Summary Record

of the Negotiations on Development Cooperation

between the Royal Government of Cambodia

and the Government of the Federal Republic of Germany

Bonn, 16-17 October 2007

1. Introduction

Negotiations on development cooperation between the Royal Government of Cambodia (RGC) and the Government of the Federal Republic of Germany were held in Bonn on 16-17 October 2007. The delegation of the Kingdom of Cambodia was headed by Mr. Chhieng Yanara, Secretary General of the Cambodian Rehabilitation and Development Board at the Council for the Development of Cambodia (CBRD/CDC). The delegation of the Federal Republic of Germany was headed by Mr Christian Neumann, Head of the South-East Asia Division, Federal Ministry for Economic Cooperation and Development (BMZ). Lists of the two delegations are attached as Annexes 1 and 2.

The negotiations took place in an open atmosphere of constructive cooperation. Based on the results of the preparatory consultations held on 26 April 2007 in Phnom Penh, the delegations reached agreement on the allocation of the funds available. They discussed ongoing and future cooperation and other relevant issues.

The results of the negotiations are recorded below.

2. General context for development cooperation and policy dialogue

2.1 Opening statements

2.1.1 Summary of the opening statement by the German delegation

In his opening statement, the head of the German delegation said that the current negotiations on economic cooperation provided an important opportunity for an open discussion of general topics and specific matters in the field of development cooperation in the familiar spirit of partnership.

He honored the strong economic development in Cambodia over the last few years and the good prospects that provided a suitable environment for continued poverty reduction. He added that this bright environment provided ideal conditions to strengthen reforms in areas where progress had been less rapid, and to address some of the key risks for the outlook. In this context, he mentioned the importance of broadening, the need for higher productivity and diversity in agriculture, and the inclusion of private sector development in rural areas. In view of the high economic disparities between the rich and the poor and especially between urban and rural areas, and the high population growth rate, the danger should be averted of the poor not having a part in economic growth.

The head of the German delegation noted that a lot of progress had been made in the land sector, especially with regard to land registration and titling. However, land governance remained the first priority with regard to poverty alleviation. He said that the continuing illegal land grabbing and seizing of poor people's land by rich and powerful elements in society posed a threat to internal stability and hampered social justice. He requested a revision of existing economic land concessions (ECLs), cancellation of those that were unproductive and a moratorium on the awarding of new ECLs.

In addition, he expressed his grave concern about the fate of people affected by land conflicts. In this context, he referred to decreed resettlements as a consequence of land development projects, which have a heavy negative impact on living conditions in these villages. He mentioned Andong village near Phnom Penh as an example of a relocation site. While recognizing that some resettlements might be justified and necessary, he asked the government to accommodate the needs of affected people.

Referring to the National Strategic Development Plan, the head of the German delegation stressed the importance of good governance and of the fight against corruption for ensuring poverty reduction, social

development and long-term macro-economic stability. He congratulated the Cambodian government on the adoption of vital judicial regulations such as the Civil and Penal Procedure Codes by the National Assembly. However, the head of the German delegation expressed strong concern that, despite the dialogue between the government and development partners which had been ongoing for more than ten years, the adoption of a law against corruption was still pending. He noted that, for the German government, an effective and committed fight against corruption was a key criterion for development cooperation.

Referring to the newly published Cambodia Human Development Report, the head of the German delegation confirmed that institutional safeguards to ensure transparency and effective management were needed to avoid the "resource curse" of oil and gas resources. He therefore encouraged the Royal Government to accede to the Extractive Industries Transparency Initiative (EITI) and fully adopt its principles. He noted that the needs of future generations should also be considered. Thus, he suggested establishing an inter-generational resource fund as in
Scandinavian countries.

The head of the German delegation noted the high importance which the German government attaches to the Khmer Rouge Tribunal. He acknowledged that progress was now being made and the first defendants had been charged. He further expressed appreciation of the fact that agreement had been reached regarding transparent employment procedures at the ECCC. With reference to the estimated funding shortfall for the tribunal, the head of the German delegation noted that the German government would follow attentively whether the Cambodian government was ready to contribute considerable funds of its own to underline its commitment to the Tribunal.

The head of the German delegation appreciated the vigorous efforts by the Cambodian government, and especially the Ministry of Women's Affairs, to tackle trafficking. However, he expressed great concern about the large number of cases of sexual exploitation of children. He asked the Cambodian government to prosecute these horrible crimes with all its strength, and bring the national and international culprits to justice.

With reference to the ongoing global dialogue on climate protection, the head of the German delegation noted that illegal deforestation in Cambodia not only harmed the people, but also had a negative impact on the global climate. He added that deforestation, in conjunction with the degradation of remaining forests and peat lands, contributed significantly to worldwide climate change. He pointed out that the Heiligendamm process had yielded the Forest Carbon Partnership Facility, which aims to assist developing countries in their efforts to reduce deforestation and degradation. He further asked the Cambodian delegation what Cambodia could contribute nationally towards reducing carbon emissions.

2.1.2 Opening statement of the Cambodian delegation

As some of you are aware, H.E. Senior Minister Keat Chhon is unable to lead the Cambodian Delegation in these Negotiations due to pressures in the preparation and finalization of the 2008 national budget. I trust you will understand that his personal presence in Cambodia during this time is totally inevitable. He has asked me to convey his apologies to all of you. In this sense, I have been given the honor of leading the Cambodian Delegation in these Cambodia-Germany negotiations. On behalf of the Cambodian Delegation, I would therefore like to begin by expressing our deep appreciation for the hospitality and facilities extended by BMZ. Let me also start by emphasizing that the Cambodia-Germany development cooperation negotiations are well prepared through a series of consultations and exchanges of views, and I consider that these negotiations constitute another step that will further strengthen the partnership for development cooperation between our two countries. These negotiations would also be an important process for achieving a better alignment of German development cooperation activities with Cambodian development priorities of the National Strategic Development Plan (NSDP), which is an instrument to implement the Rectangular Strategy under the leadership of Samdech Hun Sen, Prime Minister of the Kingdom of Cambodia.

As you are all aware, the National Strategic Development Plan (NSDP) for 2006-2010 is intended to implement the Royal Government's development priorities articulated in the "Rectangular Strategy". The NSDP is currently being implemented with significant achievements so far toward meeting Cambodia's Millennium Development Goals. While development partners make their best efforts to align their cooperation programs and projects to support the implementation of the NSDP and to harmonize among themselves, the Aid Effectiveness Report (AER) which was prepared for the First CDCF showed that at the level of commitments, the Public Investment Programme of the Ministry of Planning recorded commitments as being very closely aligned to NSDP priorities. However, the AER also showed that once these commitments are translated into disbursements, the relationship begins to break down and there are a number of sectors that appear to be relatively over or under-funded when compared to the overall resource requirements identified in the NSDP.

In the case of Germany, I am pleased to observe that the cooperation we receive from German cooperation agencies sets a good example for others to follow in many aspects of the aid effectiveness agenda. The most recent round of Paris Declaration monitoring, for example, showed that technical cooperation is increasingly coordinated with our sector programs and that the absence of any German Project Implementation Units ensures that your valuable capacity development support has increased impact. The AER also indicated that German assistance is well focused and aligned with NSDP priority activities and for this we are grateful. I also note the leading role that Germany is taking in the on-going EU harmonisation exercise and I wish to acknowledge these efforts.

Let me now turn back to our development cooperation. According to information available at CRDB, German Assistance to Cambodia between 1992 and 2006 has amounted to more than Euro 190 million. The amount of assistance does not include Germany's contribution to Multilateral Institutions including the European Union, in which Germany has played an Government of Germany for its continuing support and commitment to the development of Cambodia and to reducing poverty amongst our people. As you know, at this stage of development in Cambodia we have very limited resources and vast needs. The Royal Government therefore places a very high priority on increasing resource availability as well as improving aid effectiveness in order to maximize its benefits for our people.

In preparations for these negotiations, much work has already been done by senior officials of our two governments. A consultation meeting was held on 26th April 2007 in Phnom Penh. At that meeting a review of progress in the implementation of ongoing German programs and projects was made. Furthermore, lessons learned were discussed to optimize and improve the effectiveness of German assistance. We also discussed areas in need of assistance and new project proposals. The negotiations today that we start shortly will provide another opportunity to review the agreed programs and projects that were discussed at the April 2007 consultations in Phnom Penh under the agreed strategy frameworks for the Rural Development and Health Sector. In addition, we will also have an opportunity to discuss other assistance under cross-cutting issues, specifically "Democracy, Civil Society and Public Administration and Decentralization". I am sure that these fruitful negotiations will further strengthen our mutual understanding and enhance friendship, cooperation, and partnership between our two countries.

As the Head of German Delegation already indicated in his opening remarks, the main objectives of today's negotiations are:
Firstly, to agree on progress that is being made in areas of on-going projects;
Secondly, to discuss and agree on the new projects and programs for our future cooperation.

