

**Summary Record
of the
Cambodian-German Government Negotiations
on Development Cooperation**

Phnom Penh, 17 -18 October 2005

1. Introductory Remarks

1.1 Government negotiations on development cooperation took place in Phnom Penh on 17 and 18 October 2005 between a delegations of the Federal Republic of Germany, headed by Mr. Christian Neumann, Head of the Division for South-East Asia at the Federal Ministry for Economic Cooperation and Development (BMZ), and a delegation from the Royal Government of Cambodia (RGC), headed by H.E. Senior Minister Keat Chhon, Minister of Economy and Finance and First Vice-Chairman of CDC and conducted by Mr. Chhieng Yanara, Deputy Secretary General of CDC and Secretary General of CRDB.

The negotiations took place in the traditional friendly atmosphere of mutual understanding. They were based on the results of the consultations between the two governments held in Phnom Penh in June 2005. The two delegations assessed the performance of completed and ongoing projects and discussed future development cooperation as well as strategic issues within the agreed priority areas.

1.2 Opening Statement by the Cambodian Delegation

The Opening Statement for the Cambodian Government was held by H.E. Sr. Minister Keat Chhon as follows:

H.E Mr. Pius Fischer, Ambassador of the Federal Republic of Germany Mr. Christian Neumann, Head of the German delegation, Colleagues from ministries and agencies of the Royal Government of Cambodia
Members of the German Delegation

Ladies and Gentlemen

1. It is an honor and privileges for me to welcome the German delegation to the 6th Annual Negotiations between our two governments. On behalf of the Royal Government of Cambodia and the Cambodian delegation, I would like to extend our warmest greetings to Mr. Christian Neumann, Head of the German delegation, H.E Mr. Pius Fischer, Ambassador of the Federal Republic of Germany and other members of German Delegation. I would also like to welcome my colleagues from ministries and agencies of the Royal Government of Cambodia to these Annual Consultations.

2. Let me start by emphasizing that the Royal Government considers these consultations to be an important process for achieving a better alignment of development cooperation activities supported by Germany with our national development priorities. At this meeting we will have an opportunity to review the priorities of Germany's development cooperation program that were discussed at the last June consultations, in particular the rural development and health sector strategies. Today we will also have an opportunity to review the performance of the projects funded by Germany as well as an opportunity to identifying new projects. I am sure that a frank discussion will further strengthen our mutual understanding and enhance the bonds of friendship, cooperation, and partnership between our two countries.

3. As you know, the Royal Government's development priorities for the Third Mandate are outlined in the "Rectangular Strategy for Growth, employment, equity and efficiency". A National Strategic Development Plan for the years 2006-2010 to implement this strategy to achieve Cambodia's Millennium Development Goals is currently being formulated and is planned to be completed before the end of this year. The Royal Government would like all its development partners to align their development cooperation programs to support the implementation of the NSDP.

4. This is the sixth High level Consultation between Cambodia and Germany. The last one was held in October 2003 in Bonn. On behalf of the Royal Government of Cambodia, I would like to express our sincere appreciation and heartfelt thanks to the Government of Germany for its continuing support and commitment to the development of Cambodia and to reduce poverty among our people. According to information available at CDC, German's Assistance to Cambodia between 1992-2004 has totaled more than US\$150 million. This amount does not include German's contribution to Multilateral Institutions including European Union, in which Germany has played an important role. Germany is and we hope will continue to be one of our valued partners in the development of Cambodia. I would like to take this opportunity to reassure you that your assistance has made a valuable contribution to the development of Cambodia. As you know, at this stage of development of Cambodia we have very limited resources and huge/vast needs. The Royal Government therefore places a very high priority on improving aid effectiveness in order to maximize its benefits for our people.

Excellencies, ladies and Gentlemen

5. Considerable work has already been done in preparations for this meeting by senior officials of our two countries. An Informal Consultation meeting was held on 22nd June 2005 in Phnom Penh. At that meeting a review of the progress made in the implementation of ongoing development projects supported by Germany was carried out. Furthermore, lessons learned were discussed to optimize and improve the effectiveness of Germany's assistance. We also discussed areas in need of assistance and new project proposals.

