

**Third Annual 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  
1-6 November 2003

**AGREED MINUTES**

## **1. Introduction.**

Bilateral consultations on co-operation between Cambodia and Denmark were held for the third time in Phnom Penh on November, 5th 2003.

The Cambodian delegation was headed by H.E. Mr. Keat Chhon Sr. Minister, Minister of Economy and Finance and First Vice Chairman of the Council for the Development of Cambodia (CDC), and the Danish delegation by Mr. Peter Lysholt Hansen, Under-secretary and Head of Bilateral Affairs, Ministry of Foreign Affairs (a list of participants is enclosed as Annex I).

During its visit to Cambodia the Danish Delegation had separate meetings with H.E. Keat Chhon, Senior Minister, Minister of Economy and Finance, H.E. Sok An, Senior Minister and Chairman of the Council of Ministers as well as with H.E. Chhieng Yanara, the Secretary General of CDC.

## **2. Opening statements.**

Opening the talks, the Head of the Cambodian Delegation welcomed the Danish Delegation and the opportunity to further strengthen the partnership through and looked forward to the consultations. He stressed the need to improve the conditions in Cambodia and especially to alleviate poverty by linking it to the effective and efficient management of natural resources and the environment. He recognised that good cooperation, joint efforts, open and transparent coordination and a real partnership between the two governments helped develop Cambodia. He pointed to the findings and recommendations of the joint mid-term review of the NRE programme as a basis for discussion.

The Head of the Cambodian Delegation then briefly informed the meeting about progress and prospects for Cambodia. The ambition was to ensure full peace and territorial integrity, further develop the multi-party democracy and to achieve satisfactory macro-economic performance. The average annual GDP growth between 1999 and 2003 amounted to 6.7%, thus fulfilling the targets set by the government. Cambodia's accession to the WTO was a considerable challenge. The way to deal with this agenda was to double the reform effort. Reforms needed to be deepened and broadened, and be interlinked from the grass-roots to the central government.

The Head of the Cambodian Delegation also informed the meeting of the successful general elections in July 2003. A comprehensive reform program was now well underway and significant progress had been made in implementing this agenda. However, he recognized that the RGC still had a long way to go and remained committed to good governance and the principles of transparency, accountability, predictability, participation and partnership.

In his opening remarks the Head of the Danish Delegation expressed his sincere appreciation of the kind welcome and commended the Royal Cambodian Government

for the positive results of the past 5-years. The recently completed general elections had been much more peaceful than in the past, although some irregularities had been reported. Denmark welcomed Cambodia's accession to the WTO.

The Head of the Danish Delegation commended RCG for some of its reform achievements. However, a reform of the civil service (CSR) and public administration was now pressing. A civil service reform was key to building up a capable, efficient and service-oriented public sector. Donors, including Danida, unfortunately had helped thwart CSR by paying salary supplements to project counterparts. It was time for the RCG and the donors to confront this issue and agree on a phasing out of this practice, while at the same time pursuing a pay reform with donor support.

The Danish-Cambodian environmental cooperation had yielded some good results. However, the recent evaluation had indicated that there was room for improvement. The Danish Delegation had visited Danida funded activities in the Sihanoukville and Kampot area and had talked to many partners. The impression obtained from these visits confirmed that there was considerable scope for improvements. Too often, Danida funded projects appeared as isolated projects run by external advisors. They were isolated from the government structure and in some cases not adjusted to the new decentralisation and deconcentration agenda.

RGC seemed enthusiastic to enter a new and more committing phase of cooperation with its external partners. Aligning development aid firmly behind the country's own development efforts with the RGC in the driver's seat and donors in the back-seats was achievable, as demonstrated by several other developing countries.

The Head of the Danish Delegation briefed the meeting about the new Danish development policy formulated by the Government in 2003. Poverty reduction continued to be the focus of Danish development cooperation. More emphasis was now on stability and good governance, including on the need to fight corruption. A new anti-corruption strategy had been launched. Also, more resources had been set aside to deal with the environmental dimension of development and a special allocation had been made outside the ODA budget for flexible mechanisms including the CDM.

