind to the grantee, as follows:

Technical Support Consultants: 12.5% of the Performance Based Grant;

Annual Performance Assessment: 1.5% of the Performance Based Grant.

Appendix 5: Format for Performance Based Climate Resilience Grant Work Plan

Name of Sub-National Administration:

PBCRG Grant Award Amount:

Date the Work-Plan was Approved by the Council:

Description of the Planning Process:

Describe how the work plan was prepared, including participants, activities and dates.

Purpose and Beneficiaries

A narrative description of the proposed activities, including an explanation of how the activities will contribute to climate change adaptation. The description must also state who will be the beneficiaries of the sub-project, including how many women and how many men.

Table of Activities, Costs, and Simple Safeguards Screening

#	Location	Description including unit and quantity	Total Cost of Activity	PBCRG Fund Amount	Other fund source	Budget Code	Environmental and Social Safeguard Flags			
							Land (1)	Environment (2)	Cultural Heritage (3)	Ethnic Minority (4)
TOTAL COSTS:										

Safeguards Quick Screening: For each activity, is the answer to any of the questions below “yes”? For further guidance, see the relevant sections of the C/S Fund PIM or the D/M Fund PIM

- (1) Will the activity require any land acquisition?
- (2) Is the activity located in an environmentally sensitive area, OR will the activity create any other kind of negative environmental impact?
- (3) Will the activity affect any valuable physical or non-physical cultural heritage?
- (4) Is the activity located in an area with an indigenous minority community?

Time-Line for Implementation

Enter each step of the implementation process in the table below, and indicate which month the step will be done in.

#	Implementation Step	Before Start of Year	Month in Budget Year of Grant Award												Activities to be Carried Over in Following Year
			1	2	3	4	5	6	7	8	10	11	12		

Appendix 6: Classification of Activities for Environmental Risk

Activities to be financed by Performance Based Climate Resilience Grants will be placed in one of the following categories for environmental risk.

Category	Description
A	Likely to have significant negative impacts on people or environmentally sensitive areas (including areas in NCDD-S Environmental Watch List). The impacts affect a wider area than the immediate local area of the site, or are severe, or cannot be reversed, or are of such a nature that there are no
B	Has potential The potential impacts are limited to the immediate local area, are reversible, and appropriate mitigation measures can be included in the project design.
C	Minimal or no adverse environmental impacts

The Grantee is to inform NCDD-S if any activities to be financed by the Performance Based Climate Resilience Grant are considered to fall within Category A or Category B.

Annex 2: Application for a Performance Based Grant

Name of Applicant (sub-national administration):

Name of Performance Based Grant:

Purpose of Performance Based Grant:

Targeting Criteria for Performance Based Grant

Having seen and carefully considered:

- The Purpose of the Performance Based Grant;
- The Targeting Criteria;
- The Grant Agreement:

The Administration of [Name of SNA] hereby applies to be considered for a Performance Based Grant Award in Budget Year [budget year].

The decision to apply for the Performance Based Grant was approved by the Council of the Sub-National Administration at a meeting on [date of meeting]. A record of the decision of the Council is attached as evidence.

The SNA confirms that it is able to comply with the Minimum Conditions for award of the Performance Based Grant, as demonstrated in the table below.

Minimum Condition	Evidence of compliance

In the event that this application is successful, the Sub-national Administration hereby undertakes to sign the Grant Agreement and to faithfully comply with all terms and conditions of the Grant Agreement in the use and management of Performance Based Grant funds.

Signature

(Board of Governors)

Application for a Performance Based Grant (EXAMPLE)

Name of Applicant (sub-national administration): **District A, Province X**

Name of Performance Based Grant: **Performance Based Climate Resilience Grant**

Purpose of Performance Based Grant: *Reduced vulnerability to climate change impacts of people and critical systems (natural and societal) in the most vulnerable Districts of Cambodia.*

Targeting Criteria for Performance Based Grant:

- *Ranking based on Climate Vulnerability Index*
- *No other climate change adaptation funding.*

Having seen and carefully considered:

- The Purpose of the Performance Based Grant;
- The Targeting Criteria;
- The Grant Agreement:

The Administration of **District A** hereby applies to be considered for a Performance Based Grant Award in Budget Year **2018**.

The decision to apply for the Performance Based Grant was approved by the Council of the Sub-National Administration at a meeting on *14th September 2018*. A record of the decision of the Council is attached as evidence.

The SNA confirms that it is able to comply with the Minimum Conditions for award of the Performance Based Grant, as demonstrated in the table below.

Minimum Condition	Evidence of compliance
<i>Vulnerability Reduction Analysis carried out at Commune level</i>	<i>Vulnerability Reduction Analysis carried out in all Communes of the District in 2017.</i>
<i>Vulnerability Reduction Analysis consolidated into a District Climate Change Strategy and District Vulnerability Map.</i>	<i>District Climate Change Strategy and District Vulnerability Map approved by the District Council on 10th August 2018.</i>
<i>The District has established a Climate Change Working Group under the leadership of the District Board of Governors.</i>	<i>Climate Change Working Group established by decision of the Board of Governors on 1st July 2018.</i>

In the event that this application is successful, the Sub-national Administration hereby undertakes to sign the Grant Agreement and to faithfully comply with all terms and conditions of the Grant Agreement in the use and management of Performance Based Grant funds.

Signature

(Board of Governors)