6. The main objectives of today's consultations is to: first, to agree on progress that is being made in areas of on-going projects; secondly, to agree on priority areas for future cooperation mainly in Health and Rural Development sectors, as well as in cross-cutting areas such as Democracy, Civil Society and Public Administration, and third to discuss and agree on the new projects and programs for our future Cooperation with German's new commitment of more than €26 million (approximately US\$ 30 million) for 2005/2006. I hope we will have an open and frank discussion on these issues. My colleagues in the Royal Government are here to provide any additional information and clarifications needed on our priority projects and programs.

7. 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.

1.3 Opening Statement by the German Delegation (Summary) The German ambassador in his opening remarks underlined the importance of the longstanding good and close bilateral relations between Germany and Cambodia.

He expressed concern about recent political developments in Cambodia involving the government, members of the opposition, the media and trade union leaders. The ambassador appealed to all political parties and the Cambodian Government to engage in a responsible political debate. In this context, the ambassador recalled two resolutions by the German Parliament as well as the EU Parliament's debate on the domestic political situation in Cambodia. He announced that the new German Government and the new Parliament will attach equal importance to these issues. He welcomed the Prime Minister's statement on 15 September 2005 at the United Nations General Assembly on inter-linkages between human rights, rule of law, democracy, security and development.

The ambassador outlined the broad spectrum of German-Cambodian relations which went far beyond development cooperation. The ambassador concluded by reaffirming Germany's wishing to remain an active player in the donor coordination process and the harmonization and alignment efforts.

The head of the German delegation, Mr. Christian Neumann, expressed his appreciation for the kind hospitality extended by the Cambodian Government and the invitation to Phnom Penh. He mentioned that this year's 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.

Referring to the "Rectangular Strategy", 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 macroeconomic stability. The head of the German delegation noted that the German side had great expectations of the National Audit Authority and of the related technical assistance program. He asked the RGC to put in place the relevant general conditions.

Recognizing that more than 80 percent of the fast-growing population and 90 percent of the poor in Cambodia live in rural areas, the head of the German delegation stressed the importance of investments in transport, health and education infrastructure to enable the rural population to benefit from income generating activities in particular and social development in general. In addition, transparency in the land allocation process is needed. The delegation noted that the ongoing practice of large-scale land grabbing, illegal logging and exploitative use of natural resources gave great cause for concern. The RGC was asked to take corresponding action and provide suitable land for social concessions.

In view of the postponement of the Consultative Group meeting, the head of the German delegation noted the need to keep up the momentum of the reform agenda by holding high-level meetings with great regularity.

The German delegation informed about considerations to support countries of the region in their fight against the spread of bird flu, primarily through the newly established "ASEAN Animal Health Fund" in addition to funds channeled through FAO.

Furthermore, the German delegation referred to the upcoming exhibition on Khmer Art in Bonn in 2006 and proposed to use this opportunity also for an overall presentation of the country.

1.4 The Khmer Rouge Tribunal

The German Government highly welcomes the decision to conduct a Khmer Rouge Tribunal in order to undertake a legal review of the atrocities committed during the reign of the Khmer Rouge and to bring to justice those responsible. In addition to the commitment of US\$ 1 Mio already made by the German Government through the Federal Foreign Office, and in order to support the development of the rule of law and to foster legal culture in Cambodia, the Federal Ministry for Economic Cooperation and Development committed €1.5 million to the United Nations to help cover the costs of the Tribunal. The German Government asks the RGC to strengthen its efforts to set up the Tribunal and expects the

Extraordinary Chambers to begin their work. Particularly, the selection procedures for the national judges should be transparent. Qualification, experience and personal integrity should be key criteria.

1.5 **Issues of General Concern**

The Cambodian delegation has provided clarification on issues of general concern proposed by the German delegation, see Annex V.