### **3. Political and economic development in Cambodia.**

The head of the Cambodian delegation described how the process of local democracy had been tested and institutionalised. On 3 February 2002, Cambodia successfully held its first Commune Council elections in a relatively peaceful environment. More than five million voters turned out at the polling stations. The election was a historical event since the last Commune Council elections in Cambodia were held over 30 years ago.

The building of democratic institutions and advancing the enjoyment of human rights under the rule of law in Cambodia was discussed. The Head of the Cambodian Delegation recognized that considerable efforts were required to ensure the separation

of powers, transparency of executive action, and neutral and accountable State institutions. Reform of the justice sector was crucial, given the importance of an independent, competent and effective judiciary in establishing accountability.

The Head of the Danish Delegation stressed that enforcement of the law also remained a large challenge. Individuals in positions of power and state authority, particularly in law enforcement and in the armed forces were rarely held accountable for their actions, even when serious crimes were involved. Corruption continued to be a major concern. Access and rights to land were still a major source of conflict and of human rights violations in a country where over eighty per cent of the population live in rural areas and are dependent on agriculture for their livelihood. Practices of granting large-scale land, forestry and other types of concessions to private companies had serious adverse effects on the livelihood and the human rights of populations living within or close to their boundaries.

The Cambodian delegation explained how the negotiations on the establishment of a tribunal to prosecute the former Khmer Rouge (KR) leaders between the Royal Government of Cambodia and the United Nations (UN) was stalled in February 2002, but resumed in March 2003. A draft agreement concerning the prosecution under Cambodian Law of crimes committed during the period of 1975-1997 was awaiting adoption by the National Assembly.

The Danish delegation urged the RGC to adopt the agreement this year and said that Denmark would be ready to make a financial contribution to the Tribunal. The Cambodian delegation expected that the agreement would be endorsed by Parliament and the Tribunal established before the end of the year.

### **Civil Service and Public Administration Reform**

The shortage of human and institutional capacity was a severe constraint on public sector performance on all levels. The Head of the Danish Delegation pointed out, that very low government salaries were the main impediment to enhancing the ability to plan and deliver services in the public sector. Donor funded training and capacity building could substitute for a reform of the civil service and particularly of its salary structure and salary levels. The issue had been discussed with representatives from a few of the major donors and there appeared to be willingness to support the Government in pursuing CSR.

The supplementary salaries of more than 10.000 civil servants were reported to largely be covered by donor funding. In addition to this is directly employed project staff, which is considered to be a large number. A rough calculation indicated that the volume of aid disbursed on salary supplements would be sufficient to pay for a 25-40 US\$ increase on the monthly pay check of every single civil servant in the country. The impact of that in terms of delivering services to the Cambodian people could be dramatic. Denmark would be willing to contribute to CSR. Denmark would raise the need to phase out salary supplements and support salary reform in the public sector

jointly with other donors. To stress the importance places on this issue Denmark would not provide topping up or other salary supplements in new projects or programmes.

The Head of the Cambodian delegation shared the concern over the sustainability of aid-funded interventions. CSR was very important. However, Cambodia could not afford a drastically increased wage bill, so support to help it through the difficult phase of adjustment would be welcome. The Cambodian side suggested that the subject of CSR be discussed as one of the main topics at the upcoming CG Meeting in 2004. The phasing out of incentive payments would be linked to the work of the Priority Mission Group under the public administration reform, as also requested by donors.

During its meeting with H.E. Sok An, Senior Minister, Minister in charge of the office of the Council of Ministers, the Danish delegation had been requested to provide support for a continued involvement of the Danish Centre for Human Rights in legal reform in Cambodia. The Head of the Danish Delegation was prepared to pursue this issue with the Centre upon his return to Copenhagen.

