

Fourth High Level Consultation between The Royal Government of Cambodia and The Government of Denmark

on Danish Environmental Assistance to Cambodia

Council for the Development of Cambodia, Phnom Penh

11-12 January 2006

AGREED MINUTES

1. Introduction

Bilateral consultations on co-operation between the Kingdoms of Cambodia and Denmark were held for the fourth time in Phnom Penh on 11-12 January, 2006.

The Cambodian delegation was headed by Senior Minister, Keat Chhon Minister of Economy and Finance and First-Vice Chairman of CDC, and H.E. Mr. Chhieng Yanara, the Secretary General of CDC, and the Danish delegation was headed by Mrs. Susan Ulbæk, Head of Asia Department, Ministry of Foreign Affairs (a list of participants is enclosed as Annex 1).

During its visit to Cambodia, the Danish Delegation had separate meetings with H.E. Mr. Hor Namhong, Deputy Prime Minister and Minister for Foreign Affairs, H.E. Mr. Sum Manit, Chairman of the Permanent Coordinating Body of the Council for Legal and Judicial Reform, and H.E. Mr. Suy Mong Leang, Director of the Project Management Unit within the Council for Legal and Judicial Reform as well as with H.E. Mr. Sak Setha, Director General of the Ministry of Interior. In addition, the Danish delegation had meeting with other resident donors and civil society representatives.

2. Opening Statements

Opening the talks, the Head of the Cambodian delegation welcomed the Danish delegation. He explained progress in achieving the Millennium Development Goals. There had been measurable improvements in various social indicators such as primary education, reduction in child mortality rates, significant reduction in communicable diseases, most significantly in HIV / AIDS. Poverty in Cambodia had fallen by 10-15 percent from 1994 to 2004.

He also highlighted the good cooperation and partnership with Denmark which now had resulted in a new programme in the field of Natural Resource Management & Livelihoods (NRM&L). The new programme would be implemented within the framework of the Royal Government of Cambodia's Rectangular Strategy and the National Strategic Development Plan for 2006-2010 which had now been elaborated and was in the process of adoption by the Council of Ministers. He sincerely hoped that other donors would follow the example of Denmark and align their assistance to the new National Strategic Development Plan thus contributing to enhanced aid efficiency and consistency with Cambodian requirements and priorities. The new joint Danida/DfID programme was also a good example of a multi-donor, sector program approach in line with the March 2005 Paris declaration and he thanked the Danish delegation for its support to harmonization and alignment.

The Head of the Danish congratulated the Government on the formulation of the new National Strategic Development Plan which should provide the basis for future government/ donor cooperation. With a single development strategy in place, focus could now be put on action plans and actual implementation. Denmark was fully committed to donor harmonization and alignment as a prerequisite for national ownership, enhanced aid effectiveness and reduced transaction costs and she confirmed Denmark's commitment to working with the RCG as a reliable and predictable partner.

The Danish Delegation also commended the progress achieved in economic and social development over the past years on the backdrop of civil war and prolonged political instability. In sectors such as education and health, including HIV / AIDS, considerable progress towards achieving MDGs was welcomed. However important challenges remained not least in the area of good governance. This was also the rationale for mainstreaming good governance and civil service reforms into the new NRM & L programme and for expansion of assistance in the area of human rights and support for institutions central to promoting good governance.

The Danish delegation expressed concern that events unfolding in Cambodia at present was part of a broader trend towards limitation of Cambodian people's rights through restrictions on freedom of expression, freedom of assembly, and hence loss of choice and pluralism. Progress on human rights and pluralism underpinned development and hence Danish development cooperation had to be seen in this context.

The Cambodian delegation confirmed the commitment of the government to human rights and democracy.

3. Cambodia's reform programmes

Public Finance Management Reform

The Cambodian delegation reported that macro-economic performance remained positive in 2005 with an estimated 7 percent growth rate, reflecting in particular a continued strong performance in garment exports and in the tourist industry. Fiscal performance also improved in 2005 with domestic revenue reaching 11.7 percent of GDP in 2005, compared to 11.3 percent in 2004. Tax revenue increased from 8.4 percent of GDP in 2004 to 8.7 percent in 2005. On the expenditure side, good progress had been made in implementing the 2005 budget with an almost 100 percent execution. This was a result of improved fiscal expenditure management.

The Danish delegation commended Cambodia on the macro-economic achievements and with the progress in fiscal expenditure management. An efficient public financial management system was a prerequisite for Cambodia's own budgeting and for accountability, and for donors if they were to provide funds through the national budget and financial system in the future.

The Danish delegation strongly urged the government to develop a long-term strategy to broaden and enhance revenue collection in order to increase tax revenues. Broadbased taxation combined with funds spent well could also play a role in supporting the social cohesion in the Cambodian society.