1. **Priority Areas of Development Cooperation**

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

- Economic reform and development of the market system (including financial system, promotion of the private sector and employment, vocational training, small and medium-sized enterprises -SMEs)
- Reproductive health, improvement of the health system
- Rural development concentrated on specified regions

Furthermore, there was agreement that the cross-cutting issue of "Democracy, civil society, public administration and good governance" was vitally important for Cambodia's further development and should play an even more significant role in future development cooperation.

It was decided that the activities and components of the priority area "Economic reform and development of the market system" should be transferred to, and subsumed under, the rural sector in the medium term in order to strengthen rural growth and the efforts to eradicate poverty. Programs that are ongoing or in an advanced stage of preparation should be concluded as planned.

Both sides expressed their agreement to the new bilateral Priority Area Strategy Paper on Health (see Annex IV). The strategy shall become operative on the date upon which this Summary Record is signed.

3. **Financial Cooperation (FC)**

3.1 **General issues/Concerns**

The German side expressed concern that the delays in disbursing allocated budgets not only hamper project preparation and implementation but also threaten overall development, especially in the health and rural sectors. Concern was also voiced at the insufficient wage levels in the public sector and, again, in the health systems, which require employees to seek additional income opportunities. The Ministry of Health and the Council for Administrative Reform have responded that the Cambodian Government has made efforts to improve the salaries/enumerations for the civil servants.

Both sides expressed their appreciation of the fact that there is no pipeline of financial cooperation projects which have not yet been spelled out in more specific terms and, hence, there is no need for reprogramming.

3.2 **Ongoing Projects**

3.2.1 **Economic Reform and Development of the Market System**

3.2.1.1 Small and Medium Enterprise (SME) Program

(Project No.: 2001.6624.9)

The aim of the project is to improve private SMEs' access to medium- and long-term loans. An additional component of the program will provide the project executing agency, Canada Bank, with support to develop staff skills. These training measures are to be carried out in conjunction with the Mekong Project Development Facility (MPDF).

3.2.1.2 Small and Medium Enterprise (SME) Program II

(Project No.: 2003.6627.8)

The present project is intended to contribute towards closing the gap in long-term financing services for SMEs. Financing agreements shall be signed on October 18 2005. Implementation is expected to start in the second half of 2005.

3.2.2 **Reproductive health, improvement of the health system**

3.2.2.1 Sector-related Health Program III

(Project No.: 1996.6599.3)

All supply contracts have been concluded under Phase III of the program. The project executing agency is in the process of implementing a computerized logistic management system in order to further improve the efficiency of the distribution system. In general, further input from the Cambodian side is needed with regard to the payment of adequate, performance-based wages, education and training of personnel.

3.2.2.2 Reproductive Health I

(Project No.: 2002.6661.9)

The financing contract, comprising the delivery of contraceptives for distribution via the public sector by means of social marketing as well as reconstruction work in a medical training center in Kampot, was signed in August 2003. The recommendation was voiced that the Cambodian side should tap the potential for selling contraceptives through social marketing, and that more contraceptives should be financed from the Cambodian budget.

3.2.3 **Rural Development**

3.2.3.1 Rural Infrastructure III (Tertiary Road Improvement Program -TRIP III)

(Project No.: 2001.6625.6)

Within the framework of TRIP III, 400 km of rural roads are to be rehabilitated. The financing contract was signed in September 2002, work began one month later. 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). A final inspection of TRIP II was conducted in summer 2005. With this third phase, a total of 1,200 km of rural roads will have been rehabilitated, providing 737,000 people with food for work and generating 6.65 million working days for the local people within the project area. It remains vital that the RGC continue to allocate adequate resources for routine and periodic maintenance.

3.2.3.2 Rural Infrastructure IV (Tertiary Road Improvement Program – TRIP IV)

(Project No.: 2003.6628.6)

This program continues to pursue the rehabilitation of rural roads and complementary infrastructure in order to ameliorate the living situation of the rural poor in the program region. In addition, the focus will be on support for the planning, organization and implementation of maintenance work on rural roads in the Ministry for Rural Development.