The Head of the Danish Delegation asked about the progress of the Anti-Corruption Law and the expected date of approval by Parliament. The Head of the Cambodian Delegation responded that the Law was still under consideration. RCG was committed to consulting stakeholders, but it often took time to get a response. The Head of the Danish Delegation also urged the RGC to bring down defence expenditures further.

The Danish delegation further stressed the importance the Danish Government attached to partners acknowledging and respecting internationally recognised principles of democracy and human rights. Finally the importance the Danish Government attached to anti-corruption efforts and highlight its new action plan on anti-corruption was stressed.

### **3.2 Public Expenditure Management**

The Cambodian delegation reported that fiscal performance continued to improve in 2002. Revenue collection accounted for 13.6% of GDP, rising from 11.7% of GDP in 2001. The increase was mainly due to the rise in revenues collected from customs, duties, Valued Added Tax (VAT) and the non-tax revenue, of which the revenues from quota and export licenses were the main source. At the same time, total public expenditure was at 19.5% of GDP in 2002, up from 17.7% in the previous year. The fiscal deficit in 2002 at 5.9% of GDP, down slightly from the previous year, was fully financed by grants and external borrowings

Cambodian ownership of aid-funded interventions could only be built if these were firmly anchored in the country's own structures and resource management. Weaknesses in the management of public expenditures (PEM) severely limited opportunities for routing aid through the budget. The Head of the Danish Delegation encouraged the Cambodian side to strengthen its efforts in PEM. Donors should help strengthen the system. When PEM was sufficiently strong, donors like Denmark would be prepared to provide funds through the budget.

The need to increase the collection of revenue as a means of financing the budget was also discussed. The Head of the Cambodian Delegation pointed to the problems associated with smuggling, particularly in the border regions. Incentives had been experimented with for border provinces to curb smuggling, but strong forces opposed it.

### **3.3 *Decentralization and Deconcentration***

The Representative of the Ministry of Interior, Member of the Cambodian Delegation told the meeting that decentralization, along with deconcentration, was part of the Royal Government of Cambodia's reforms to promote democracy, improve development opportunities and ensure sustainable development. RGC was undertaking decentralization reforms to devolve power to autonomous, elected bodies at the Commune and Sangkat (urban commune) level, and to enhance the efficiency of the provinces and municipalities in supporting local development. A range of functions, spending authorities, and resources had been devolved to the 1,621 Commune/Sangkat Councils, and the Provincial Governors had been given responsibilities of support and supervision of Commune/Sangkat Councils.

The Head of the Danish Delegation requested information on the direction and nature of particularly the deconcentration part of the process and enquired whether instruction had been issued to provinces and governors on the character of their functions. He invited the Cambodian side to clarify its vision for the future and whether it foresaw a system building on reinforcing democratically elected local bodies or a mixed system with a strong role for the line ministries.

The Representative of Ministry of Interior, member of the Cambodian Delegation explained the history of the development of local government in Cambodia. Previously, the provincial structure had been strong with negative consequences for the country. Now, it was a question of transferring power to the communes. The Seila Programme helped fund actions decided at the Commune level. However, the system was still emerging. There was a legitimate concern that empowerment of a local government had to be well prepared and not become a mobilising tool for secessionist forces. The idea of merging decentralisation and de-concentration as a means of achieving consistency could be pursued.

The Head of the Danish Delegation said that in the absence of a clear political vision it might be difficult to underpin the process of decentralisation and deconcentration. Indeed, in the absence of a political vision, donors may un-deliberately undermine the intentions of the decentralization reform. Some ongoing Danida funded projects conceived before the reform were not responding to the changing institutional environment. They had to be adjusted to do that. Denmark wanted to be part of the solution, not the problem. And communes were not strong. The Coastal Zone Management Project and the National Capacity Building Project were mentioned as examples of projects designed before the decentralisation/deconcentration reform.

