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Cambodian-German Government Consultations on Development Cooperation

Excellency,

Please let me take this opportunity to convey my sincere gratitude for the open and fruitful discussions we had at our government consultations on 17 February 2011. In particular, I would like to thank you, also on behalf of Mr. Dominik Ziller and of the German delegation, for the friendly atmosphere and the hospitality you extended to us during our stay in Cambodia.

In line with what was agreed, I would like to briefly summarise the key results of our discussions.

1. General points

Both Heads of Delegation appreciated the spirit of partnership under Cambodian-German development cooperation and expressed their intention of further strengthening the alignment of German development contributions with the national development priorities of Cambodia, with a view to ensuring effective use of German resources in supporting equitable growth and acceler-



ated poverty reduction. In this context we had also agreed that our Technical Assistance should explicitly be used to contribute to capacity development and to build and strengthen country systems.

With regard to new commitments in 2011, we informed you that budget constraints would not allow us to increase the volume of funding; we could not even exclude the possibility that the 2009 level of commitments might not be achieved in 2011. This situation made it generally difficult to take up new project proposals, as many ongoing projects required funding for the continuation of the activities.

2. Priority Area of Rural Development

- 2.1 The Cambodian-German Joint Strategy for the Priority Area of Rural Development was discussed and agreed; the final version of the paper is attached to this letter.
- 2.2 Regional Economic Development (RED) Programme (Green Belt): No new commitment for the continuation of this programme will be required in 2011 as an amount of about € 800,000 from the Rural Development Programme Kampot and Kampong will be available to be reprogrammed for the RED Programme. The Cambodian delegation informed the German delegation that the provision of counterpart funds will be ensured by transferring responsibility for financial management to the Provincial Government.
- 2.3 Rural Infrastructure Programme Phase III (RIP III): We have had an intensive discussion on the issue of creating conditions for securing the long term sustainability of rehabilitated roads. Our Head of Delegation stressed that a comprehensive strategy was required to balance rehabilitation and the need to secure funds for operations and maintenance purposes through the Cambodian budget. In addition, given the considerable increase in funding for rural roads from the ADB and the World Bank, the continuing role of German financing in this area is unclear. We also informed you that the financial volume of the project proposal, namely more than US\$20 million, was far beyond the possible allocation in 2011. Finally, in case the new request for financial cooperation support in the land sector should be pursued (see below) this will further narrow the options under financial cooperation.



2.4 Land Sector: While appreciating in general the cooperation in this sector and the successes achieved so far, we also raised a number of points which needed to be addressed in order to ensure further and faster progress in the sector; *inter alia* coordination between the relevant ministries needs to be improved, the provision of land to the poorest, landless is far behind targets, and the process of registration and titling, including for indigenous communities, should be accelerated. We also stressed that cooperation in this sector was under constant and critical observation by the German and European public, as well as parliamentarians, since cases of involuntary resettlements had been repeatedly brought to their attention by Cambodian and international NGOs.

We stated that Germany was ready to continue and even to intensify its cooperation with the Cambodian government in the land sector. Therefore, we welcomed the proposal for continued technical cooperation. With regard to the new request to provide financial cooperation funds as well in this sector, we informed you that we would generally consider this to be an appropriate extension of German support in the sector. A possible important input could be the financing of advanced equipment needed to speed up the registration process on a country-wide scale. However, key information on the details of the proposal was still lacking; we therefore agreed to arrange for a technical mission to assess the possible scope and specific content of a financial cooperation input, with a view to enabling both sides to take an informed decision at the government negotiations in December 2011. Furthermore, the Cambodian side undertook to prepare more detailed information on the substance of the proposal.

3. **Priority Area of Health**

3.1 Social Health Protection (SHP), Phase III: The German side welcomed the project proposal submitted by the Ministry of Health of RGC, but again it was considered that the financial amount indicated for Phase III of the programme exceeded the funding possibilities under financial cooperation in 2011.

