

Agreed Minutes of the Third High-Level Consultation
between the Royal Government of Cambodia and the Government of
Sweden
Government Palace, Phnom Penh
4 March 2002

Government consultations on development co-operation were held between the Kingdom of Cambodia and Sweden on 4 March 2001 in Phnom Penh. The Delegation of the Royal Government of Cambodia was headed by H.E. Keat Chhon, Senior Minister, Minister of Economy and Finance and the Swedish Delegation by Mr. Bo Göransson, Director General, Swedish International Development Cooperation Agency, Sida. A list of members of the two Delegations is attached. The two Governments signed two bilateral agreements: an Agreement on Development Co-operation 2002-2004 amounting to 330 Million Swedish Kronor, and a General Agreement on Terms and Procedures for the period 2002-2006.

The negotiations were conducted in a cordial atmosphere and in the spirit of co-operation and friendship existing between the two countries. The agenda of the meeting is attached.

1. Opening Remarks by H.E. Keat Chhon (Statement attached)

The Head of the Cambodian Delegation welcomed the Swedish Delegation, noting that it was the third meeting since direct bilateral relations were formalized between the two governments in 1996. This occasion was an important milestone in a long-term cooperation and partnership, reflecting the attention paid and support provided to rehabilitation, development and poverty alleviation in Cambodia by the Swedish people and Government, within the fields of basic education, decentralized rural development, mine clearance, rural roads and the promotion of democracy and human rights. This long-term relationship provided a platform for open and transparent discussions.

Looking at recent developments in Cambodia, H.E. Keat Chhon emphasized that the communal elections held in early February represented a major step in strengthening democracy at grass root level, and that the RGC on the whole was satisfied with the election process. Swedish support had been crucial in making the election possible.

The Head of the Cambodian Delegation also underlined the will and determination of the RGC to move ahead with the national reform agenda, in spite of the serious challenges ahead and the specific problems presented by the floods in 2000, regional economic turmoil and global recession. The economic prospects would be presented more in detail at a later session of the meeting.

Finally, H.E. Keat Chhon conveyed the sincere gratitude of the Royal Government for past and ongoing cooperation and support, declaring the Third High Level Consultation between Sweden and Cambodia formally opened.

2. Opening Remarks by Mr. Jan Bjerninger (Statement attached)

Mr Bjerninger thanked H.E. Keat Chhon for his warm words of welcome and appreciation of past cooperation. Mr.Bjerninger also conveyed the sincere regrets from Mr. Bo Göransson, who for reasons beyond his control could not attend the current discussion, but would be joining for meetings and the solemn signing of the bilateral agreements in the afternoon.

Mr. Bjerninger briefly referred to the long history of Swedish engagement in Cambodia, going back to 1979 and the overthrow of the Khmer Rouge regime. He complimented Cambodia for the achievements with regard to regional integration and Asean membership, and moves towards firmer regional cooperation and WTO membership.

On the domestic front, Mr. Bjerninger expressed his appreciation of the progress made since 1999, the first

year of real peace and stability in the country, underlining that three years would be a short perspective for any country. He also commented on the very ambitious reform agenda that the RGC had embarked on, noting that achievements appeared especially impressive with regard to macro-economic stability and fiscal reform.

Other successful areas included demobilization, now entering its second year. He commended RGC for the ongoing decentralization and communal reform, having become a much faster and more nationally-owned reform than expected in early 1999. The recent communal elections, although far from perfect, with unacceptable levels of violations, violence and other shortcomings, had been a very important step in this reform. The weaknesses experienced in these elections should be addressed when preparing for the general elections 2003, including a revamping of the NEC into a truly independent and professional body.

Mr. Bjerninger noted that the slow implementation of other parts of the Public Administrative Reform, key too many other reform areas, remained a strong concern. Another strong concern was the budget allocations and disbursements to the social sectors, which still remained below the targets.

Forestry remained a difficult reform area, although several important steps forward incl. new forestry law, the concession review and recent suspension of logging had been taken. Referring to Swedish history and experience, Mr. Bjerninger strongly recommended an increased focus on community forestry as an alternative to concession-based arrangements.

On governance, Mr. Bjerninger welcomed the impressive and comprehensive Governance Action Plan, but expressed concern regarding the slow pace, particularly in the fields of legal and judicial reform, and actions against corruption.

In this connection, Mr. Bjerninger expressed disappointment with the breakdown of talks between the UN and the RGC. Sweden would not wish to push UN to accept a formula for the trial that according to its professional judgement would not live up to international standards of justice. Mr. Bjerninger therefore urged the RGC to consider further concessions and revisions of the concepts presented in order to move ahead with an agreed formula.