I hope we will have an open and frank discussion on these issues. My colleagues in the delegation are here to provide any additional information and clarifications needed on our priority projects and programs. To conclude, let me once again express our deepest appreciation for your valuable assistance for the development of Cambodia. I am looking forward to a frank and fruitful discussion and to a continued spirit of mutual goodwill and understanding in our relations.

2.2 General context and prerequisites for development cooperation

Further to the opening statement, the head of the Cambodian delegation provided clarification on the following issues:

Economic development: The head of the Cambodian delegation noted that during 2000-2006, Cambodia had experienced a high economic growth of approximately 9.4% per annum. He said that in particular during the last three years, the rate of economic growth reached unprecedented rate on average of 11.4% per annum. More importantly, the economic growth rate reached a high record of 13.5% in 2005 and 10.8% in 2006. The average per capita income almost doubled from US$288 in 2000 to US$513 in 2006. Inflation had been kept low at an average of under 3% between 2000-2006. The exchange rate has been broadly stable. During the same period, the country's international reserves doubled from about US$500 million in 2000 to more than US$1 billion in 2006. He added that in 2007, based on recent assessment by IMF, the economic growth was projected to reach two digit in 2007. He summarized that there was a rapid economic development that has led to an impressive poverty reduction from 47% to 35% over the last 10 years. He added that there was no doubt that blessed by full peace and stability, the key achievements and progress had taken deep roots in the socio-economic foundations of Cambodia.

Anti-corruption law: The head of the Cambodian reaffirmed that the fight against corruption was at the core of the Royal Government's Rectangular Strategy and had been the subject of regular dialogue at RGC meetings with development partners. He reiterated that the Royal Government was committed without any hesitation to fighting corruption by undertaking many concrete actions including the drafting of the Anti-corruption Law. However, while drafting this Law, he noted that it was important to ensure its consistency with the basic laws, such as the Civil Procedure Code and the Penal Procedures Code, which were promulgated in July 2006 and

August 2007 respectively, as well as other Basic Laws that were still in draft form. He explained that it would take some time in order to prepare the laws in a proper sequencing which would provide RGC with the smooth, consistent and effective implementation of the laws. He added that this would not mean that the RGC was abdicating from its responsibility to fight corruption as other legislation continues to serve in the interim. The RGC was fully aware that corruption is a dangerous cancer which required their efforts to tackle all the times and circumstances without compromise, he reminded that the Anti-Corruption Law was not a panacea to root out corruption in any society. He said that in this spirit, although the RGC had not yet adopted the Anti-Corruption Law, the RGC had in the past given special attention to fighting against corruption by taking and implementing some measures within the existing legal framework, and had achieved some concrete outcomes, namely the establishment and the strengthening of the Anti-Corruption Unit, imposing administrative sanctions and bringing a number of officials to the court.

Oil and gas resources: The head of the Cambodian delegation said that under the area of governance, with regard to the prospect of receiving additional oil and gas revenues, the RGC had prepared to ensure management of oil and gas revenue for Cambodia's socio-economic development through the Public Financial Management (PFM) Reform program, that included transparent and accountable management of oil and gas revenue. The PFM reform was acknowledged as a very successful and a highly effective reform, and RGC, he said, had communicated its firm commitment to ensuring that any oil and gas revenue, whether it is big or small, would be effectively, transparently and accountably managed within the framework of the single budget and public financial management system, which was continuously being improved.

The Head of the German Delegation recommended the Norwegian model where a share of revenue from oil extraction is invested in stock markets in order to be available to serve future generations' needs.

Land reform: The head of the Cambodian delegation explained that within the framework of the Land Law and land policy, the RGC had taken concrete measures to strengthen the management, distribution, and equitable use of land and to ensure economic effectiveness. This included land registration, land distribution and security of land ownership, elimination of illegal land holding and implementation of concrete measures to prevent land holding for unproductive purposes. He said that the RGC had reviewed unused state land or state land held by private individuals in violation of the existing legal framework and procedures in order to ensure effective land use. On the other hand, to address this complicated issue, he explained that the RGC had made significant efforts to distribute land and provide land titling to the population, especially the landless poor living in remote areas. He added that the RGC had taken back thousands of hectares of land from forested areas, unused state land and land illegally held by individuals to be redistributed to thousands of real landless families and provided them with land titles. The head of the delegation noted that Royal Government would continue to actively implement this policy to address landlessness and the shortages of land by distributing land to the people who are in real need. Moreover, the RGC had tightened the evaluation criteria for granting economic land concessions to ensure transparency and economic efficiency in compliance with the existing policies and regulations. The Royal Government, he said, had recently cancelled concession contracts and taken back the economic land concessions from five companies who had been failing to implement the contracts signed with the RGC.

Khmer Rouge Tribunal: The head of the Cambodian delegation expressed gratitude to German special support to the Khmer Rouge Tribunal. He informed that the Khmer Rouge Tribunal proceeded relatively smoothly and was seen as a very important and historical event to legally review the atrocities committed during the Khmer Rouge regime and to bring those responsible to justice. As Deputy Prime Minister SOK AN had already stressed in many occasions, he said that the tribunal at the Extraordinary Chambers of the Courts of Cambodia (ECCC) would become a model for the development of the legal system and a legal culture in Cambodia.

2.3 Aid Effectiveness

The German side commended the RGC for its recent "2007 Cambodia Aid Effectiveness Report" and for its active role in the implementation of the Paris Declaration on Harmonisation and Alignment. The German government is committed to helping the Royal Government of Cambodia to take the lead and manage a process of sectoral development that will ensure a better division of labour between development partners and reduced fragmentation between and within sectors. Thus, it welcomes the "Study on the Provision and Management of Technical Cooperation and its Impact on Capacity Development" as a particularly important step towards enhancing capacity development on the basis of an improved understanding of current and emerging Technical Cooperation mechanisms and their impact.

The German side is committed to supporting the further alignment of the support provided by Cambodia's development partners with the Cambodian National Strategic Development Plan (NSDP) and national systems while Public Financial Management reforms progress. The German government advocates development partners jointly designing their assistance strategies under the guidance of the RGC and discussing how external support can be better aligned with the NSDP. This exercise should lead to an improved division of labour and, thus,

greater aid effectiveness. The EU partners are committed to acting as a driving force for complementarity and division of labour and are striving to reduce both the number of EU donors in each sector and the number of sectors in which each EU partner is engaged. As pointed out in the "EU Code of Conduct on Complementarity and
Division of Labour" of May 2007, the primary leadership and ownership for in-country division of labour lies with the government of the partner country. The German side expressed its will to cooperate closely with RGC on this important process, which has considerable potential to raise aid effectiveness.

In this context, the German side asked the Cambodian government to further its efforts to have the PR of China actively engaged in donor coordination and harmonisation. This refers to the political discussions as well as the cooperation on sectoral technical issues.

2.4 The Khmer Rouge Tribunal

The German Government regards the Khmer Rouge Tribunal as very important in undertaking a legal review of the atrocities committed during the reign of the Khmer Rouge and bringing to justice those responsible. It is expected that the tribunal at the Extraordinary Chambers of the Courts of Cambodia (ECCC) will become a model for the development of the legal system and a legal culture in Cambodia. The German side also noted that the separation of powers is crucial for a democratic system and thus asked the Cambodian Government to ensure the independence of the ECCC and safeguard its work.

2.5 Climate Change

The German delegation stressed that recent assessments by the Intergovernmental Panel on Climate Change left no doubt that climate change is one of the biggest environmental threats to sustainable development and the achievement of the Millenium Development Goals. Globally, emissions are on the rise. The German side explained the Heiligendamm process and the commitments made by the German Government and the European Union to cut carbon dioxide emissions. Further, it was noted that Cambodia as any other country has a role in fighting climate change

The German side noted that deforestation in Cambodia, in conjunction with the degradation of remaining forests and peat lands has a high negative effect on the global climate - since greenhouse emissions can no longer be stored and converted. This makes the preservation and sustainable management of forests not only a national challenge, but also crucial for the world's population and future generations. Despite all efforts, Cambodia's forests are still under immense pressure.

The concept of incorporating avoided deforestation into the climate regime, as introduced by the Coalition for Rainforest Nations at the UN climate conference at the end of 2005 in Montreal, appears to be a new encouraging approach. In order to move this idea forward, Germany, as the holder of the G8 presidency, managed to bring about a joint commitment at the Heiligendamm summit from all the G8 countries to mandate and to support the World Bank in establishing a "Forest Carbon Partnership Facility" (FCPF). This facility's aim will be to assist developing countries in their efforts to prevent deforestation and degradation by piloting a system of policy approaches and positive incentives.

2.6 The Mekong River Commission (MRC)

The German side emphasised its support for the Mekong River Commission and underlined its appreciation of the institution's mandate with regard to transboundary issues of resource management. It was stressed that the commission should be politically enabled to act as mediator between the riparian countries, as advisor for the MRC member country governments and as a reliable knowledge centre for the region. Furthermore, the German delegation recommended that the Cambodian government play a leading role in strengthening MRC. As a downstream country of the Mekong, Cambodia is highly vulnerable - especially with regard to the unique ecosystem of the Tonle Sap and natural disasters such as floods and droughts.

