Summary Record of Discussions of the

2001 Government Negotiations on Development Co-operation

between the Kingdom of Cambodia and the Federal Republic of Germany

Phnom Penh, 7 November 2001

Government negotiations on development co-operation were held between the Kingdom of Cambodia and the Federal Republic of Germany from 6 to 7 November 2001 in Phnom Penh. The Cambodian delegation was headed by Mr. Keat Chhon, Senior Minister, Minister of Economy and Finance. The German delegation was headed by Dr. Ohlraun, Ambassador of Germany and led by Mr. Zimmer, Director for South-East Asia in the Federal Ministry for Economic Co-operation and Development. Lists of the members of the two delegations are attached (see annexes I and II).

The negotiations were conducted in a cordial atmosphere and in the spirit of friendship existing between the two countries.

The two delegations exchanged views on ongoing and future development co-operation and on other matters of mutual interest.

1. Opening Remarks

1.1 Opening Statement by the Cambodian Delegation (Summary)

H.E Keat Chhon expressed his welcome to Dr. Ohlraun, Ambassador of the Federal Republic of Germany and Mr. Zimmer, director South-East Asia Division of Federal Ministry for Economic Cooperation and Development (BMZ) as well as other members of the German Delegation. His welcome was also extended to 8 cabinet members and their colleagues who attended the Negotiation. He further emphasized that the RGC has committed itself to be on the path of reforms as a "Life- or-death issue" for Cambodia. In that sense, he reiterated that Cambodia should work hard and assiduously to avoid a "stop and go" situation. The Cambodian side informed the German side that the general socio-economic situation is good. But due to the recent flood, world economic recession and the 11 September tragic events in the United States of America, the RGC would review the economic progress and it is expected that the GDP will be reduced by 1 % from 6% to 5% in 2001. Finally, he wished the negotiation to be successful through a frank and friendly spirit to further deepening the relationship between the two countries.

1.2 Opening Statement by the German Delegation (Summary)

Dr. Ohlraun, Ambassador of the Federal Republic of Germany praised the spirit of genuine partnership that characterizes the close and friendly relations between Cambodia and Germany. Mr. Zimmer commended the excellent bilateral relations in the field of development cooperation. The progress of the Cambodian reform

agenda in particular in the social sectors through the Priority Action Program (PAP) that led for example to the tripling of health expenditures over the past three years thus reaching the level of defense. Expenditures are highlighted. The progress in the field of poverty reduction is seen as a precondition for Germany's own action program to contribute to the halting of extreme poverty by the year 2015. The Cambodian side is encouraged to keep up pace and momentum of the reform process, especially in the areas of legal and judicial reform, the anti-corruption program and civil service reform. The German side thanked for the excellent preparation of the government negotiations and the timely submission of the project proposals which will contribute to the excellent absorption of German development cooperation. Ownership and donor coordination by the Cambodian side are seen as a prerequisite for strengthening effectiveness and sustainability. The German bilateral cooperation portfolio undergoes at present a redesign towards a more sector wide and program approach.

After presenting the members of both sides the meeting adopted the agenda (see annex III)

2. Focal Areas of Development Co-operation

The two sides confirmed that future development co-operation should focus on the following four areas:

- Democracy, civil society and public administration (including rule of law, governance, women's rights, reform of the judicial system, decentralization, municipal development, land management)

- Health, family planning, HIV/AIDS (including health system, human resource development and reproductive health)

- Economic reform and development of the market system (including financial system, promotion of the private sector and employment, vocational training, small and medium enterprise).

- Rural development in the low lands of Tonle Sap and Mekong basin, particularly in the provinces of Kampot and Kampong Thom.

Both sides expressed their satisfaction that all commitments would be allocated to projects and programs in the agreed focal areas of development co- operation.

The German side announced that for each of the agreed focal areas Strategy Papers will have to be elaborated and adopted jointly.