The German delegation stressed that frequent personnel changes in the course of a project hamper project implementation and Success. It was reconfirmed that all project equipment and vehicles procured in the course of previous cooperation activities have been and will be transferred to be used in the current project.

3.2.3.3 Transmission Line Takeo-Kampot

(Project No.: 2001.6626.4)

The project seeks to supply the Kampot region with electrical power at more favorable prices and to provide a basis for the economic and social development of the project region. Implementation started in the third quarter of 2005.

3.2.3.4 Flood Repair Program

(Project No.: 2000.6590.4)

Both sides welcomed the successful completion of the measures in spring 2003. The final inspection took place in summer 2005. The project resulted in the rehabilitation of more than 350 km of rural roads (50 km more than planned) and 40 schools (20 planned).

3.2.4 **Study and Expert Fund**

Study and Expert Fund (SEF) II

(Project No.: 2001.7040.7)

The funds are to be used for the preparation of future financial cooperation projects and for other short-term expert services. The contract for SEF II was signed on 7 November 2002.

3.3 **New Commitments for 2005-2006**

The total volume of bilateral financial cooperation commitments to date for the Kingdom of Cambodia is €94.97 million out of Federal budget funds. The Government of the Federal Republic of Germany undertakes to provide the Royal Government of Cambodia with a new commitment for the 2005-2006 periods of €13.0 million.

These funds are provided as grants and are to be used for the following measures:

3.3.1 **Reproductive health, improvement of the health system**

3.3.1.1 Reproductive Health II

€7,000,000.00

(Project No.: 2005.6513.5)

The program is aimed at upgrading family health and assisting family planning through the provision of contraceptives, the involvement of private service providers via social franchising structures and the upgrading of the Regional Training Center (RTC) in Kampot.

3.3.2 **Rural Development**

3.3.2.1 Rural Electrification

€6,000,000.00

Energy supply is one of the main bottleneck factors for growth -and, thus, for poverty reduction. This project aims to provide a comprehensive and cost-efficient power supply to the rural population of Kampot and its surrounding areas. This undertaking builds upon the Takeo-Kampot transmission line

which the German Government agreed to finance during the 2003 bilateral negotiations. A study on local energy demand was conducted. The project will focus on establishing a local network and on completing the Takeo-Kampot transmission line. Once the load flow calculation has been carried out, an appraisal mission can assess the details of the project.

3.4 **Openings for Future Financial Cooperation**

The focus might be on the following:

- Rural roads
- Health sector reform
- Rural electrification

4. **Technical Cooperation (TC)**

Both delegations expressed their appreciation of the highly satisfactory performance and the significant results achieved so far. The total volume of TC with Cambodia to date is approximately €68.07 million.

4.1 **Ongoing Projects Not Needing Additional Funds**

4.1.1 **Rural Development**

4.1.1.1 Rural Development Program I (in Kampot and Kampong Thom)

(Project No.: 2003.2249.5)

The thrust of this program is to increase the self-help potential of the rural poor in Kampot and Kampong Thom in order to make better use of the services provided by government institutions, civil society and the private sector. Support for decentralization and de concentration is an essential element of the program with a view to securing the proper functioning of commune councils. In order to foster synergies and strengthen sustainability, this program will cooperate closely with the new rural development program in other provinces (see 4.2.2.1) and other German-funded measures, especially land management, decentralization and health. The IFAD-funded project "Community-based Rural Development Project Kampot and Kampong Thom" is a further component of this program.

4.1.1.2 Support to the Land Management Reform (LMAP)

(Project No.: 2003.2250.3)

This multi-donor project covers issues such as land policy, property, land use and tenure rights, fair access to land and arbitration of land conflicts. The German delegation stressed that high priority was being placed on the reform of the land sector (see also 4.2.2.1 and 4.2.2.2).

4.1.1.3 Food Security and Nutrition Policy Support Project (FSNPSP)

The project will end as planned in December 2005.