MRC can play an important role in the sustainable future of natural resources in the Mekong Basin. The future of MRC, however, depends to a high degree on the ownership of the member countries towards their organization. The German government would like to see the RGC, and other member states' governments, documenting their political commitment for MRC by quickly raising their financial contribution to cover the whole core budget of the commission.

2.7 Priority areas of cooperation

The priority areas of Cambodian-German bilateral development cooperation are currently:

- Health
- Rural development

as well as the cross-cutting issue of

- Governance: Democracy, Civil Society, Public Administration

These fields of cooperation, and the key areas they encompass, are in line with the Cambodian priorities outlined in the National Strategic Development Plan. The German side confirmed its willingness to constantly review its portfolio with regard to selectivity and the international division of labour. Both sides expressed their strong commitment to increasing aid effectiveness.

2.8 Volume of commitments and reprogrammed funds

The total volume of bilateral Technical and Financial Cooperation since cooperation began amounts to €189,386,953.63. The Government of the Federal Republic of Germany undertakes to increase the total amount and to provide the Government of Cambodia with a new amount of €34,000,000.00 for bilateral Technical and Financial Cooperation for the period 2007-2008. This comprises €18.0 million as grant for Financial Cooperation programmes and €16.0 million for Technical Cooperation projects and programmes. In addition, €650,000.00 is available for Technical Cooperation from reprogrammed commitments of earlier years.

Under Technical Cooperation, the following funds, amounting to a total of €650,000.00, shall be reprogrammed from "Support to the forest administration" (BMZ-No. 1995.2194.9; 1999 year of commitment) for "Identification of poor households (I DPoor)" (BMZ-No. 2005.2178.1)

The total volume of funding available for Technical and Financial Cooperation projects and programmes is thus €34,650,000.00.

3. Cooperation in the Priority Areas

3.1 Cooperation in the Priority Area "Health"

3.1.1 Dialogue on the priority area "Health"

The German side committed its support for the development of a social health financing scheme that will result in a social health insurance system in the medium to long term in accordance with the Social Health Insurance Master Plan and the Strategic Framework for Health Financing in Cambodia 2008-2015. In this cooperation field, the German implementing agencies, in cooperation with their partners, shall develop a joint programme of two modules to support social health financing. This joint programme on social health financing shall integrate and expand the ongoing technical cooperation module - i.e. the components of social health financing, quality standards and human resource development - and a new financial cooperation module. The joint development of this programme shall raise complementarity and synergies, go beyond mere coordination and, thus, result in greater aid effectiveness.

Both sides reiterated their commitment to actively coordinating with other development partners in order to lend efficient support to the health sector. In this context, the German government supports the "International Health Partnership (IHP)" initiative, in which Cambodia is a partner and pilot country. The delegations agreed that a sector-wide approach (SWAp) should be developed and pursued in the health sector in order to raise aid effectiveness, especially in view of the large number of development partners.

In general, the German side stressed that further input from the Cambodian side is needed with regard to the payment of adequate, performance-based wages, and the education and training of personnel in the health sector. The introduction of a merit-based payment system in the Ministry of Health constitutes an innovative and welcome first step. The German side reiterated that the provision of contraceptives is to be phased out as financial cooperation will now pursue structural investments.

3.1.2 Ongoing Financial Cooperation programmes

3.1.2.1 Reproductive Health I

Project No.: 2002.6661.9, commitment: €5,112,918.82

The programme provided funding for contraceptives and the upgrading of the Regional Training Centre in Kampot. All funds have been disbursed, the programme ended in 2005.

3.1.2.2 Reproductive Health II

Project No.: 2005.6513.5, commitment: €7.0 million

The programme is aimed at improving family health and assisting family planning through the provision of contraceptives and the involvement of private service providers via social franchising structures. The construction of a second student residence completes the infrastructure measures at the Regional Training Centre (RTC) in Kampot. The programme started in 2006 and will continue until the end of 2008.

3.1.3 New Financial Cooperation commitments

3.1.3.1 Reproductive Health III

New commitment: €5.0 million (grant)

This programme continues German support for family planning measures through the provision of contraceptives. A second component in the range of €0.5 million addresses the rehabilitation of the Kampot Provincial Hospital to enable it to function as a learning facility for nurses and midwives. Disbursements from the programme will be designed to decline gradually in order to enable the Cambodian government to step in. At the same time, social marketing schemes shall further be promoted. The German side emphasised that this programme will constitute the last commitment for the provision of contraceptives and others shall step in gradually over the next 3 to 4 years.

3.1.3.2 Social Health Financing

See Joint Programme under para 3.1.6.

3.1.4 Ongoing Technical Cooperation programmes

3.1.4.1 Support to the Health Sector Reform II

Project No.: 2005.2173.2, commitment: up to €3.69 million

The second phase of the project started in March 2007. Its aim is to achieve a qualitative improvement in decentralized health services, population programmes and training and the implementation of a pilot health insurance scheme for the poor. The programme is being implemented in cooperation with the financial cooperation project "Reproductive Health II". There is also close cooperation with DED and CIM activities This programme shall be transferred into the new joint health sector programme (see also 3.1.6).

3.1.5 New Technical Cooperation Commitment

Social Health Financing see Joint Programme under 3.1.6.

3.1.6 New commitments for a Joint Health Sector Programme

Programme on Social Health Financing

- New commitment for Technical Cooperation: up to €2.5 million (total: up to €6.19 million)

- New commitment for Financial Cooperation: to €2.5 million (grant)

In accordance with the Social Health Insurance Master Plan and the Strategic Framework for Health Financing in Cambodia 2008-2015, a joint programme of two modules of Technical and Financial Cooperation to support

social health financing shall be developed. This joint programme shall integrate and expand the ongoing technical cooperation module (see 3.1.4.1) - i.e. the components of social health financing, quality standards and human resource development - and a new financial cooperation module.

These mechanisms for health financing shall ensure access to health care for the poor population. The long-term goal is to establish a social health insurance scheme. The programme will support national policies and be integrated into national structures, such as the Health Equity Fund and health insurance pilot schemes.

The programme shall further provide support to the Ministry of Health for the development of a sector-wide approach (SWAp). The German side stated that such a measure should help to raise aid effectiveness, especially in view of the large number of development partners active in the health sector.

3.2 Priority area "Rural Development"

3.2.1 Dialogue on the priority area "Rural Development"

The jointly developed strategy for the priority area "Rural Development" was adopted on 16 November 2006 and laid down in the strategy paper.

3.2.2 Ongoing Financial Cooperation programmes

3.2.2.1 Transmission Line Takeo-Kampot

Project No.: 2001.6626.4, commitment: €12,169,378.22

The project seeks to supply the Kampot region with electrical power at more favourable prices and to provide a basis for the economic and social development of the project region. The tender has been published and it is expected that the supplier's contract will be awarded in November 2007.

3.2.2.2 Rural Electrification Programme I

Project No.: 2005.6613.3, commitment: €6.0 million

This undertaking builds upon the Takeo-Kampot transmission line which the German government agreed to finance during the 2003 bilateral negotiations. The programme will focus on establishing a local network and on completing the TakeoKampot transmission line. The tender has been published. It is expected that the contractor will be selected before the end of this year.

3.2.2.3 Rural Infrastructure IV (TRIP IV)

Project No.: 2003.6628.6, commitment: €7.0 million

This programme continues to pursue the rehabilitation of rural roads and complementary infrastructure in order to ameliorate the living situation of the rural poor in the programme region. The German side drew attention to the fact that, in addition to the investment agreed at the negotiations in 2003, €0.6 million had been provided for training measures to improve planning, organisation and implementation of maintenance work on rural roads in the Ministry for Rural Development.

The Tertiary Road Improvement Project III (TRIP III) ended in August 2005. Under TRIP III, 452 km of rural roads were rehabilitated. In addition, the programme provided funds for the regular maintenance of 1,160 km of rural roads. Both sides were appreciative of the fact that the road maintenance concept is now being tested by the project executing agency (Ministry of Rural Development - MRD). In the interests of sustainability, it remains vital that the RGC continue to allocate adequate resources for routine and periodic maintenance. The German side acknowledged the timely disbursement of the funds allocated by the RGC for maintenance.

3.2.2.4 Small and Medium Enterprise (SME) Programme I

Project No.: 2001.6624.9, commitment: €2.5 million

All funds for this programme to improve private SMEs' access to medium- and long-term loans have been

disbursed. The revolving funds will last until 2013. The training measure to develop staff skills at the project executing agency was extended using residual funds by six months until mid-2006.

3.2.2.5 Small and Medium Enterprise (SME) Programme 11

Project No.: 2003.6627.8, commitment: €4,590,335.05

The programme is intended to help close the gap in long-term financing services for SMEs through the project executing agencies Canadia Bank and ACLEDA Bank. The programme is being implemented in conjunction with the Mekong Project Development Facility (MPDF). Financing agreements were signed on 18 October 2005, disbursement of funds started in March 2006. The programme is expected to last until the end of 2009, all funds for the Programme have been disbursed.