3. Financial Co-operation (FC)

3.1 Ongoing Projects

3.1.1 Sector-related Health Program II

Supply contracts totaling some DM 13.6 million have been concluded so far under this project. The project executing agency will use the remaining grant funds of DM 1.4 million to continue the accompanying measures for the improvement of the supervision and monitoring system for the distribution and application of essential drugs and to purchase refrigerators and computers. The KfW will assess these requirements and prepare a proposal to the German Government.

3.1.2 **Rural Infrastructure (Tertiary Road Improvement Program (TRIP II))**

Both sides confirmed that TRIP II was being implemented successfully. In view of the great significance of road construction for rural development and of the project's direct impact on people's food situation through its food-for-work component, the two sides agreed to extend TRIP II by another 3-year phase.

3.1.3 **Flood Repair Program (FRP)**

Both sides welcomed the swift implementation of the program. The German side pointed out that in selecting the rehabilitation measures, the implementing partners should take care that the activities will be completed before the 2002 rainy season.

3.2 **New Commitments for 2001/2002**

The total volume of Financial Co-operation with the Kingdom of Cambodia to date amounts to approximately DM 121.4 million (€ 62,070,834.38). In addition the Government of the Federal Republic of Germany undertakes to provide the Government of the Kingdom of Cambodia with new funds of DM 35 million (€ 17,895,215.84) for the 2001/2002 commitment period. DM 5 million (€ 2,556,459.11) of this amount are earmarked as a sector-specific reserve in the area of reproductive health. Hence, the total amount for Financial Cooperation including the reprogrammed funds of DM 10 million (€ 5,112,918.81) amount to DM 45,0 million (€ 23,008,134.65).

In line with the priority areas of co-operation, both sides agreed to allocate these funds as follows:

Extension of ongoing projects

3.2.1 **Study and Expert Fund (SEF) I** — **DM 2.0 million (€ 1,022,583.76)**

The funds shall be used for the preparation of future Financial Co-operation projects and for other short term expert services.
In future, residual funds from completed projects will be transferred to the SEF.

New Projects and Programs

3.2.2 **Reproductive Health/Sector-related Health Program II** **DM 10.0 million (€5,112,918.81)**

This program will combine funds from FC and TC (para. 4.3.1.3).

Both sides agreed that the program should concentrate on reproductive health. Complementary activities will include the supply of drugs and contraceptives, the treatment of sexually transmitted diseases and limited contributions for physical infrastructure.

The Cambodian side is prepared to secure sufficient budget funding for a quality-oriented, decentralized salary system.

3.2.3 **Rural Infrastructure (TRIP III)** **DM 10.0 million (€5,112,918.81)**

This project aims at improving the living conditions of the rural population in the regions that have been selected. Implementation shall continue to rely on the successful design and principles applied in earlier program phases (road construction with food-for-work activities). In those program regions where road construction efforts have already improved the transport infrastructure these improvements are to be complemented by other infrastructure measures such as the rehabilitation of markets.

In order to foster private sector development the new phase will include the increased involvement of private contractors in executing construction and maintenance.

3.2.4 **Development of the Transmission Link between Takeo and Kampot**

DM 15.0 million

(€7,669,378.22)

This project serves to provide cost-efficient power supply to greater Kampot with electricity from Vietnam. It complements the ongoing Technical Co-operation projects in Kampot. There was consensus between the two sides that the project only can go forward if the timely implementation of the transmission line from the Vietnamese border to Phnom Penh envisaged to be financed by World Bank, JBIC or other donors will be secured. To move ahead with the preparation of the project, a feasibility study will be funded from the Study and Expert Fund.

3.2.5 **Promotion of Small and Medium Enterprises** **DM 8.0 million**

(€ 4,090,335.05)

This project is intended to strengthen the refinancing capacity of the productive private sector and to support the consolidation of the financial sector. The funds are channeled to SMEs via partner banks. Additional funds are to be provided for human resource support to partner banks and SMEs so as to help implement the credit line.