On poverty alleviation, Mr. Bjerninger complimented the RCG for the preparation of the Second Socio-Economic Development Plan (SEDPII), providing a reasonably solid base for poverty alleviation. He also expressed satisfaction that the SEDPII and the World Bank supported Poverty Reduction Strategy process now appeared to be converging under national ownership. Several vital components for the implementation of the strategy were also now coming into place, such as the Council for Social Development, the National Poverty Forum and a national system for poverty assessment and monitoring. Mr. Bjerninger pointed out that the SEDP/PRS would provide a firm basis for future development cooperation between Sweden and Cambodia.

Mr. Bjerninger also brought up the threats posed by HIV/Aids and the need for strong political will and firm actions in order to avoid the tragic scenario that Africa had experienced.

Finally, he also noted that Swedish cooperation over the years increasingly had become an expression of the increasing confidence in the development and reform agenda of the RGC. This confidence would now be renewed through the signing of two long-term agreements on future development cooperation between Sweden and Cambodia later in the day.

3. Presentation by H.E. Keat Chhon on recent socio-economic developments and reforms (Presentation attached)

H.E. Keat Chhon gave a very brief summary and highlights of socio-economic developments and reforms. The Royal Government of Cambodia has a political platform and reform programs that aims at sustaining economic growth, reducing poverty and accelerating economic reconstruction, maintaining macroeconomic

stability, strengthening the banking and financial institutions, implementing additional fiscal reform measures, ensuring a sound management of public property and increasing public investment in physical and social infrastructure and human resource development. He pointed out that the foundation for sustainable development rested on the course of actions taken by RGC to implement policies and strategies contained in the following strategic papers:

- The Governance Action Plan (GAP);
- The Interim Poverty Reduction Strategy Paper (IPRSP);
- The Second Socio-Economic Development Plan (SEDP II); and

In order to ensure the efficient implementation of the reform programs, the RGC has taken decisive measures in 1999-2001 to strengthen budgetary discipline, continue fiscal reforms. The RGC is determined to generate a current budget surplus by taking revenue-enhancing measures improving the rationalization and efficiency of public expenditures, improving tax and customs administration, implementing on-site audits, combating corruption and smuggling, strengthening good governance and resuming the pre-shipment inspection (PSI) mechanism. On the expenditure side, the RGC has taken steps to shift spending priorities by providing adequate funds for spending on social and economic sectors.

The administrative reform is key to ensuring successful improvement in service delivery and strengthening governance.

The legal reform was on track. However, the judicial reform was moving slowly, although the Council of Ministers had prepared a Joint Master Plan for Legal and Judicial Reforms and would make its utmost to provide additional budget resources to the support of the Council for Legal and Judicial Reforms. Several of Cambodia's development partners are considering providing technical and financial assistance to the ongoing reform process.

The 2002 Finance Law was defined as promoting democracy, reducing poverty, strengthening good governance and empowering women. Further increased spending on social and economic sectors provided a good illustration of this point and the Finance Law and the Law on Commune Council Administration would result in financial delegation to local communities.

4. Discussion on development prospects and challenges

The delegations briefly discussed the achievements made over the last years, the current situation and future challenges. It was acknowledged that Cambodia had made much progress during the current coalition government period, pursuing the joint political platform, the reform agenda and the commitments made to the donor community at the Consultative Group Meeting in Tokyo in February 1999.

It was acknowledged that Cambodia had been especially successful in maintaining macro-economic stability and fiscal balance, achieving reasonable economic growth under the given circumstances.

Gender equality, especially in connection with commune elections, was discussed. The Swedish delegation pointed out that women's participation not only was a matter of equality and rights, but also, according to Swedish experiences made important contributions to the quality of development.