3.2.3 New Financial Cooperation commitments for Rural Development

3.2.3.1 Rural Electrification Programme II (REP II)

New commitment: €4.0 million (grant)

This programme shall provide for grid extensions to rural areas of Kampot and Takeo by supplying power from existing distribution networks. The German side explained that future support for the energy sector will be subject to a positive impact evaluation and a review of Regional Energy Entrepreneurs' (REE) behaviour regarding investment in local grid expansion. The German side will initiate such studies.

3.2.3.2 Rural Infrastructure Programme Siem Reap and Kampong Thom (TRIP V)

New commitment: €6.5 million (grant)

This programme is aimed at the rehabilitation of rural roads and complementary infrastructure in the programme region of Technical Cooperation (TC) for Rural Development. The roads to be rehabilitated will be selected in close coordination with the TC programmes RED and RDP (see 3.2.4.3 and 3.2.4.4). Because of its complementary character, this programme is contingent on the start and the implementation of "Regional Economic Development - Green Belt Siem Reap Province". The Cambodian side has assured that adequate funds for maintenance shall be provided.

3.2.4 Ongoing Technical Cooperation programmes

3.2.4.1 Support to the Land Management Reform

Project No.: 2003.2250.3, commitment: up to €2.5 million

This project is part of the Cambodian "Land Administration, Management and Distribution Programme (LAMDP)", which is jointly supported by several development partners. It covers issues such as land policy, property, land use and tenure rights, fair access to land and land dispute resolution. The German delegation stressed the great importance of land reform for poverty alleviation and economic development and political stability in Cambodia.

3.2.4.2 Land Allocation for Social and Economic Development (LASED)

Project No.: 2005.2176.5, commitment: up to €3.0 million

This support addresses land distribution within the framework of the Cambodian project "Land Allocation for Social and Economic Development" (LASED) which is a component of the programme-based approach "Land Administration, Management and Distribution Programme" (LAMDP).

3.2.4.3 Rural Development Programme (RDP) (in Kampot and Kampong Thom)

Project No.: 2003.2249.5, commitment: up to €5.0 million

Programme implementation is well on track. The current concluding phase will end in March 2008. It is expected that the programme will have achieved the majority of its goals by then.

3.2.4.4 Regional Economic Development (RED) - "Green Belt" Siem Reap Province

Project No.: 2003.2065.5, commitment: up to €4.0 million

The start of this programme was delayed due to the outstanding question of financial counterpart contributions. In its response of 7 September 2007 to the letter from the German Ambassador of 12 June 2007, the RGC committed to provide 10 percent in cash of the grant amount as a counterpart contribution. This commitment of financial contributions covers the RED programme, the relevant support from InWEnt and DED for capacity building and financial cooperation measures under the new infrastructure programme TRIP V (see 3.2.3.2). The German delegation acknowledged this commitment and stressed that these funds will be used for programme-related development measures and are thus crucial for the programme's success.

The programme consists of three interacting, integrated components: (1) Regional management, (2) Integration of rural poor in markets, (3) Decentralised development management. It aims to develop new value chains and reduce barriers for the poor population to the economic cycle.

The start of the programme has been set for 1 October 2007. Both sides stated that agreement on the technical criteria for the use of the above financial contributions as well as the organisational and administrative details of a transparent management and accounting system will be reached by the end of 2007 at the latest.

3.2.4.5 Private Sector Promotion I

Project No.: 2003.2252.9, commitment: up to €3,089,000.00

The regional focus of the ongoing phase has already been shifted towards the private sector in rural areas in order to stimulate economic activities besides agricultural production, as outlined in the priority area strategy paper adopted in April 2007. The programme is well on track, the current phase will end in December 2007, residual funds of approximately €1.4 million will be used for the second phase (see also 3.2.4.6).

3.2.4.6 Private Sector Promotion in rural Cambodia II

Project No.: 2005.2177.3, commitment: up to €2.0 million

The second phase of the programme to promote the private sector will have a duration of three years and start in January 2008. The aim of the programme is to raise enterprises' competitiveness by strengthening their technical and organizational capacity, by enhancing enterprises' networks and by supporting business promotion services. The programme's activities concentrate on rural areas and are to be closely coordinated with the programmes for rural economic development (RED and RDP). Residual funds from phase I of up to €1.4 million will be used in addition to the commitment of up to €2.0 million made at the negotiations in 2005.

3.2.5 New commitments for Technical Cooperation

3.2.5.1 Support to the Land Management Reform - replenishment -

Project No.: 2003.2250.3. New commitment: up to €1.5 million

This replenishment shall be used to extend the duration of the ongoing land management reform programme (see 3.2.4.1) in order to support the "Land Administration Sub-Sector Project (LASSP)". It is envisaged that the German-Cambodian cooperation programmes LMAP and LASED will be transferred into one single cooperation programme for land reform in 2009 when their project cycles have been synchronized.

3.2.5.2 Renewable Energy Programme

New commitment: up to €2.5 million

This commitment is primarily earmarked for the promotion of renewable energies (biogas and micro-hydropower) in Siem Reap Province as a pilot programme. An assessment mission shall explore the potential for renewable energies in rural areas. .

3.2.5.3 Support to the Implementation of the Water and Agriculture Strategy (SIWAS)

New commitment: up to €2.0 million

This commitment shall be used for a new programme of rural development to support the implementation of the RGC's policy on agriculture and, in particular, the component of agri-business. The regional focus and substantive focus of the programme will be defined in coordination with the Technical Working Group on Agriculture. It is envisaged to have other development partners cooperate within a joint programme.

3.3 Cross-cutting area "Democracy, Civil Society and Public Administration"

3.3.1 Dialogue on the cross-cutting area

In order to achieve greater coherence and contribute to better coordination and division of labour through greater selectivity, the German side has developed a strategic framework for the joint cross-cutting task of supporting democracy, civil society and public administration. The overarching target of this cooperation area is to help reduce poverty and put into place a just social structure. To achieve this end, democratic principles are to be promoted and embedded in Cambodian society, and the performance and accountability of public administration improved by ensuring respect for human rights principles such as non-discrimination, participation and transparency, as well as civil society's ability to act.

The German side outlined the two tasks to be undertaken, therefore, as follows:

- Support for the reform process in public administration and interaction with the people so as to establish an efficient environment conducive to enhancing comprehensive poverty reduction and sustainable growth.
- Support in establishing a social balance where all players - people, civil society, executive, legislature and judiciary - exercise their rights and discharge their duties in accordance with the principles of human rights.

Against this background, German support shall focus on three areas of action:

(1) Administrative Reform and Decentralisation, (2) Transparency and PublicAccountability, (3) Civil Society and the Rule of Law.

The strategic framework document provides a picture of ongoing activities and an outlook on the future orientation. The German side explained that this framework shall be used for coordination with other development partners. The Cambodian side was invited to submit comments to the strategic framework. A draft of the strategic framework for the cross-cutting area is shown in Annex 4.

3.3.2 Ongoing Technical Cooperation programmes

3.3.2.1 Support to the National Audit Authority I (NAA)

Project No.: 2001.2493.3, commitment: up to €1.022 million

The German contribution is being provided in the form of support components in the area of management- and strategy-related advisory services to the NAA, especially with respect to training and upgrading, and the supply of materials and equipment. This first phase of the project started at the end of 2005. The Cambodian side appreciated the impact of this programme with regard to capacity development and underlined the importance of the NAA to deliver independent audit reports to the National Assembly.

3.3.2.2 Promotion of Women's Rights II

Project No.: 2005.2174.0, commitment: up to €2.0 million

The programme is successfully contributing to the implementation of the Law Against Domestic Violence. However, awareness of the illegality of domestic violence is still low. The German delegation pointed out that the adoption of implementing provisions is of great urgency in order to ensure that the law is enforced at local level. As a prerequisite for successful cooperation, the German side requested that the Ministry of Women's Affairs ensure that qualified ministerial staff participate actively and continuously in the management of the programme.
The ongoing phase is currently scheduled to end in June 2009 (see also 3.3.3.3).

3.3.2.3 Identification of Poor Households I (ID Poor)

Project No.: 2005.2178.1, commitment: up to €1.0 million

The objective of the project is to devise a national system for identifying poor and extremely poor households with the aim of establishing a harmonized approach which is effective, transparent and cost-efficient and involves local structures. The project has attracted considerable attention from the RGC and other development partners, who have started to used the standardised approach.

3.3.2.4 Administrative Reform and Decentralisation Programme II (ARDP)

Project No.: 2003.2251.1, commitment: up to €2.4 million

The programme is helping the Ministry of the Interior and the Council for Administrative Reform to develop and implement decentralization and deconcentration reforms to strengthen democracy and local governance. Both sides recognised that the programme had achieved significant results in a dynamic environment. To ensure efficient coordination and cooperation with other development partners in this multisectoral field, the next phase of the programme shall start early, in January 2008 (see 3.3.3.2).