3.3 **Reprogramming**

It was agreed that DM 10 million (€ 5,112,918.81) from the 1999 commitment for the "Rural Telecommunications II" project would be reprogrammed for the "Development of the Transmission Link between Takeo and Kampot" project (para 3.2.4).

3.4 **Future Financial Co-operation**

Both sides agreed that future financial co-operation should focus on the continuation of successful projects.

3.5 Project proposals not to be pursued

Program of improvement of rural health centre by solar energy

4. **Technical Co-operation (TC)**

Both delegations expressed their satisfaction with the progress made in the field of Technical Co-operation.

4.1 **Ongoing Projects Not Requiring Additional Funds**

4.1.1 **On going Project Demobilization**

The Cambodian side welcomed the contribution that Germany has made so far to the integration of demobilized soldiers in Kampot and Kampong Thom Provinces and the pilot phase of the national demobilization program.

In view of delays and changes in the national demobilization program, which is supported by the World Bank and other donors, both sides agreed that the German contribution should continue with locally contracted and short-term experts as of January 2002 until the end of the current project phase.

The Cambodian side declared its willingness to demobilize more soldiers in Kampong Thom and Kampot Provinces during the remaining project phase.

4.1.2 **Integrated Food Security Program Kampot**

The project, under implementation since 1996, has been endowed with a total of DM 10.0 million. The German

side agreed to extend the project until 31 March 2002. This extension will be financed from residual project funds and is to finalize project activities until the project becomes part of the new Kampot/Kampong Thom Province Development Program. During the extension period, the Cambodian government will continue to make its counterpart contributions available.

4.2 **New Commitments**

The total volume of Technical Co-operation with the Kingdom of Cambodia to date amounts to approximately DM 79, 8 million (equivalent to € 40,801,092.12).

In addition the Government of the Federal Republic of Germany undertakes to provide the Government of the Kingdom of Cambodia with a new amount of DM 25 million (€ 12.782.297,03) for the 2001/2002 commitment period.

4.3 **Use of Funds**

It was agreed that the new commitments (para 4.2) are to be used for the following project extensions (para 4.3.1) and new projects (para 4.3.2).

4.3.1 **Extension of Ongoing Projects**

4.3.1.1 **Non-formal Vocational Training** **up to DM 3.5 million (€ 1,789,521.58)**

The provision of funds is subject to the findings of a project progress review in March 2002. The project will be complemented by "Integrated Economic Empowerment Entrepreneurship and Employment of Women".

4.3.1.2 **Land Management Project** **up to DM 5.0 million (€ 2.556.459.11)**

The German TC-contribution covers issues such as land policy, property, land use and tenure rights, fair access to land and arbitration of land conflicts.

Since the project is part of a trilateral World Bank, Finland cooperation in 2002, the German contribution will be re-planned and adapted accordingly.

4.3.1.3 **Training of Health Personnel and Family Planning** **up to DM 2.5 million (€ 1,278,229.7)**

The current project will become part of a sector-related program approach in October 2002 which will also include essential components of the project proposals that have been newly received. In particular, reproductive health and social health insurance will be part of the project.

The project strategy will be developed in close consultation with KfW in order to ensure maximum benefits of combining TC and FC.

The Cambodian side is committed to continued support to the health reform and will ensure annually increased budget allocations.

4.3.1.4 **Rural Development Program in Kampot and Kampong Thorn Provinces**

up to DM 10.0 million (€ 5,112,918.81)

The "Integrated Food Security Project, Kampot" and the "Provincial Development Program, Kampong Thom" will be merged to a rural development program.

Both sides reconfirmed the poverty orientation of this program.

Support for decentralization and deconcentration will be essential elements of the program to secure proper functioning of commune councils.

In order to foster synergies and strengthen sustainability, the new program will work closely with other projects supported by the German side, especially land management, decentralization and health, as well as with the IFAD funded "Community Based Rural Development Project Kampot and Kampong Thom" project.