The Cambodian delegation acknowledged the importance of an efficient public financial management system. On the issue of tax revenue collection the Cambodian government was working on introducing a real regime of taxation, including a lowering of the threshold for VAT payments which was expected to yield a 30% increase in tax revenues. Furthermore, the Government would pursue the issue of urban land taxation for renewed consideration by Parliament during the coming 2-3 years. Stronger enforcement of current legislation would in addition lead to higher revenues.

Public administration reforms and salary reforms

The Cambodian delegation stated that a comprehensive civil service reform, rationalizing the civil service and introducing effective performance management for improving service delivery in Cambodia, was an important priority. The public administration reform rested on four pillars: (i) improved quality of public service delivery, (ii) enhanced salary and employment reform, (iii) institutional and individual capacity development and (iv) better use of information and communication technology.

On salary reform, it was reported that since October 2001 the average salary of civil servants had increased by 116% - from an average of 19.5 USD per month to 41 USD per month by November 2005. Importantly, primary school teachers and doctors had enjoyed healthy increases. Due to the limited resources it had not been possible to increase general salaries more. Instead the Government had created the Priority Mission Groups (PMGs), in order to enhance allowances for selected groups of staff. A sub decree 98 from August 2005 encouraged ministries and development partners to increase the use of PMGs. The Council of Administrative Reform (CAR) had been negotiating with a number of ministries on using the PMGs. Furthermore, a Merit Based Pay Initiative (MBPI) was being implemented in the Ministry of Finance and under consideration in the Ministries of Lands, Interior and Health. The Ministry of Finance pilot project would cover a total of around 300 officials and provide for an average monthly salary of 275 USD and was progressing well.

A joint-government-donor strategy on how to phase out salary supplements was expected to be finalized by the end of January 2006. The strategy was based on the increased use of PMG /MBPI pilots.

The Danish Delegation supported the merits based approach to salary reforms and hence the MBPI pilots underway. It was important that the pilots were transparent, based on merits and not too bureaucratic. She stressed that the pilot approach was a second best option as a comprehensive approach to civil service reform, including on salary reforms, would have been the preferred option. The current pilots should lead to a new and across the board applicable system of merit and performance based remuneration. In this context it was also important to look at the composition of the state employees, and she encouraged the Cambodian government to further scale down the military. The size of the military was apparently one of the reasons why implementing salary reforms were difficult because all salary increases would also have to apply to the military.

The Danish delegation acknowledged that donors had to be more coordinated in their support towards salary reforms and stop providing salary supplements at the start of new projects/programs. Denmark would - as stated during the High Level Consultations in 2003 - phase out all salary supplements to government officials with the new NRM&L, expected to start mid 2006. Funding would instead be directed to merit and performance based salary reform pilots within the Programme's focus sectors, Land and Decentralisation/Deconcentration.

The Cambodian delegation reported that a new remuneration policy was expected to be presented mid 2006. He also confirmed that salary reforms would in principle extend to the military. The government was currently looking into the consequences of the reform, including the financial implications. The government would not borrow money to fund salaries. He finally expressed appreciation of the Danish policy on salary supplements.

Anti-corruption

The Cambodian delegation reported that the work on the draft anti-corruption law was moving ahead in a consultative process including all stakeholders and international experts. Best practices derived from the United Nations Convention on Anti-corruption had now been included and the draft was currently with the Ministry of Justice in order to ensure consistency with other national laws, including the penal code. Subsequently, the draft law would be presented to the Council of Ministers for possible revision and approval before being sent to the legislative institutions for adoption.

The Danish delegation expressed concern about the level of corruption in Cambodia and welcomed H.E. Prime Minister Hun Sen's active stand on the need to curb corruption. The passing of an anti-corruption law in accordance with international standards was key in that regard. A vibrant and independent media was another important tool in curbing corruption. At the CG-meeting in 2004, the Government had committed itself to ensure that high profile corruption cases were brought to court. This has so far not happened. She stressed that DANIDA's policy on anti-corruption was a policy of zero-tolerance.

The Cambodian delegation confirmed its policy on anti-corruption. Significant advances had already been made. The government had strengthened the National Audit Authority, and had expanded the scope of implementation of the Public Procurement Sub-Decree to all ministries and agencies. An internal audit system for the whole government apparatus was currently being set up. But Cambodia did not at this stage have qualified investigators and therefore it was difficult to handle the high profile cases. The establishment of an independent body was foreseen in the anti-corruption law and it would deal, among other things, with the issue of investigating corruption cases. Also, alternatives to prosecution such as improved systems should be explored.