3.3.3 New commitments for Technical Cooperation

3.3.3.1 Support to the National Audit Authority II

New commitment: up to €2.0 million

The second phase shall further strengthen the institution's capability to act as an independent and confident legal authority that ensures transparency and, thus, public accountability. The German delegation asked the RGC to put in place the relevant general political conditions and to guarantee the NAA the necessary independence. The NAA can play a crucial role in monitoring the principles, criteria and indicators of the "Extractive Industries Transparency Initiative", the principle of which the RGC has indicated it plans to implement in the national budget process.

3.3.3.2 Administrative Reform and Decentralisation Programme III (ARDP)

New commitment: up to €4.5 million

Both delegations reconfirmed the importance of successful decentralisation for development in Cambodia. To this end, public discussion and consultation is necessary in generating broad acceptance, in particular with regard to the organic law. The third phase of the programme shall further support the relevant government institutions in devising and implementing national policies. The German side asked the RGC to intensify its leading role in the discussion and coordination of development partners supporting the decentralisation process. ARDP III shall start in January 2008 and be subject to a mid-term progress review. The German side expressed its appreciation for the targeted and harmonized approach of Merit Based Pay Initiatives (MBPIs) which will be implemented in different sectors and can accelerate the strengthening of core government capacities for poverty reduction. Therefore, the programme appraisal mission should assess where support to MBPIs can be integrated and identify approaches and measures accordingly. The administrative reform and decentralisation programme could look into the special operating agencies (SOA) approach for synergies and potential for future support.

3.3.3.3 Promotion of Women's Rights II - replenishment-

Project No.: 2005.2174.0, New commitment: up to €1.0 million

This replenishment of the ongoing second phase shall be used to continue the support for the implementation of the law against domestic violence. Both sides recognised that the necessary behavioural and social change requires long-term awareness-raising. Therefore, the ongoing phase shall be extended beyond June 2009 until December 2010. However, this commitment is subject to a positive assessment by a progress review to be conducted in the second half of 2008.

3.3.3.4 Identification of Poor Households II (IDPoor)

Reprogrammed: up to €650.000,00

Based on the significant results of the first phase and the adoption of the standardised approach by other development partners, the project shall be continued. In the second phase, the system for identifying poor

households will be implemented on a large scale in the three target provinces of Siem Reap, Kratie and Prey Veng. An extension to Kampot and Kampong Thom shall take place once agreement has been reached between the Ministry of Planning and the Ministry of Interior on the identification mechanism.

3.4 Study and Expert Funds

3.4.1 Study and Expert Fund for Financial Cooperation II

Project No.: 2001.7040.7, commitment: €1,022,583.76.

The funds are to be used for the preparation of future financial cooperation projects and for other short-term expert services. There is no need for replenishment.

3.4.2 Study and Expert Fund for Technical Cooperation

Project No.: 1995.3611.1, commitment: €2,977,725.36.

The funds are to be used for the preparation of future technical cooperation projects and for other short-term expert services. There is no need for replenishment.

With reference to the cross-cutting assignment of good governance and its key area "public accountability", both sides agreed on the proposal by the German side to finance a training for radio and TV journalists, to be implemented with Deutsche Welle Academy in close cooperation with Konrad Adenauer Foundation.

3.5 Other proposals

3.5.1 Demining

The Cambodian side reiterated its appreciation of German demining activities and asked for further support. The representative of the Federal Foreign Office stated that the Government is, in principle, willing to continue its engagement. Currently, the discussion is ongoing regarding the implementation framework.

3.5.2 National Elections 2008

The Cambodian side explained that H.E. Prime Minister Hun Sen has explained the government's commitment to increase its contribution to the cost of the national elections in July 2008 from the national budget. In addition, support from development partners is sought. In this context, the German side asked the Cambodian government to prolong the period for registration of voters.

3.5.3 National Employment Agency

The German side thanked for the proposal for financial cooperation on the establishment on a "National Employment Agency" which was submitted after the consultations. It was acknowledged that such an institution will help to establish a functioning labour market in the medium term. However, the German side pointed out that qualifications of employment seekers remained the main bottleneck.
In this context, the German side proposed to conduct a study on the youth's employment opportunities and prerequisites since they constitute a target group in the priority area of rural development.

3.5.4 National Food Inspection Agency

The delegations discussed the proposal on supporting the establishment of a National Food Inspection Agency. The German side proposed to address this proposal with FAO and/or WHO.

3.6 Preparation of Financial Cooperation projects and programmes

Both sides agree that in order to prepare and support the Financial Cooperation projects and programmes agreed during the present government negotiations, they shall conduct studies, produce expert opinions and deploy experts as the need arises. Such activities shall be coordinated between KfW and the relevant line authority. The funds for such efforts shall be made available by the Government of the Federal Republic of Germany in addition to the bilateral Financial Cooperation commitments mentioned in para 2.7. Both sides shall report on the implementation and outcome of such activities at the next government consultations and/or negotiations.

3.7 Overview of commitments including reprogrammed funds

A table showing the new commitments can be found in Annex 3.

4. Other instruments and contributions available as part of German development cooperation

4.1 Germany's multilateral contributions

The German side drew attention to the contributions made by the Federal Republic of Germany to multilateral and regional institutions such as development banks and funds, the IMF, the World Bank, the United Nations and, in particular, the EU, to whose core budget Germany contributes approximately 21%.

In addition, the German government has provided funds to international organisations for country-specific projects to be implemented in Cambodia.

- Approximately €2.8 million were made available to date to the United Nations to help cover the costs of the Khmer Rouge Tribunal.
- In 2005, the German government contributed €2.6 million to the Food and Agriculture Organisation of the United Nations (FAO) for a three-year project to combat Avian Influenza.
- In 2006, a commitment of €1.3 million was made for the UNFPA project "2008 Population Census of Cambodia". In this context, the German side stressed the importance of reliable official data as a basis for designing national policies and development programmes.
- In 2007, the German government committed €1.35 million for the UNFPA project "Support for the Cambodian MDG 5: Improve maternal health". This project shall be implemented from 2008 to 2009 in close coordination with the bilateral cooperation programmes in the health sector (see 3.1).
- In addition, €1.0 million were made available to the World Food Programme (WFP) in 2007 for food assistance to Cambodian children. In this context, the German side asked the RGC to further strengthen its efforts to achieve food security and support the poorest of the population.

4.2 Regional projects and programmes

Regional integration constitutes an essential part of German development policy in its cooperation with partner countries in Asia. The German government supports various cross-border and regional projects, primarily with a focus on economic integration and natural resource management. The German side drew attention to the projects with the ASEAN community and the Mekong River Commission (MRC) which are of particular relevance for Cambodia.

4.2.1 "ASEAN Regional Forest Programme for Southeast Asia"

This programme aims to improve the international cooperation between the secretariat and the relevant institutions in the ASEAN member states in the forest sector.

4.2.2 "ASEAN-German Mini-Hydropower Programme"

The goal of this programme is to make use of hydropower as a locally available source of renewable energy for the purpose of environmentally-friendly economic and social development in Southeast Asia.

4.2.3 Programmes with the Mekong River Commission

The programmes 'Watershed Management" and "Flood Prevention and Disaster Management" at MRC address the cross-boundary water-related issues which are of special relevance for Cambodia as a downstream country on the Mekong.

4.2.4 Regional Training Centre on Microfinance

The German government has provided €0.61 million from a special budget to support the establishment of a regional training centre on microfinance at ACLEDA bank in Cambodia, thereby approving a proposal presented at the government consultations in April 2007. The goal of this three-year project is to strengthen institutional

and human capacities in microfinance institutions in Cambodia and other ASEAN member countries.

4.3 Other players and instruments

4.3.1 KfW promotional loans

As a way of complementing the existing set of financing instruments used in Financial Cooperation, KfW may provide Financial Cooperation promotional loans on its own account to both public and private institutions or enterprises for projects and programmes of particular development significance. These loans are intended primarily for projects/programmes concerned with the economic and social infrastructure and the promotion of the financial sector. In making these loans, KfW is acting on a special mandate from the Government of the Federal Republic of Germany. Given the nature of the projects/programmes to be financed, the Royal Government of Cambodia acknowledges the need to make available at the appropriate time sufficient amounts of freely convertible currency to fully service the debt towards KfW (transfer of foreign exchange) and will make all efforts to comply with this obligation promptly at all times. In this matter, the KfW assures the Royal Government of Cambodia that it is willing to consider the possibility of supporting investment projects of high economic viability.

4.3.2 German Development Service (DED)

DED supports local partners in the areas of (i) rural development, mainly in agriculture, promotion of the private sector in rural regions and natural resource management; (ii) health, focusing on training of nurses and midwifes in provincial hospitals as well as improving care services; (iii) governance, concentrating on land issues, urban and regional planning.

Under a special programme, the "Civil Peace Service", DED supports national reconciliation in the environment of the Khmer Rouge Tribunal through outreach activities.

DED currently deploys 40 German and other European experts to Cambodia. Activities by long-term experts are complemented by local experts and direct operational support to local partners. In monetary terms, DED's interventions total about €3 million per year.