4.1.2 **Democracy, Civil Society, Public Administration and Good Governance**

4.1.2.1 Decentralization

(Project No.: 2003.2251.1)

The project helps the Ministry of the Interior and the Council for Administrative Reform at the Office of the Council of Ministers to develop and implement decentralization and deconcentration reform to strengthen democracy and local governance. The project cooperates closely with the ADB. The project is currently in its phase II which started in January 2005.

4.1.2.2 Support to the National Audit Authority (NAA)

(Project No.: 2001.2493.3)

The German contribution is being provided through 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. The first phase of the project starts in the second half of 2005. The German delegation asked the Cambodian side to put in place the relevant general conditions and to guarantee the NAA the necessary independence and legal authority. Subsequent support beyond the current phase depends on progress on these aspects.

4.2 **New Commitments**

The Government of the Federal Republic of Germany undertakes to provide the Royal Government of Cambodia with a new commitment for technical cooperation of €13.5 million for the 2005-2006 periods. Subject to specific project agreements between the two governments, this new commitment will be used for the following replenishments (para. 4.2.1) and new projects (para. 4.2.2). Furthermore, an additional special commitment of €1.0 million is provided for a cross-cutting project on targeting poor households (see para 4.2.2.3).

4.2.1 **Additional Funds for Ongoing TC Projects**

4.2.1.1 Economic Reform and Development of the Market System

Private Sector Development Program
(Project No.: 2003.2252.9)

up to €2.0 million

Due to historical circumstances, the Cambodian private sector is afflicted with a low level of organization, a lack of capacity for investment and a lack of self-confidence on the part of entrepreneurs. Enterprises are thus not able to meet the challenges of opening markets and to participate actively in structural change. The aim of the program is to raise enterprises' competitiveness by strengthening their technical and organizational capacity, by enhancing enterprises' networks and by supporting business-encouraging services. During the second phase of the project, the activities will concentrate on rural areas.

4.2.1.2 Reproductive health, improvement of the health system

Support to the Health Sector Reform
(Project No.: 2003.2065.5)

up to €3.0 million

The second phase of the project will start in March 2007. Its aim is a qualitative improvement in decentralized health services, population programs and training as well as the implementation of a pilot health insurance scheme for the poor. It is planned that the program will be implemented in cooperation with the financial cooperation project "Reproductive Health II". There is close cooperation with DED and CIM activities.

4.2.1.3 Democracy, Civil Society, Public Administration and Good Governance

Support to Gender Equity and Women's Rights
(Project No.: 2000.2202.0)

up to €1.0 million

The German Government places high importance on gender equality and women's rights and welcomes the fact that the Royal Government of Cambodia has included this subject in the Cambodian Millennium Development Goals. The German Government therefore appreciates the fact that the National Assembly and the Senate passed the "Law against Domestic Violence". The above-mentioned funds are provided to implement a second phase of the project "Support to Women's Rights" together with the commitment made in 2003 for the implementation of the National Action Plan against Domestic Violence (up to €0.8 million). The latter funds will now be made available since the new law fulfills the condition of an adequate legal basis.

4.2.1.4 Study and Expert Fund

Study and Expert Fund (SEF)
(Project No.: 1995.3611.1)

up to €0.5 million

The funds are to be used for the preparation of future technical cooperation projects and for other short-term expert services.

4.2.2 New Technical Cooperation Projects

4.2.2.1 Rural Development Program II

up to €4.0 million

The experience from the ongoing Rural Development Program I in Kampot and Kampong Thom (see 4.1.1.1.) is to be used for the design and implementation of the new program. This expands the technical assistance activities to provinces which together form a continuous development corridor in the Tonle Sap Region. The overall goal of the program will be to build the capacity of the rural population, local organizations and administrations so that they can make use of upgraded services of governmental and private providers so as to enhance economic activities and, thus, create new income opportunities. Furthermore, the project will be aimed at enhancing productivity and diversity in agricultural production. The Cambodian delegation agreed to ensure transparency in the land allocation process in the program provinces, which is considered a prerequisite for the success of the program as well as for social and economic development.