The Danish delegation acknowledged the challenges and agreed that priority should be given to creating systems preventing and hindering corruption, but reiterated that the culture of impunity in matters also related to corruption was a very serious problem that had to be addressed urgently.

Legal and Judicial Reforms

The Cambodian delegation expressed its thanks to the Danish government for the support provided through the Danish Centre for Human Rights towards the preparation of the Strategic Action Plan for Legal and Judicial Reform.

The government was at present working on preparing or reviewing eight fundamental laws related to the reform of the legal sector, including the Anti-corruption Law, the Penal Code and the Civil Code. They were expected to be passed by Parliament soon. A daunting task in particular taking into account that the Ministry of Justice did only have few people with the necessary skills in drafting of laws. The Cambodian delegation also asked Denmark to consider supporting projects under the Strategic Action Plan. There were still major funding constraints. Success in implementing legal sector reforms would depend on the availability of funds.

The Danish delegation welcomed the Strategic Action Plan and expressed the hope that it would kick-off the required comprehensive reform of the legal sector. Denmark was contemplating support towards increased access to justice, in particular in relation to land management. The Danish Head of delegation asked to be informed about the allocation of funds to the legal sector from the national budget, referring to the CG-meeting in 2004 where the government committed to increase funds to the sector. The budget was key to ensure proper functioning of courts and ultimately the rule of law.

The Cambodian delegation responded that budget allocations towards the legal sector had almost doubled in 2005, primarily due to an increase in salaries to the judges. Now judges received an average salary of 400 USD per month. The Cambodian delegation acknowledged the need to increase the budget even more in order to ensure that the legal system was able to function properly.

Decentralisation and deconcentration reforms

The Cambodian delegation reported that the Strategic Framework for Decentralisation and Deconcentration (D&D) Reforms, approved in June 2005, would be implemented under the auspices of the Ministry of Interior. Work on "organic laws" was moving forward and was expected to be finalised by the end of the first quarter of 2006. Next step would be the formulation of a National Decentralisation and Deconcentration Programme (NDDP) for 2007-2010. NDDP progress would depend on how much government would be able to move on the preparation of the organic laws.

The Danish Delegation welcomed progress achieved in Decentralisation and Deconcentration. Important issues would now be to ensure transparent decision making between different layers of government and to ensure the accountability of the appointed governors. She stressed the difficulties of funding Commune Councils as part of the new joint Danida/DfID programme in the absence of a National Programme, as funds were envisaged to be channelled through the government system. The National Programme would also have to be in place by the second quarter of 2006 to enable donor support to continue after the 1st of January 2007. Otherwise the Commune Councils would not receive donor funding after that date.

The Cambodian delegation underlined that it would do its utmost to have the National Programme in place by the second quarter of 2006 to ensure a smooth transition by the 1st of January 2007.

Land laws and regulations

The Cambodian delegation reported that sub-decrees had been passed on social land concessions, land registration and state land management in 2005. Implementation of the land registration programme was nationwide and the aim was to give out approximately one million title deeds by the end of 2007. So far 508.000 parcels had been registered and 249.000 titles had been made.

The Danish delegation commended the Cambodian government on the achievements made so far. The issue of land titles and poverty reduction were closely interlinked. The lack of clarity over the use of state land was a major issue in Cambodia and the sub-decrees was a positive step in the right direction. The Danish Head of delegation - referring to H.E. Prime Minister Hun Sen's statement that robust action was needed in this area to avoid rural unrest - stressed the importance of putting a stop to civil servants' unauthorized issuance of land concessions.

The Cambodian delegation in reply reported that a sub-decree on management of government assets, including transactions related to state-owned land, was prepared in June 2005. New transactions would have to follow the sub-decree - expected to be adopted very soon - and no new transactions were allowed until the sub-decree was in place.

The Danish Delegation asked if existing Cambodian law, mainly article 18 of the Land Law did not already prohibit state officials from giving out concessions.

The Cambodian delegation replied that the Land Law was adopted in 2001. What happened during the many years of political uncertainty happened and it would be wise to draw a line from that date and move forward. Today there was reason to be confident about Cambodia's future as a country governed by rule of law. The focus today should be on implementation. Some of the problems related to transaction of land concessions in the past had been due to lack of communication and coordination channels within the government system.

The Danish delegation pointed to the need for further discussions on these matters. It was also necessary to look into more consultations at local level with the people affected by previous decisions in this area.

It was agreed that Denmark would raise the issue in the Technical Working Group on Land in order to allow for further discussions between government and development partners.