4.3.3 InWEnt and DAAD (scholarships)

In 2006, a total of 134 professionals and executives were trained by InWEnt (Capacity Building International, Germany), mainly in the fields of technological innovations, integration into the WTO, trade finance, health management and financing as well as management of natural resources and agricultural potential.

They were trained in Germany, in Cambodia, and in other Southeast Asian countries.

In 2005, the German Academic Exchange Service (DAAD) funded a total of 35 scientists, academics and postgraduate students (21 Cambodian, 14 German) and, in 2006, a total of 24 scientists, academics and postgraduate students (15 Cambodian, 9 German) as well as one university partnership and one long-term lecturer at the Royal University of Phnom Penh (Department of Media and Communication).

4.3.4 International Centre for Migration and Development (CIM)

CIM experts are integrated into local structures on the ground. These highly qualified experts from Germany and other European Union countries temporarily fill positions until suitable national employees are qualified and can replace them. At present, 15 integrated experts are working in Cambodia, mainly in the areas of governance, health and rural development. The assistance provided by integrated experts should continue, preferably in the priority areas agreed upon between the two governments. In 2006, more than €1 million was disbursed in support of this programme.

4.3.5 Senior Expert Service (SES)

The Senior Expert Service seconds highly qualified retired experts on short-term missions in order to train local personnel in technical and management matters, generally combined with the solving of acute problems. Between 2005 and 2006, SES deployed 37 experts in Cambodia. SES is prepared to intensify its work in Cambodia. Applications can be sent to the German Embassy or directly to Senior Experten Service, Buschstr. 2, 53113 Bonn, Germany.

4.3.6. Development Volunteers Service "World-wards"

The German side informed the Cambodian side about the establishment of the new development volunteers service "World-wards" starting in 2008. It involves the assignment of young people to NGO projects in developing countries.

4.3.7 Public-Private Partnerships (PPP)

The German side outlined the potential of the Public-Private Partnership (PPP) Programme and welcomed the Cambodian government's support for the concept of public-private partnership. Projects (by DEG and GTZ) with an overall volume of €24,862,000 have been implemented, financed jointly by the private sector (€12,579,000) and official development cooperation funds (€12,283,000).

4.3.8 Non-governmental cooperation (political foundations, churches, NGOs)

Substantial assistance is also being provided in various fields by NGOs, the churches and the political foundations, supported by the BMZ, with these organizations being fully responsible and accountable for their activities.

The Konrad Adenauer Foundation and Heinrich Boll Foundation have offices in Phnom Penh from which they coordinate their country programmes. Furthermore, the Friedrich Ebert Foundation and Friedrich Naumann Foundation provide support through their regional programmes. The foundations' primary task is to provide support for the consolidation of democracy and of equitable growth through dialogue and training.

In 2006, the BMZ provided support for the activities of German non-governmental organisations in Cambodia totalling €2.8 million.

5. Declarations and final clauses

5.1 Provisions for programme implementation

Both delegations agree that all the contributions envisaged by the German side and recorded in the present document (under para 3) can only be made when

- the Government of the Federal Republic of Germany has taken a positive decision once project/ programme appraisals have been carried out by KfW, GTZ and/or any other organisation commissioned with implementing the project or programme,
- overall financing for the project/programme has been secured,
- the agreements under international law to be concluded (intergovernmental agreements and project/ programme agreements), the financing agreements and the implementation agreements with KfW/GTZ and, if applicable, any other implementing organisations have entered into force.

5.2 Sunset and programme replacement clause

The German side drew particular attention to the fact that the commitments made under Financial Cooperation and Technical Cooperation (cf. para 3) will lapse if within eight years of the year in which the commitment was made no implementation agreement, i.e. in the case of Financial Cooperation a financing agreement and in the case of Technical Cooperation, generally, an exchange of notes, has been concluded. Thus, commitments made during the 2007 negotiations are subject to a 31 December 2015 deadline.

Should one or more of the projects/programmes mentioned not be implemented or only be partially implemented, it/they may be replaced in mutual agreement between the two governments by another project/ programme or projects/programmes.

5.3 Anti-corruption statement

Both delegations agreed that their cooperation projects and programmes would be selected and designed according to development criteria.

The Government of the Federal Republic of Germany and the Royal Government of Cambodia agree upon the following assessment of the negative effects of corruption:

- It undermines good governance.

- It wastes scarce resources and has a far-reaching negative impact on economic and social development.

- It undermines the credibility of, and public support for, development cooperation and compromises the efforts of all those who work to support sustainable development.

- It compromises open and transparent competition on the basis of price and quality.

Both governments are committed to cooperating closely in order to ensure transparency, accountability and probity in the use of public resources by all parties and eliminate any opportunities which may exist for corrupt practices in their development cooperation.

6. Next government negotiations

The next negotiations on development cooperation between the Government of the Kingdom of Cambodia and the Government of the Federal Republic of Germany are scheduled to take place in Phnom Penh in 2009.

Done at Bonn on 17 October 2007

For the Delegation of the
Kingdom of Cambodia

Chhieng Yanara
Secretary General,
Cambodian Rehabilitation and Development Board, Council for the Development of Cambodia (CRDB/CDC)

For the Delegation of the
Federal Republic of Germany

Christian Neumann
Head of South-East Asia Division
Federal Ministry for Economic Cooperation and Development

Annex I

Cambodian Government Delegation

-

Mr Chhieng Yanara
Secretary General
Cambodian Rehabilitation and Development Board,
Council for the Development of Cambodia (CRDB/CDC)
- Head of Delegation -

Dr Chem Widhya
Cambodian Ambassador to Germany

Dr Pen Dareth
In charge of German-Cambodian Cooperation Program
Office of the Council of Ministers

Mr Kim Sour
Under Secretary of State
Ministry of Rural Development

Dr Rith Vuthy
Director of Europe Department
CRDB

Dr Chroeng Sakhan
Deputy Director
Ministry of Health

Dr Sareth Boramy
Deputy Director
Ministry of Land Management, Urban Planning and Construction

Annex II

German Government Delegation

Mr Christian Neumann
Head of the Division for Regional Development Policy; South-East Asia
Federal Ministry for Economic Cooperation and Development
- Head of Delegation -

Mr Hanspeter Schwar
Country Officer for Cambodia, Lao PDR and MRC
Division for Regional Development Policy; South-East Asia
Federal Ministry for Economic Cooperation and Development

Mr Daniel Haas
Development Counsellor for Cambodia, Lao PDR and MRC
German Embassy, Phnom Penh

Mr Wolfgang Thoran
Country Manager
Federal Foreign Office

Dr Sabine Muller
Regional Director, Mekong River Region
Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH, Eschborn

Ms Ulrike Strack-Steinbach
Country Manager Lao PDR, Cambodia
Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH, Eschborn

Mr Heinrich-Jurgen Schilling
Head of GTZ office in Cambodia
Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH, Phnom Penh

Dr Joachim Trede
Country Officer Lao PDR, Cambodia, China
KfW Entwicklungsbank, Frankfurt

Dr Wolfram Jackel
Head of Asia Desk
Deutscher Entwicklungsdienst (DED), Bonn

Ms Nina Ouan
Regional Coordinator
Internationale Weiterbildung and Entwicklung (InWEnt)

Ms Judith Kosser
Division for Regional Development Policy; South-East Asia
Federal Ministry for Economic Cooperation and Development

Annex III

Commitments 2007/2008

		FC		TC	
		Commitment 2007/2008	Reprogr. Funds	Commitment 2007/2008	Reprogr. Funds
Health					
	Reproductive Health III	5.0			
	Join Programme on Social Health Financing, incl.				
	▪ Technical Cooperation			2.5	
	▪ Financial Cooperation	2.5			
Rural Development					
	Rural Electrification Programme II (REP II)	4.0			
	Rural Infrastructure Programme Siem Reap and Kampong Thom (TRIP V)	6.5			
	Support to the Land Management Reform			1.5	
	Renewable Energy Programme			2.5	
	Support to the Implementation of Water & Agriculture Strategy (SIWAS)			2.0	
Governance					
	Support to the National Audit Authority II			2.0	
	Administrative Reform and Decentralisation Program III (ARDP)			4.5	
	Promotion of Women's Right II			1.0	
	Identification of Poor Households II (IDPoor)				650.000,00
Subtotal				16.0	650.000,00
Total		18.0		16.65	
Grand Total (FC+TC)		**34.650.000,00**			

Annex IV

Federal Ministry
for Economic Cooperation
and Development

- DRAFT-

July 2007

Cambodian-German Development Cooperation

Strategic Framework

For cross-sectional assignment

"Democracy, Civil Society and Public Administration"

- Good Governance -

1. General setting and aims

2. Development bottleneck 'Governance'

3. Aims, tasks and fields of action

3.1 Aims and tasks in the cross-sectional assignment
3.2 Cooperation fields of action

4. Instruments and procedures

4.1 Instruments of German development cooperation

4.2 The twin-track concept

4.3 Partnership and aid effectivenes

"Good Governance is perhaps the single most important factor

in eradicating poverty and promoting development"

Kofi Annan, former UN Secretary General

1. General setting and aims

Good governance in the sense of an enhancing political environment, the rule of law and a responsible management of political power and public resources by the state is a key prerequisite for sustainable development and poverty reduction. In Cambodia, whose structures have been almost totally destroyed through civil war and the terror regime of the Khmer Rouge, democratisation, the respect of human rights, enhancing civil society and the establishment of a public administration pose a particular challenge. A further task of decisive importance is to re-establish social standards and create a new balance between society and state bodies so that the people can exercise their democratic rights as sovereigns.