4.2.2.2 Support to the Land Management Reform

up to €3.0 million

The German contribution to the Cambodian "Land Administration, Management and Distribution Program" (LAMDP), which is supported by various development partners, will cover the implementation of concepts that have been developed for land management and especially land distribution within the framework of the project "Land Allocation for Social and Economic Development" (LASED).

The Cambodian Government agreed to provide 50,000 hectares of suitable land for social land concessions within the next three years, whereas 2,000 hectares of suitable land confirmed by the Provincial Land Use and Allocation Committees (PLUAC) should be made available in the year 2005.

4.2.2.3 Targeting / Identification of most vulnerable households

up to €1.0 million

Specifically targeting the poverty status of households can significantly improve efficiency and cost-effectiveness of social transfers and development assistance. Therefore the Rural Development Program

I, in collaboration with provincial partners in Kampong Thom and Kampot, has developed a standardized approach to identify poor and poorest households. This identification process is a cross-cutting issue as various sectors and development projects can benefit from its outcome in order to effectively address the target group of the poor. As several agencies and organizations are developing and piloting identification mechanisms, that approach now should be harmonized under the umbrella (of the General Secretary of the Council for Social Development) of the Ministry of Planning. The objective of the new project is to devise a national policy in the respect of a harmonized approach which is effective, transparent and cost-efficient and involves decentralized structures.

4.3 **Reprogramming**

The amount to be reprogrammed, as reported by the German side, is €273,000.00 (1999 commitment authorization year) and stems from the project "Occupation-oriented Non-formal Vocational Training Program" (Project No.: 1994.2548.9).

These funds shall be used for the Study and Expert Fund (SEF; 1995.3611.1).

4.4 **Openings for Future Technical Cooperation**

Future technical cooperation might consider the following activities:

- land valuation and taxation
- Social integration of youth, youth unemployment
- "One window" services

5. **Other Forms of Cooperation**

The instruments of development cooperation mentioned below form an integral part of German development cooperation. The German side appreciates the results and experiences of these undertakings and invites the Cambodian side to make use of these instruments and suggest further fields of activity.

5.1 **InWEnt/DAAD (Scholarships)**

In 2004, a total of 220 professionals and executives were trained by InWEnt (Capacity Building International, Germany) in the fields of "Economic Reform and Development of the Market System", "Health, Family Planning and HIV/AIDS" and "Good Governance, esp. National Poverty Reduction Strategies". In addition, dialogue and training programs were implemented on "Transboundary Natural Resource Management" for the riparian countries of the Lower Mekong Basin. InWEnt's activities are closely linked to the priority areas of bilateral Cooperation.

The German Academic Exchange Service (DAAD) currently funds 11 scientists, academics and postgraduate students, three lecturers as well as one university partnership.

5.2 **Integrated Experts -Center for International Migration (CIM)**

The assistance provided by integrated experts should continue and be expanded where possible, preferably in the priority areas agreed upon between the two governments. At present, nine integrated experts are working in the Kingdom of Cambodia, mainly in the areas of rural development, administrative reform and health. The Government of Cambodia is invited to submit requests for further experts.

5.3 **German Development Service (DED)**

At present, 29 development experts from the German Development Service (DED) are supporting local partners. The services of German development cooperation partners, including the DED, will increasingly be integrated into ongoing and future technical cooperation projects or sector-related activities in the priority areas.

5.4 **Senior Expert Service (SES)**

The German side encourages the use of the SES instrument, which provides highly qualified retired experts on short-term missions, mainly in the areas of management, vocational and other technical training. Between 1995 and I 2004, the SES deployed a total of 22 experts to Cambodia.

5.5 **Public-Private Partnerships (PPP)**

The German side outlined the potential of the Public-Private Partnership (PPP) Program and recommended that the Cambodian Government continue to promote and support the concept of public-private partnership. With this concept, the German Government intends to strengthen the concerted action of official development cooperation and private business activity. So far, one project with an overall volume of €480,000 has been implemented by the GTZ, financed jointly by the private sector

(€330,000) and public funds for development co-operation (€150,000).