4. Danish Development Cooperation with Cambodia

The 2001-2005 NRM programme

The Cambodian delegation outlined the achievements under the 2001-2005 Natural Resource Management programme (NREM) and thanked for the Danish support and coordinating role of the Danida Cambodia Office in fishery, forestry and environment and NREM. The NRM had significantly contributed to Cambodia's efforts to meet its Millennium Development Goals. Especially the goals related to eradicating extreme poverty and hunger and ensuring environmental sustainability, which were closely interrelated in Cambodia, had been furthered under the existing programme and would be targeted even more explicitly under the planned 2006-2010 Natural Resource

Management & Livelihoods programme. The NREM had been instrumental in advancing management, policy and reform processes in the sector and a range of important tangible outcomes strengthened capacity for conservation, protection of legal rights of communities - had been achieved.

Institutions within the NREM sector were, however, facing a funding crisis. The Cambodian delegation hoped that an agreement in principle could be reached on transferring unspent funds under the terminating NRM programme to partner institutions. Furthermore, help was requested within the framework of the new NRM&L Programme for alleviating the lack of funding in key natural resource management institutions, i.e. the Forestry Administration and the Ministry for Environment.

The Danish delegation expressed its satisfaction with the achievements under the NREM programme. Concrete results - more than 500.000 people had received natural resource management services and preparatory work for land titles for approx. 45.000 families had been finalised - indeed indicated that positive changes in people's lives had come about as a result of the programme. The new programme would build on these results and the Danish delegation reiterated its commitment to a successful transition phase where the sustainability of past results was ensured and solid building stones for the new programme were laid down.

The issue of use of remaining funds under the current NRM programme would be looked into carefully and the Danish delegation would revert on this matter on the basis of concrete government proposals. As had already been agreed, no funding for the Ministry of Environment would be made available under the new programme. For the areas where financing would not continue under the new programme, concrete exit strategies had been elaborated. The coastal zone management centres constituted the sole exception, however. The RCG had previously committed itself to making the necessary funds available from 2005, but these had yet to materialise. Issues of sustainability were paramount.

The Cambodian delegation confirmed its commitment to the continued operation of the coastal zone management centres. It was agreed that sufficient Government funds would be made available from 2007.

The 2006-2010 NRM&L programme

The Cambodian delegation expressed its sincere appreciation of the continued Danish support under the joint Danida/DfID NRM&L programme. The new programme targeted Cambodian priority areas, was embedded in national strategies and designed to use the Programme Based Approach (PBA). It was welcomed that the high-priority Land Management component would kick off at the start of the new programme. It was also seen as important that the programme was flexible and designed to accommodate the institutional changes to come about as a result of the evolving Decentralisation & Deconcentration process and the future reforms in land management.

The Danish delegation expressed its appreciation of the Cambodian-Danish cooperation. In particular, the CDC's support to the jointly Danida/DfID funded program had been very valuable and would be needed in the next months to ensure continued Government ownership in the process of finalizing programme documents. The process set an example for harmonization and alignment of donor funding. Also, the planned joint annual reviews chaired by CDC were welcomed. As the anchoring of two components would be within national programmes - the National Decentralisation and Deconcentration Programme and Land Management Programme - the RGC was strongly urged to ensure the timely preparation and implementation of these programmes to enable the NRM&L to use Cambodian systems, structures and procedures from the offset.

This programme was a novel feature and could set an example for other donors and pave the way for further advances towards sector programme support and eventually budget support. Furthermore, the decision to use national systems of implementation - including channelling of funds - required solid public financial management systems and continuation of the work under way to further reduce fiduciary risks.

Danish support to Human Rights, Democracy and Good Governance

The Danish delegation informed about its intention to strengthen its support to Human Rights, Democracy and Good Governance in Cambodia. A new program was under initiation focusing on two main challenges: (i) Access to Justice and (ii) Transparency & Accountability. The recipients of Danish support under the programme would initially be civil society organisations, but Denmark would also be looking actively into possibilities for funding State-led strategic processes and institutions such as the anti-corruption bodies to be established and the National Audit Authority.

The Cambodian delegation welcomed Danish support for good governance activities and looked forward to working with Denmark in this regard.

5. Concluding remarks

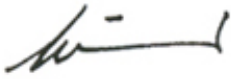
The Head of the Danish Delegation thanked for a frank and fruitful exchange of views and looked forward to the continued cooperation with the RGC.

The Head of the Cambodian delegation expressed his appreciation of the cooperation and friendship between the two Kingdoms. He stated his confidence in continued progress in Cambodia despite important challenges and constraints. As in many post-conflict countries, a feeling of vulnerability and fragility still existed in Cambodia. The pace and depth of further reforms needed to be adapted to the particular Cambodian context to ensure stability and progress. There was commitment at the highest levels of Government to press on with reforms in key areas.

The Danish delegation stated that all financial statements made in these Agreed Minutes were subject to the approval by the competent Danish authorities.

Phnom Penh, 12 January, 2006

For the Royal Government of Cambodia



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