Concrete measures to fight corruption was also raised by the Swedish Delegation

5. Development Co-Operation 2002-2006

5.1 Brief presentation of past and future

Mr. Bjerninger gave a brief presentation of the concept of the "Swedish Country Strategy", its background,

justifications and main thrust. Key points of the presentation were:

- Long-term bilateral development co-operation was formalized from 1996, replacing emergency relief and rehabilitation through multilateral agencies during the previous 15 years;
- A Swedish Country Strategy attempts to identify and define the best use for Swedish development resources in support of each partner's own development strategy for poverty alleviation and sustainable development;
- The new country strategy for Cambodia had been based on more than one and a half year of preparations, analysis and discussions, and was among other things based on a substantial analysis of results and effects of past cooperation, an ambitious country analysis and considerations of Swedish comparative advantages and resources;
- The new country strategy, which was approved in January 2002 by the Swedish Government, represented a high degree of continuity both in terms of objectives and priority areas for cooperation, a major reason being that past cooperation on the whole appeared to have been relevant and effective, in spite of turbulent or uncertain environment of cooperation;
- Thus, the new strategy retained as its overriding goals:
 - To promote opportunities for poor men, women and children in rural areas to influence and improve their living conditions.
 - To create preconditions for good governance with emphasis on development of democracy and respect for human rights.

An important modification was a clearer reflection of children's rights in the first goal definition. The strategy also retained as major areas of cooperation:

- decentralized local development through Seila
 - basic education
 - humanitarian de-mining
 - democratic governance and the respect for human rights
- The new strategy envisaged an increased concentration, implying a phasing out of the cooperation on rural roads through ILO and the rural Water Sanitation Project through the UNDP/World Bank.
 - On the other hand, Mr. Bjerninger pointed out that the strategy offered scope for additional cooperation within the three major pillars of cooperation-decentralized rural development, primary education and democratic governance, to be further discussed and agreed between the two governments.
 - In terms of volume, the strategy provided a slight nominal increase in overall development resources. Mr. Bjerninger explained that a new budget technique had been introduced in Swedish development cooperation in order to achieve greater flexibility and higher utilization of funds. Instead of a formally set amount, country performance could affect the amounts actually disbursed. In the case of Cambodia, Sweden was now committed to "keep available at least 330 million Swedish Kronor" over a three year period. Overall development resources from all budget sources were estimated to an average of some 140 million SEK per year.

The Cambodian delegation confirmed that the objectives as well as the contents of the new Country Strategy were in line with RCG policies and plans and welcomed future cooperation along these lines.

Finally, the Parties acknowledged the ambitions to mainstream crosscutting issues and dimensions - gender

equality, environmental sustainability, children's rights and HIV/Aids - in programmes and projects within the cooperation, wherever relevant and realistic.

5.2 Projects and Programmes

1. *Decentralized rural development – Seila*

The Swedish delegation expressed its satisfaction with the performance of the Seila programme, fully understanding the need for a high degree of flexibility to make it adapt and remain sharp and relevant in support of the local governance agenda still being shaped.

Referring to the recent annual consultations on the Seila PLG, the Parties confirmed that the Seila Programme would continue to be a main area of cooperation during the coming 4-5 years. An additional support from 2003 would be prepared and agreed during 2002, assuming continued co-financing with and through the UNDP support project Partnership for Local Governance. The need and content of additional components, especially within the field of sustainable management of natural resources, would form part of these preparations.

The Parties also confirmed that the Programme clearly should retain its focus on the role and responsibility of the new commune councils to promote sustainable local development as well as spearhead de-concentration at provincial and district levels to support and promote local level development. In addition, the Parties confirmed the transitional, pilot nature of the Programme, to be replaced by emerging and fully replicable and integrated national institutions, structures and roles.

2. *Rural Roads*

The Parties confirmed that Swedish support to the Upstream Project through ILO would be finalised during 2002. It was, however, agreed that the needs and content of a brief extension of the Upstream Project beyond June 30, 2002, would be assessed and prepared, in order to ensure a smooth and sustainable phasing out of the current co-operation. The Parties confirmed the promising signs indicating that the outcomes and results of the Upstream Project in terms of policy, institutions and methods may be replicated and carried forward by the MRD and with the emerging major support being prepared by the World Bank (PRIP) and the ADB.

The Parties noted that the annual review and consultations on the rural roads cooperation was scheduled for the end of April 2002, and that an independent evaluation would be carried out in the end of 2002 or early 2003.

3. *Rural Water and Sanitation*

The Parties confirmed that the current cooperation had been successfully completed as of December 2001. It was noted that an evaluation was being planned for the latter part of the year covering also a similar programme in Laos.

4. *Humanitarian Demining*

The Swedish Delegation confirmed that Sweden would continue the assistance to humanitarian demining up to 2004, referring to the strong preferences and wishes expressed by the RGC during the strategy formulation process. A special review of the cooperation would be carried out in 2004 to guide possible future directions, while the intentions would be to phase out the cooperation during the strategy period.