5.6 **Contributions to Multilateral Development Organizations**

The German delegation drew attention to the contributions made by the Federal Republic of Germany to the Kingdom of Cambodia via multilateral and international organizations such as the Asian Development Bank, the World Bank, the United Nations and the Commission of the European Union.

6. **Other Business**

6.1 **Program of Action for Poverty Reduction**

The German government is firmly committed to providing support to the Millennium Development Goals, including halving extreme poverty by 2015. Germany's own Program of Action has become an integral part of its overall development cooperation program.

6.2 **20/20 Initiative of the World Summit for Social Development**

Both delegations stressed their willingness to work towards the implementation of the 20/20 Initiative, pursuant to the decision taken at the World Summit for Social Development in Copenhagen, and in coordination with other interested donors. According to that decision, 20% of development assistance and 20% of national budgets should be used for basic social services.

6.3 **Regional Cooperation Initiatives**

Germany supports regional cooperation initiatives in general and emphasizes the work being done by ACMECS. The German delegation explained the procedures for support of initiatives based on the regional scope of a measure or, on the other side, of projects of bilateral character. Regional programs address a group of beneficiary countries, whereas bilateral programs benefit one single country. In the latter case, proposals shall be presented at intergovernmental consultations and negotiations, while suggestions for regional programs in the priority areas environment and support to economic development should be submitted to the German Government via the coordination mechanism established by the member states. In this context, the German side recommended establishing an ACMCES secretariat that could function as institutional cooperation partner and coordination unit.

7. **General Remarks**

7.1 Both delegations agreed that all the contributions envisaged by the German side and recorded in the present document 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 KfW, GTZ and/or any other organization commissioned with implementing the project or program;
- overall financing for the project/program has been secured;
- the agreements under international law to be concluded (intergovernmental agreements and project agreements), the financing and loan agreements and the implementation agreements with KfW/GTZ and, if applicable, any other implementing organizations have entered into force.

7.2 As a way of complementing the existing set of FC financing instruments, KfW may provide FC promotional loans on its own account to both public and private institutions or enterprises for development projects. These loans are intended primarily for projects in the area of economic and social infrastructure and for the promotion of the financial sector. In this regard KfW operates on behalf of the Government of the Federal Republic of Germany. Given the character of the projects to be financed, the Royal Government of Cambodia acknowledges the need to make freely convertible currency available in due time and in sufficient amounts to service the debt towards KfW without any I restriction (transfer of foreign exchange) and will make all efforts to meet this requirement at all times and in due course. In this context the Royal Government of Cambodia will consider the possibility to support investment projects with high economic viability from KfW.

7.3 The German side drew particular attention to the fact that commitments made under financial and technical cooperation 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 cooperation a loan/financing agreement and in the case of technical cooperation, generally, an exchange of notes, had been concluded. Thus, commitments made during the 2005 negotiations are subject to a 31 December 2013 deadline.

7.4 Should one or more of the projects/programs 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 within the said period of eight years.

7.5 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 development cooperation. It also undermines the 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.

In this context, and underlining that corruption hurts the poor disproportionately and discourages foreign investment and aid, the German Government proposes to the Cambodian side to consider joining the United Nations Convention Against Corruption.

Both governments intend to cooperate 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.

8. **Future Agenda**

The next bilateral negotiations on development cooperation are scheduled to take place in Germany in 2007. Both sides agreed that consultations and other forms of intergovernmental talks should take place at appropriate times at least once a year.