4.3.1.5 **Study and Expert Fund (SEF)** **up to DM 2.0 million (€ 1,022,583.76)**

The funds shall be used for the preparation of future Technical Co-operation projects and for other short term expert services.

In future, residual funds from completed projects will be transferred to the SEF.

Due to urgent funding requirements these funds were committed in advance.

4.3.2 **New Commitments**

4.3.2.1 **Support to an Independent National Audit Authority** **up to DM 2.0 million (€ 1.022, 583.76)**

Funded from the SEF, the project will start with short term consultancy services to the newly founded National Audit Authority. Meanwhile the final project design will be elaborated jointly.

4.3.2.2 **Decentralization and Deconcentration**

In addition to the 1999/2000 commitment an amount of DM 4 million was earmarked to the support of the decentralization and deconcentration reform of the Royal Government of Cambodia. It is hereby confirmed that the funds will be made available for this project starting in January 2002.

4.3.2.3 **Support of Gender Equity and Promotion of Women's Rights**

In addition to the 1999/2000 commitment an amount of DM 4.5 million was earmarked to the support of this project. This amount consists of DM 1 million reprogrammed funds from a commitment on legal advice project made in 1996 and a DM 3.5 million special allocation made in 2000.

4.4 Exchange of Notes for the GTZ Office in Phnom Penh

The note verbal will be signed shortly.

4.5 Future Technical Co-operation

Both sides agreed that future technical co-operation should focus on the Continuation of successful projects.

4.6 Project proposals not to be pursued

- Agricultural Training Centre
- Expanding Equitable Access to Basic Education in Cambodia

5. Other Forms of Co-operation

The German Government aims at integrating the various instruments of its development assistance.

5.1 Scholarships

In 2000 and 2001 so far, a total of 105 professionals and executives were trained by the German Foundation for International Development (DSE) and the Carl-Duisburg Society (CDG). The German Academic Exchange Service (DAAD) funded a total of 30 scholarships for Cambodian scientists, academics and postgraduate students in the year 2000.

5.2 Centre for International Migration and Development (CIM) I Integrated Experts Program

The German Government is offering CIM's Integrated Experts Program to complement ongoing activities. Public institutions as well as private employers in Cambodia are eligible to apply, provided they can offer a fixed term contract including a local salary that will be topped up by CIM. Requests for integrated experts should be submitted to the German Embassy. GTZ office Phnom Penh will support CIM in the promotion and administration of the Integrated Experts Program in Cambodia.

5.3 Senior Expert Service (SES)

SES is a human resources provider who sends highly qualified retired experts on short-term missions to work for public or private employers. Requests should be addressed to the German Embassy.

5.4 German Development Service (DED)

The DED is providing personnel and technical assistance in the focal areas of German development assistance and an additional peace and reconciliation program. The German Development Service cooperates closely with GTZ supported projects and supports self-help initiatives.

5.5 Public-Private Partnership (PPP) program of the Federal Ministry for Economic Co-operation and Development (BMZ)

The German side informed that public private partnerships are encouraged. The purpose of such partnerships is to increase the effectiveness of development policy activities and to foster German private sector activities. These activities are implemented via GTZ, KfW or DEG.

5.6 Advice on Food Security Policy

The German side informed the Cambodian side that the Cambodian government's request for advisory services on food security policy would be appraised by the German side in the first quarter of 2002. If the appraisal arrives at a positive result, the German government intends to support this project, provided the requisite resources are available in the 2002 budget.

5.7 Food Aid

The German side noted that in 2000 it had provided food aid amounting to DM 1.0 million. It informed the Cambodian side that it would make available, following the request of the Cambodian government (proposal no.

58/2001 from the Governor of Kampong Thom Province), an additional DM 2.240 million for food aid via WFP to support the people affected by flood damage.