With reference to the recent annual review and consultations on the co-operation, the Parties also referred to the positive development within the sector, including increasing national ownership and responsibility for demining institutions, and operations as manifested during the past year. However, the institutions and national commitments remained fragile and concerted efforts by the RGC to address donor worries should remain a high priority for the RGC.

With regard to the Mine Detection Dog Project, implemented in co-operation with the Swedish Armed Forces, the Parties noted that the serious problems affecting the first phases of the project now seemed to be overcome. The MDD had started to prove its value and the mine dogs were increasingly being integrated and appreciated as important tools in national demining operations. The MDD and Cambodia were increasingly looked upon as being in forefront on efficient use of mine dogs in the fight against the danger of mines. There were also hopeful signs of real user integration of this resource and its sustainability.

It was further noted that the current MDD project, establishing the basic mine-detection dog capacity, would be completed by the end of December 2002, after a 6 months extension, when the current role of the Swedish Armed Forces would come to an end. The Parties confirmed the agreements reached at the annual consultations that the need for continued back-up and other limited services and support should be analyzed and identified, and that the emerging requirements and possible modalities for such follow-up support would be assessed and considered by Sweden during 2002.

5. Basic Education

The Swedish delegation noted with satisfaction the impressive and encouraging development in terms of national ownership and leadership in the education sector. Both parties acknowledged that an growing group of external partners had shown an increasing willingness to work on a true partnership basis, moving towards a national sector programme, as a step on the long but challenging road towards a real sector wide approach and into a sector budget support. Both parties recognized that Sida, together with UNICEF and ADB, had contributed to this process. The Swedish delegation confirmed willingness to continue to do so in the future. The Swedish delegation also indicated the strong probability of further expansion and long-term engagement in the sector.

6. Poverty Monitoring

The Parties agreed on the importance of the Poverty Monitoring and Analysis System and its role for strategic learning and monitoring of the implementation, resource allocations and impact of the RGC poverty strategies. Strong efforts to ensure full support and participation from all concerned government agencies and that its reports and recommendations were used by decision-makers remained crucial.

Both parties expressed satisfaction with the design of the programme, which ensures strong capacity building of national institutions and personnel.

7. Democratic Governance and Human Rights

The Parties confirmed the importance of including democracy and human rights more firmly into the direct bilateral cooperation, agreeing that judicial and legal reform, further support to decentralization and the communal reform and de-concentration in addition to the support though the Seila programme would be appropriate areas to be further explored. It was acknowledged that ether media, bringing radio programmes close to people, could be one dimension within any of the two new areas of cooperation. The Swedish delegation also informed the RGC that current democracy support under additional funding though the Swedish NGOs Forum Syd and Diakonia and the UNHCHR would continue. In this connection, the Swedish delegation expressed its satisfaction that the Memorandum of Understanding between the UNHCHR and the RGC had been signed recently.

8. Consultancy Fund

The Swedish delegation expressed its regrets that it was not in a position to sign the new specific agreement due to technical reasons. However, the delegation emphasised that there were no outstanding problems with regard to the scope and proposed volume of the fund, 8,5 MSEK over three years, with 3 MSEK earmarked for 2002. A major budget item under the fund in 2002 would be to assist the CDC to be the national host of the Consultative Group Meeting in Phnom Penh in June.

9. *Balance of Payment Support*

The Swedish Delegation informed the Cambodian delegation that Sida had recently initiated preparations of a second phase of financial assistance in support of the overall reform programme. Sida had come to the conclusion that the first phase of the PRSP should be made the basis for consideration of such assistance. If forthcoming after more detailed preparations and assessment, Sweden would also aim at giving the next phase the shape of a budget support, and formalize it as parallel financing rather than as co-financing with the World Bank. The level would probably remain about the same as the first BPS - around 40 MSEK and become effective from 2003.

10. *Other*

a) *Partnership and donor coordination.*

The Swedish Delegation expressed its appreciation of the progress made in establishing better partnership and donor coordination, referring to the developments within the health and educational sectors as forerunners and good examples.

The Parties also concurred in seeing the forthcoming CG meeting in Phnom Penh as a very important event, strengthening national ownership and moving the agenda and dialogue closer to the national scene.

The Swedish Delegation, referring to the Swedish membership of the European Union, also expressed the hope that the establishment of an EC country delegation office would promote closer and more effective coordination with the assistance provided through the EC.

5.3 Next Consultations

The Parties tentatively agreed to hold the next high level consultations in 2004.

6 Closing Statement by H. E Keat Chhon.

The closing statement is attached.

Done in Phnom Penh on March 4, 2002



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