3.2 Social Protection for Special Vulnerable Groups: We noted that the German side was prepared to consider support for improving the access of vulnerable groups to health services



and related measures. This should not be a new project or even a sub-sector, but rather it should be integrated into the ongoing social health protection programme as an additional component. In line with the conclusions of the government negotiations of 2009, a study had been undertaken on the needs of vulnerable groups and on a possible package of measures in response to such needs. The study had established several activities which should be incorporated into the framework of the joint ongoing programme under financial and technical cooperation.

3.3 German Health Care Partnership: We informed the Cambodian side about the launch of this joint initiative by the BMZ and the German private sector, financed in equal parts by the participating companies and the BMZ. Its main objective is the provision of rapid and flexible advisory services to enhance the national healthcare systems in partner countries.

4. **Cross-cutting issues**

4.1 Support to the National Audit Authority: We informed you that we are prepared in principle to commit additional funding for a final extension of the project. Also, we expressed our concern that the objectives of the project may not all be achieved as originally envisaged. It is important that the government grants the Audit Authority unrestricted, immediate and free access to all documents. We noted that there are considerable delays in the issuing of the annual reports of the NAA.

4.2 Decentralisation and Public Administration Reform: The German side is considering favourably the two proposals submitted by the Ministry of Interior and the Council for Administrative Reform. Regarding decentralisation, we stressed that, due to the limited funds, the cooperation needs to be carefully focussed on developing the capacities of councils and districts, i.e. on strengthening the democratic decentralisation aspects of the reform. With regard to the reform of public administration, the German delegation pointed out the necessity of developing and approving options for sequencing the compensation reform by the end of 2011, with a view to replacing the priority operating costs (POC) scheme, which had been introduced as an interim measure.



- 4.3 Identification of Poor Households Programme (IDPoor): The German side explained that IDPoor was a programme where all the intended objectives of German cooperation had been achieved (development of the scheme, successfully piloting the scheme, training Cambodian personnel to implement and extend the scheme beyond the pilots). The success of the project was also demonstrated by the high degree of interest shown by Cambodian institutions (in particular government institutions) and other development partners in the application of the IDPoor scheme, thus clearly testifying to its high value for the country's development. Therefore, the sustainability of IDPoor must now be secured through government sources, and the German side urged the RGC to ensure the continuation of IDPoor by allocating the necessary budget funds.
- 4.4 Access to Justice for Women: We informed the Cambodian side that this Programme did not need further funding out of the 2011 commitment, since additional funds had been provided by Germany and by the Government of Spain in 2010. With regard to the Fund established under the previous commitment of 2009 to support the activities of civil society organisations (CSOs), we stated that we could agree to the Cambodian proposal that public/state institutions might also become eligible for support. However, we suggested that together with representatives of the Ministry of Women Affairs (MoWA) and GIZ, CSOs should be represented in the governance structure of the Fund and that an adequate financial contribution from RGC would be highly desirable.

5. Miscellaneous

- 5.1 Exoneration of withholding tax for DEG: H.E. Deputy Prime Minister Keat Chhon had stated in December 2010 that the Ministry of Economy and Finance (MoEF) has no objections to conclude an agreement for the exoneration of withholding taxes in connection with DEG's financing in Cambodia. Based on this clarification, the German Embassy in the meantime has proposed to MoEF to schedule a meeting with DEG representatives in mid-May with the objective of finalizing negotiations and signing the proposed agreement.



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5.2 Place and Date of the 2011 Government Negotiations: We agreed that the next government negotiations will be held in Bonn, Germany, at a date to be determined, between 10 and 15 December 2011.

I apologise for sending you this letter several weeks after the consultations, but a mission to South East Asia and vacations meant that I was unable to finalise it until now.

I look forward to meeting you again at the government negotiations in Bonn later this year.

Yours faithfully,

Dr. Josef Füllenbach