5.8 **Contributions to Multilateral Development Organizations and Regional Programs**

The German delegation pointed out that, in addition to its bilateral programs of co-operation, the Federal Republic of Germany made substantial contributions to the Kingdom of Cambodia via multilateral and international organizations such as the European Union, the Asian Development Bank, the World Bank, UN agencies and the Mekong River Commission. The Cambodian side expressed its appreciation for the political support it receives through German representation in these organizations.

In this context the Cambodian side sought German support in its aspiration to join WTO.

5.9 **20/20 Initiative**

Both delegations stated their willingness to work for the implementation of the 20/20 Initiative in pursuance of the decisions taken to that effect at the 1995 World Summit for Social Development in Copenhagen and at the 2000 Special.

Session of the United Nations General Assembly on Social Development in Geneva, and in co-ordination with other interested donors. According to these decisions, 20% of development assistance and 20% of national budgets should be used for basic social services.

5.10 **Program of Action for Poverty Reduction**

Long-term support is provided for the achievement of the International Development Goal of halving extreme poverty world-wide by 2015, adopted by the United Nations General Assembly. The German side drew attention to the fact that it had described Germany's contribution towards achieving that goal in a Program of Action and that it had made a commitment in that Program to orient all activities of German development co-operation towards the goal of poverty reduction. The German government expects partner 'governments, as well, to step up their efforts to improve the outlook for successful poverty reduction measures by creating the necessary framework at the national level'. (E.g. by adopting PRSPs).

6. **General Remarks**

6.1 Both delegations agreed that all the contributions envisaged by the German side will only be made when:

- the Government of the Federal Republic of Germany has taken a positive decision once project/ program appraisals have been carried out by the Kreditanstalt fur Wiederaufbau (KfW), the Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH and/or any other organization Commissioned with implementing the project;

- overall financing for the project/program has been secured;

- the international agreements to be concluded (intergovernmental agreements and project agreements, the financing and loan agreements and the implementation agreements with the KfW and the GTZ and, if applicable, any other implementing organizations) have entered into force.

6.2 The German side pointed out that commitments would lapse if within eight years of the year in which the commitment was made no implementation agreement, i.e. in the case of Financial Co-operation a loan/financing agreement and in the case of Technical Co-operation, generally an implementation contract, had been concluded. Thus, commitments made during the 2001 negotiations are subject to a 31 December 2009 deadline.

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

6.4 Both delegations agreed that their co-operation projects/programs would be selected and designed according to development criteria. The German delegation drew attention to the fact that there is a close connection between the level of employment in German industry and the capacity of the Federal Republic of Germany to engage in development co-operation. This has become even more important since German unification.

6.5 The Government of the Federal Republic of Germany and the Government of the Kingdom of Cambodia agree upon the following assessment on 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 co-operation and compromises the efforts of all who work to support sustainable development.

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

Both governments intend to co-operate closely in order to ensure transparency, accountability and probity in the use of public resources and eliminate any opportunities which may exist for corrupt practices in their development cooperation.

The German side informed the Cambodian side that as of 1 October 2001, all FC contracts will include an anti-corruption clause. The wording is as follows:

"The Recipient shall ensure that the persons charged by the same with the preparation and implementation of this financial contribution, the award of the contract on the supplies and services to be financed and with requesting disbursements of financial contribution amounts do not demand, assume, render, grant, promise or obtain a promise of unlawful payments or other advantages in connection with these tasks."

7. **Future Agenda**

The next Government Negotiations on development co-operation are scheduled to take place in Germany in 2003. Both sides agreed that Government Consultations and other forms of intergovernmental talks should take place at appropriate moments at least once a year.