Done in Phnom Penh on 18 October 2005

For the Delegation of the
Kingdom of Cambodia



Keat Chhon

Senior Minister, Minister of Economy
and Finance and First Vice-Chairman
of 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

Council for the Development of Cambodia

H.E. Mr. Keat Chhon

Sr. Minister Minister of Economy and Finance
First Vice-Chairman of CDC, Head of

Delegation

H.E. Mr. Chhieng Yanara

Deputy Secretary General

Mr. Rith Vuthy

Department Director

Mr. Duong Chanrithyna

Desk Officer in charge of Germany

Ministry of Health

H.E. Mr. Eng Hout

Secretary of State

Dr. Char Meng Chou

Deputy Director General

Council of Minister

H.E. Mr. Pen Dareth

CoJ/PEA

H.E. Mr. Sean Visoth

Interim Chairman, Anti Corruption Unit

H.E. Mr. Paul Pidou

Deputy Secretary General

Social Fund of the Kingdom of Cambodia

H.E. Mr. Chum Bun Rong

General Director

Ministry of Rural Development

H.E. Mr. Don Sammuon

Secretary of State

Mr. Leav Sinara

Chief of Cabinet

Dr. Chan Darong

Deputy Director General

Mr. Mour Kimsan

Deputy Director General

Ministry of Interior

H.E. Mr. Seing Lappress

Under Secretary of State

Mr. Leng Vy

Deputy Director General

Ministry of Industry, Mine and Energy

H.E. Mr. Ith Praing

Secretary of State

Mr. In Sambo

Chief of Lab

Ministry of Women Affair

H.E. Dr. Ing Kantha Phavy
H.E. Ms. San Arun

Minister
Under Secretary of State

Ministry of Planning

H.E. Mr. Chhoeung Chamroeun
H.E. Mr. Tuon Thavrak

Secretary of State
Director General

Ministry of Education Youth and sport

H.E. Mr. Chea Sae
Mr. Hun Chanrith
Mr. Put Samith

Under Secretary of State
Deputy Director General
Deputy Director of Planning

Ministry of Land Management, Urban, Planning and Construction

H.E. Mr. Chhan Saphan
Mr. Sor Sovann

Secretary of State
Deputy General Director

Ministry of Foreign Affair and International Cooperation

H.E. Ms. Gum Somanith

Under Secretary of State

National Audit Authority

H.E. Mr. Luk Nhep
Mr. Chan Vannak

Deputy Secretary General
Assistant to DSG

Ministry of Agriculture Forestry and Fishery

Mr. San Vanty

Deputy Director General

Annex II

German Government Delegation

H.E. Pius Fischer
Ambassador of the Federal Republic of Germany
German Embassy, Phnom Penh

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 Schwär
Desk Officer for Cambodia
Division for Regional Development Policy; South-East Asia
Federal Ministry for Economic Cooperation and Development

Mr. Daniel Haas
Federal Ministry for Economic Cooperation and Development

Mr. Theophil Kidess
Counselor
German Embassy, Phnom Penh

Mr. Wolfgang Thoran
Desk Officer
Federal Foreign Office

Dr. Thomas Engelhardt
Head of Phnom Penh Office
Deutsche Gesellschaft für technische Zusammenarbeit (GTZ)

Dr. Sabine Müller
Regional Director, Mekong River Region
Deutsche Gesellschaft für technische Zusammenarbeit (GTZ), Eschborn

Mr. Joachim Trede
Country Officer
KfW Entwicklungsbank, Frankfurt

Mr. Christian Richter

Head of Regional Office
KfW Entwicklungsbank, Hanoi Office

Mr. Wolfgang Möllers
Country Director
Deutscher Entwicklungsdienst (DED)

Mr. Long Sophat
KfW Entwicklungsbank, Phnom Penh Office

Annex III

Commitments 2005/2006

	FC			TC		
	Commitment 2004 (€ million)		Reprogr. Funds (€ million)	Market Funds (€ million)	Commitment 2004 (€ million)	Reprogr. Funds (€ million)
	loan	grant				
Economic Reform						
Private Sector Development					2,0	
Health						
Reproductive Health II		7,0				
Support to the Health Sector Reform					3,0	
Rural Development						
Rural Electrification		6,0				
Rural Development Program II					4,0	
Support to the Land Management Reform					3,0	
Democracy and Good Governance						
Support to Women's Rights					1,0	
Targeting*					1,0	
Study and Expert Fund					0,5	0,273
Subtotal		13,0			14,5	0,273
Total	13,0			14,773		
Grand Total (FC + TC)	27,773					

*Special commitment