Enhancing democracy, civil society and public administration is a cross-sectional task in Cambodian-German development cooperation, agreed upon between the two governments. The present paper is meant to identify the strategic starting points for German support on the basis of existing deficits and in the context of the work of other development partners. It is to improve coordination with other development partners and serve as value-based orientation for new cooperation activities.

Cambodia's reform agenda has bet put on a broad basis and is poverty-directed. The government explicitly acknowledges the need for comprehensive reforms even though their implementation is rather sluggish in many areas. Both the government's basic strategy document, the "Rectangular Strategy", and the new National Strategic Development Plan (NSDP 2006-2010) building on this document, explicitly place the development of the law (reform of the law, judicature and administration) in the centre of reform efforts. The cross-sectional assignment is to ensure "Good Governance" with the help of a more intensive corruption control, quality increase in legislation, the judicature and public administration, and a comprehensive decentralisation.

Cambodia is highly dependent upon international development aid (ODA). In June 2007 the government obtained further significant donor commitments to the tune of approx. US $ 690 million within the scope of the Consultative Group (CG) meeting; this amount accounts for more than half of the Cambodian budget. At the same time, open criticism regarding the lack of reform speed was expressed in view of the fact that the greater part of the progress indicators (benchmarks) agreed upon at the CG meetings 2004, 2005 and 2006 - to be used to measure the speed and quality of the reform process - had not been achieved. The high ODA dependence may be reduced in the medium term if the revenue expected from the extraction of resources (esp. oil) will in fact be secured (annual revenue of about US $ 1 billion expected from 2008 onwards). Additional political and administrative reforms are needed to ensure an efficient and socially balanced utilisation of envisaged additional revenue.

Cambodia is a pilot country of the DAC Harmonisation Initiative. The government actively promotes donor harmonisation: since 2005 there has been a distinct improvement in coordination in terms of substance and intensity.

2. Development bottleneck 'Governance'

As post-conflict country where, during the Indochina and civil war and the Khmer Rouge regime, state institutions had been almost completely destroyed and a large part of the population, especially those well educated, had been killed, Cambodia faced the task of a total reconstruction of state institutions after the end of the UNTAC[1] mission and the first free elections in 1993. Against this background the progress achieved to date is remarkable. Nonetheless, the process of state formation has not yet been concluded. Public institutions still suffer from inadequate institutional and staff capacities, a lack of division of powers and rule of law as well as endemic and systemic corruption at all levels.

2.2.1 Parliamentary system

With its parliamentary bicameralism - the Senate and the National Assembly - Cambodia links up to the constitutional tradition and at the same time accommodates the traditional understanding of democracy. However, both chambers do not yet sufficiently exercise either their control function vis-a-vis the government or their critical role and debate in terms of legislation. This is caused by performance deficits of parliamentarism - the country's public is rather sceptical in this context - and also ability deficiencies in individual institutions. One bottleneck is the malfunction of cooperation processes between Parliament and the ministerial bureaucracy. The Parliamentary institutions and also other control bodies such as the Constitutional Council and Audit Office must be given greater independence from government to enable them to play their roles as laid down in the constitution. The democratic principle of division of powers has been realised only very moderately. The legislative process is often based on parameters established by the executive authorities and is characterised by a discrepancy between the willingness to reform and reform reality. The goals agreed upon between the government and the donor community have not been reached during the last years. The adoption of a penal code and the correlating procedural rules and laws governing the administrative structure (organic laws on decentralisation and deconcentration) are only some of the most prominent legislative tasks.

2.2.2 Government and administrative structure

The government and administration apparatus of Cambodia's constitutional monarchy presents a broadly diversified and fragmented institutional landscape with nominally rather strong staffing. Central deficits are weak technical competence, an overboarding executive, underpayment and, as a result, an inbuilt corruption also at the lower administrative levels (cf. para 2.2.6). Women are underrepresented on all levels of government and administration. In most areas Cambodia is centrally organised, politically as well as administratively. Decentralisation is part of the political agenda; given a spreading of responsibilities over a number of institutions, this process is progressing in small steps only.

2.2.3 Legal and judiciary system

The annihilation and displacement of the educated elite during the Khmer Rouge system is particularly noticeable in the judiciary. This situation requires a complete reconstruction of legal training. The current qualification level of judges, public prosecutors and investigating bodies is inadequate even at higher echelons. Nor is independence of the judicative branch from the government guaranteed. Like in other state institutions, corruption is a determining factor leading to a far-reaching impunity of the rich and influential population strata. Lack of legal certainty, attributable to inadequate law enforcement or lack of bylaws, poses a severe development obstacle. Although gender equality is anchored in the constitution, it does not play a corresponding role in the real life of men and women.

2.2.4 Human rights

Cambodia has ratified the key human rights agreements, the constitution comprises the major international acknowledgments regarding the respect of human rights. Nonetheless, legal certainty is called into question. In particular, freedom of opinion and a critical public debate between civil society and the governments are curbed by the existing legal situation on libel/slander and court practises in this context. Hence, self-censorship is widespread among the media. Compared with other countries in South-East Asia, however, freedom of the press must be considered positively. The management of natural resources, especially illegal land seizure and the accompanying forced resettlements as well as logging, poses a major problem in Cambodia, impinging upon the human rights especially of the poor rural population and indigenous population groups and having a severely adverse effect on their living conditions and perspectives. In the Cambodian society women do not enjoy equal rights, domestic violence against them and also children is wide-spread and socially accepted. Economic and social rights can hardly been considered as guaranteed since wide-spread poverty is a barrier to gaining access to social spheres like health care or education.

2.2.5 Public finance

Public finance management in Cambodia suffers from a range of inadequacies. On the revenue side the country registers one of the lowest rates of taxation in the region. Development efforts suffer from an allocation of official funding through the national government, which is only insufficiently geared to priorities and targets and is not transparent. Disbursement of funds is rather slow. These factors have led to public services (e.g. in the field of education and health) being only inadequately financed from own funds. However, the government has started a comprehensive reform programme (Public Financial Management Reform Program, PFMRP) with the support of several donors, which is to help create a clear link between the targets of the NSDP and the national budget, and improve the management of funds. Utilisation of the revenue expected from the extraction of raw materials (esp. oil) will present a special challenge for Cambodia's political and finance system.

2.2.6 Corruption

Corruption in Cambodia is inbuilt. It is found in all areas and at all levels of public life. It has been an issue for years in the dialogue between the development partners and the government which proclaims a rigorous fight against corruption. Corruption results in the state losing substantial revenue. The society is governed by a historically grown acceptance of corruption. Corruption is increased further, especially, by the low incomes of civil servants, which are totally insufficient for them to make ends meet. All this contributes to a system of patrimonialism where individual progress is not the result of performance, but is linked rather to personal connections and material favours. With regard to the development of democracy this means that there is no legal or procedural certainty, given the endemic/systemic corruption in justice and administration. This affects the poor rural population who do not dispose of the necessary networks and funds to ensure their public services. Corruption control in Cambodia cannot be achieved solely through better control mechanisms and rigid inspection systems; rather, political reforms are needed to dissolve the asymmetrical division of power, enhance transparency and establish a system of responsibilities and accountability. The creation of a legal basis for corruption control - a step that has been urged by the country's development partners for quite some time - has been pending for more than 10 years now.

3. Aims, tasks and fields of action

3.1 Aims and tasks in the cross-sectional fields of action

The interpretation of 'Good Governance' in Germany's development cooperation is based on the European system of values: liberty, democracy and human rights. Furthermore, good governance is not only a task for German development cooperation but the basis of the five promotion criteria[2]. Moreover, good governance is a priority of the BMZ's Asia strategy, together with other issues like democratisation and human rights, good governance and conflict mitigation.[3]

Requests from the partners form the basis of cooperation priorities and key areas, taking into account also the general setting in the partner country and the specific experience and priorities of the German government. The guidelines of Germany's development cooperation are founded on international agreements and concepts drawn up by the BMZ.[4]

The overarching target is to contribute to reducing poverty and putting into place a just social structure. To achieve this end, democratic principles are to be embedded in the Cambodian society, and the performance and responsibility of public administration improved by respecting human rights principles like non-discrimination, participation and transparency, as well as civil society's ability to act.

The **two tasks** for German development cooperation are therefore defined as follows:

1. Support of the reform process in public administration and interaction with the people so as to establish an efficient environment conducive to enhancing comprehensive poverty reduction and sustainable growth.