Done in Phnom Penh on 7 November 2001

For the Delegation of the
Kingdom of Cambodia

Keat Chhon
Senior Minister,
Minister of Economy and Finance
First Vice Chairman of CDC

For the Delegation of the
Federal Republic of Germany

Lothar Zimmer
Director for South-East Asia
in the Federal Ministry for Economic
Co-operation and Development

Annex I

Members of the Cambodian Delegation

The Council for the Development of Cambodia (CDC)

H.E. Keat Chhon	MP, Sr. Minister, Minister of Economy and Finance, Vice-Chairman of the CDC
H.E Sok Chenda	Secretary General of CDC
H.E Chhieng Yanara	Deputy Secretary General of CDC/Secretary General of CRDB
H.E. Leaph Vann Den	Deputy Secretary General of CRDB
Mr. Rith Vuthy	Director of Bilateral Aid Management with Europe
Mr. Hem Van Yuth	Office Chief of Bilateral Aid Management with Europe
Mr. Chea Rada	Staff of Bilateral Aid Management with Europe

Ministry of Foreign Affairs and International Cooperation

H.E Chhoeung Chamroeun	Secretary of State
Mrs. Chea Kim Tha	Deputy Director

The Council of Ministers

H.E. Sum Manit	Secretary of State and Secretary General of the Council of Administration Reform
H.E Say Sokha	Secretary General of the Observation Group on Socio- Economy and Cultures
Dr. Pen Dareth	Adviser to the Council of Ministers
Mr. Lun Socheat	Deputy Director

Ministry of Industry Mine and Energy

H.E. Ith Praing	Secretary of State
H.E. Khlaut Randy	Under Secretary of State
Mr. Victor Zona	Chief of Provincial Electricity Office/ Energy Development Department
Mr. Praing Chulasa	Chief of Planning Office of EDC

Ministry of Health

H.E Mam Bun Heng	Secretary of State
Mr. Lo Veasna Kiry	Acting Director of Planning

Ministry of Planning

H.E Ou Orhat	Secretary of State

Ministry of Women and Veterans Affairs

H.E Ing Kantha Phavi	Secretary of State

Mrs. Bunchhith Veasna	Chief Office

Ministry of Rural Development

H.E Huy kanthoul Vora	Secretary of State
HE. Try Meng	Director General
Mr. Ly Savuth	Deputy Director General

Rural Development Bank

H.E. Son Khunthor	Consultant to the Royal Government of Cambodia, Chairman and Chief Executive
Mr. Chor Leng Hourng	Deputy Director General
Mr. Mok Sophal	Director of the Credit Department

Ministry of Land Management, Urban Planning and Construction

H.E. Thou Thon	Director General
Mr. Som Sorida	Deputy Department Director

Ministry of Agriculture Forestry and Fisheries

Mr. Chay Sokhun	Deputy Director
Mr. Mong Leng	Vice Chief Office

Ministry of Interior

Mr. Leng Vy	Director of Department of Local Administration
Mr. Khieu Sok	Assistant to Secretary of State

Ministry of Economy and Finance

Mr. Ben Daramony	Deputy Office Chief

Ministry of Education Youth and Sports

Mr. Sar Nak	Deputy Director of Planning

ACLEDA Bank

Mrs. So Phonnary	Department Manager

Annex II

Members of the German Delegation

Mr. Lothar Zimmer	Federal Ministry for Economic Co-operation and Development (BMZ)
Dr. Helmut Ohlraun	German Ambassador to the Kingdom of Cambodia
Ms Sabine Gebauer	Federal Ministry of Economics and Technology
Mr Stefan Sckell	Federal Ministry for Economic Co-operation and Development (BMZ)
Dr Hans Peter Mussig	Kreditanstalt fur Wiederaufbau (KfW)
Mr Gunter Beck	Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) GmbH
Dr. Klaus Muller	Kreditanstalt fur Wiederaufbau (KfW)
Dr. Thomas Engelhardt	Deutsche Gesellschaft fur Technische

	Zusammenarbeit (GTZ) GmbH
Mr. Eckhard Emmel	Deutscher Entwicklungsdienst (OED)
Mr. Richard Strnadl	Attache German Embassy