2. Support in establishing a social balance where all players - people, civil society, executive,legislative and judicative branch - exercise their rights and discharge their duties inaccordance with the principles of human rights.

3.2 Cooperation fields of action

In its "Rectangular Strategy" of July 2004 the Cambodian government defines "Good Governance" as centrepiece of, and precondition for, achieving the development goals. Focus is being placed on (1) corruption control, reform of the (2) legislation and justice, the (3) public administration and decentralisation and on the (4) reform of the military and demobilisation. The "Cambodian Millennium Development Goals" adapted at the local level where gender equality and the promotion of women are defined as third out of nine goals, constitute the umbrella for the development strategy.[5]

Germany pursues the principle of division of labour among the development partners engaged in Cambodia, based on the Paris Declaration.

Against this background German support focuses on **three areas of action:**

1. **Administration Reform and Decentralisation**
   Decentralisation and communal development are meant to establish greater proximity between the people and the state, raise the legitimacy and responsibility of state action, and provide local public services in a more efficient manner. At the level of the central government, German development

cooperation supports the pertinent institutions in the legal and organisational formation of the decentralisation process. At the decentralised level, the administration units either reformed or newly established at the level of provinces, districts and municipalities receive advisory services to help them in discharging their new tasks. Communal development measures are to support the administrations in reforming organisations and administrative procedures, and in the further training of staff. This capacity development is expected to contribute to improving the performance of the administration and its proximity to the citizens as executive instrument of the state.

2. **Transparency and Public Accountability**
   Because of inadequate legal certainty, deficits in the division of powers and the functioning of the control institutions, and also because of the endemic corruption, government activities cannot be predicted reliably. Quite often responsibilities are not clearly defined and cannot therefore be kept track of sufficiently by the institutions responsible or by the citizens. German development cooperation measures in this field of action are designed to contribute to strengthening the role and the mandate of selected democratic supervisory institutions so that these are autonomous in discharging their function in a system of checks and balances. These include the Parliament, the Audit Office, the Ministry of Planning responsible for the NSDP and, in future, the anti-corruption authority. Here is the interface with field of action No. 1 whose aim is to improve the efficiency of vertically and horizontally accountable institutions (institution building).

3. **Civil society and the Rule of Law**
   This field of action addresses first and foremost the demand side of government action, the Cambodian citizens and their representatives. It is composed of three pillars, (A) strengthening legal certainty, especially for the households of the rural poor people who are at a particular disadvantage, (B) strengthening the ability of civil society to make their political concerns heard, and (C) promoting the rights of women, children and youth.

   Strengthening legal certainty (pillar A) is to focus on issues of land use and access rights. Civil society organisations (pillar B) are to be enabled to call in corruption control, legal certainty and the respect and guarantee of human rights, within the meaning of the government's accountability. Besides government bodies, German development cooperation supports selected non-governmental organisations and independent media. By promoting the rights of women, children and youth their equality of status, personal freedom and self-determination (pillar C) are to be embedded in the - up to now - strongly patriarchal Cambodian society. This approach is a precondition for poverty reduction, a socially accepted sustainable development and democratic structures.

"Administrative reform" and "decentralisation" as well as the issue of land rights attributable to the field of action "civil society and the rule of law" are also key areas of bilateral cooperation in rural development.[6]

4. Instruments and procedures

4.1 Instruments of German development cooperation

Regarding the cross-sectional task "democracy, civil society and public administration" in Cambodia, German development cooperation is confined to technical cooperation. The establishment of democratic structures and an efficient state system can be achieved only through complex and structure-changing processes. This requires long-term support by partner organisations and the training of counterparts.

The Deutsche Gesellschaft for Technische Zusammenarbeit (GTZ), the Deutscher Entwicklungsdienst (DED - German Development Service) and the Centrum for internationale Migration and Entwicklung (CIM - Centre for International Migration and Development) are active on behalf of the German government. GTZ is engaged with long-term advisory projects mostly at the level of the national government and the provinces. DED cooperates mainly with community administrations and local non-governmental organisations at the local level. One special priority area is the reconciliation work connected with the Khmer Rouge Tribunal. Furthermore, CIM places experts as employees in public and private institutions of the partner country.

Non-governmental institutions like political foundations are active in the field of enhancing democracy, improving the human rights situation and the political participation of the people. As a rule, partners of the foundations mostly come from the non-governmental sector, although there is no clear-cut delineation; rather, partner structures at the governmental and non-governmental level interlock in their activities. Political foundations are not bound to directives, but act on their own mandate. Nevertheless, there is a close coordination, politically and content-wise, between the German Ministry for Economic Cooperation and Development (BMZ) and the afore-mentioned state players.

Finally, private executing bodies (non-governmental organisations) are also active in the democratization process. Thus, the Deutsche Welthungerhilfe (DWHH - German Agro Action) supports the participation of Cambodia's civil society in political processes.

Support of the cross-sectional task "Democracy, civil society, public administration" in Cambodia is based on various governmental and non-governmental institutions cooperating closely in the three fields of action by dovetailing their activities.

4.2 The twin-track concept

The tasks to be discharged in the cross-sectional area - support of the reform process in public administration and establishment of a democratic social balance - are pursued in the form of a combined approach:

I. They are the object of autonomous programmes, i.e. the development programmes and the selection of the partner structures are aimed explicitly at one of the fields of action (examples: programme to enhance women's rights at the Ministry for Women, employment of experts in Parliament).

II. They form an integral part of all projects supported in the priority sectors 'rural development' and 'health' in Cambodian-German cooperation. Hence, all projects promoted must contribute to strengthening the legal and institutional framework, democratic development and corruption control.

4.3 Partnership and aid effectiveness

Cambodia has institutionalised the coordination process among the development partners in implementation of the Paris Declaration. The NSDP 2006-2010, together with the "Rectangular Strategy", is a binding and accepted frame of action for all donors. German development cooperation works complementary to that of other multi- and bilateral donors. In the case of financial investments in an institution or policy field being needed, selective programme partnerships are to be formed and intensified with other development partners under technical cooperation. Moreover, German technical cooperation can accompany the investments made by other donors in the form of counselling, thereby ensuring their effectiveness.

---

[1] United Nations Transitional Authority in Cambodia

[2] Poverty-oriented and sustainable policy formation; 2. Respect, protection and guarantee of all human rights; 3. democracy and the rule of law; 4. Efficiency and transparency of the state; 5. Cooperative behaviour in the community of states

[3] Priorities of the Asia Paper 2007: 1. socially balanced economic development, 2. ecologically acceptable development, 3. democratisation and human rights, good governance, mitigation of conflicts

[4] i.a. "DAC Orientations on Participatory Development and Good Governance", OECD (1995), "Good Governance in
German development cooperation", BMZ (2002); "Administrative reform in German development cooperation", BMZ (2002); "Corruption control in German development cooperation", BMZ, (2002); "Decentralisation and strengthening of local self-administration", BMZ (2002), "Concept for equal promotion of women and men", BMZ (2001)

[5] The nine CMDG are: (1) Eradicate extreme poverty and hunger, (2) Achieve universal nine-year basic education, (3) Promote gender equality and empower women, (4) Reduce child mortality, (5) Improve maternal health, (6) Combat HIV/AIDS, Malaria and other diseases, (7) Ensure environmental sustainability, (8) Forge a global partnership for development, (9) Demining, UXO and victim assistance.

[6] Key areas of the rural development strategy agreed upon between the Cambodian and German governments are: 1., and 5. decentralisation development and diversification of agricultural production systems, 2. private sector economy in rural areas, 3. land reform, 4. rural infrastructure

Annex

Overview on issues of ongoing German development cooperation in the three fields of action, as of May 2007

1. Administrative reform and decentralisation

GTZ: Decentralisation at central government level
DED: Regional planning, communal administration
KAS: Communal administration, district and provincial reform (Battambang, Siem Reap)

2. Transparency and public accounting

GTZ: National Audit Office
CIM: National Assembly, Senate, Audit Office, Ministry of Planning
DED, DAAD, Voice of Germany Academy, KAS: promotion of media
KAS: National Assembly, Senate, promotion of parties

3. Civil society and the rule of law

GTZ, CIM: Women's rights/domestic violence, land conflicts
DED, DWHH, KAS: Civil society organisations
HBS: Land conflicts, women's rights
KAS: Arbitration procedure, protection of witnesses/defendants

The Fields of action of the cross-sectional assigment

Democratisaton, Civil Society, Public Administration		
Administration Reform and Decentralisation	**Civil Society and the Rule of Law**	**Transparency and Public Accountability**
Accompany and enhance the process of decentralisation (government level) **Administrative efficiency at the communal level (capacity development)**	**Strengthening of legal certainty (Land use and access rights)** **Strengthening of political articulation ability (legal certainty, human rights)** **Promotion of the rights of women and children (equality of status)**	**Strengthening of democratic institutions and government control bodies (institution building)** **Enhancing the division of powers (checks and balances)**