### **3.4 Reforms of Natural Resources Management**

The Cambodian delegation informed that the RGC has been working hard in recent years to stop the unsustainable exploitation of natural resources and to put in place a legislative basis for their improved management. This included the sub-decree on social concessions. In relation to the implementation of the laws and other regulations the Cambodian delegation informed that the RGC tried its best to enforce the existing laws and regulations.

The Head of the Danish delegation expressed concern over instances of land grabbing. An example had been reported while it visited the Danida supported watershed management program in Kbal Chay. He urged the RGC to adopt sub-decrees on Community Fisheries, and the Fisheries Law and expressed satisfaction that the decree on Community Forestry had been passed and that a new forest monitoring agent had been appointed.

### **3.5 Donor Coordination in Cambodia**

The Head of the Danish Delegation encouraged the RGC to assume leadership of the process of alignment of aid and harmonization of donor practices. Similar efforts elsewhere had led to considerable improvements in the outcome of development cooperation.

## **4. The Danish-Cambodian Programme of Cooperation on Environment and Development.**

The Head of the Danish Delegation referred to the recent evaluation of environmentally related interventions in South-East Asia supported by Denmark. This had confirmed weaknesses in sustainability and partner ownership, not just in the Cambodia Programme. Denmark was firmly committed to changing from the stand-alone project mode to a programmatic approach. This meant that much more effort should go into developing a common understanding and ensuring that activities were firmly embedded in Cambodia's own visions, plans and structures. TA was a means of supporting partners in assuming control and demonstrating ownership and leadership. External advisors should never take over executive powers.

The Head of the Danish Delegation confirmed that henceforth no more stand-alone projects would be prepared. He suggested that efforts be concentrated on developing a coherent programme, integrating funds to be made available by Denmark in the overall efforts of RCG in a 5-year perspective. The process of preparing the programme would be anchored in RCG and be initiated in the beginning of 2004. A programme could be ready for approval at the end of 2005, with inception in the beginning of 2006.

The Head of the Danish Delegation also found that on-going projects should be adjusted to more closely respond to the Cambodian reality of today. He realised that this might not be easy. Nevertheless, partnership meant that all avenues should be explored.

The Head of the Danish Delegation raised the issue of sustainability in the four resource centres built under the Coastal Zone Management Project and urged the RGC to include funds for the running and maintenance of the centres in its budget. The Head of the Cambodian Delegation agreed on the need to explore the sustainability issue.

The Head of the Cambodian Delegation shared the Danish view of the need to adopt a programmatic approach to the partnership between Denmark and Cambodia. The purpose should be to increase grass-roots ownership and work through government structures. The proposal to prepare a comprehensive new NRE programme within the framework of NPRS and reforms of the Civil Service and Public Administration was welcome. The programme needed to be flexible so that it could respond to the needs of partners as they emerged. It was agreed to start programme preparations in the first quarter of 2004, with an aim of starting in 2006 for a duration of five years.

The Head of the Cambodian Delegation felt that the need to adjust on-going activities had to be discussed further. Consequently, the two sides decided that project management in ongoing projects would be requested to develop a proposal on how to adjust interventions to the new realities with regard to decentralisation. Proposals should be prepared in February and be considered at a meeting of Programme Coordination Committee in March 2004. If proposals were not forthcoming, CDC and Danida should initiate the preparation. In terms of the National Capacity Development Project the Cambodian side recommended to look particularly at the possibility of redirecting efforts from the national level to local government. This be followed up by the joint Annual Programme Review in April/May 2004

#### **5. Other issues.**

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

It was agreed to hold the next round of Annual Consultations in 2005 in Phnom Penh.

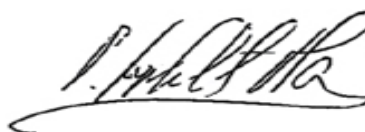
Phnom Penh, November 6<sup>th</sup> 2003

For the Royal Government of Cambodia



Keat Chhon,  
Senior Minister, Minister of Economy and  
Finance

For the Government of Denmark



Peter Lysholt Hansen  
Head of Bilateral Department  
Ministry of Foreign Affairs



**LIST OF PARTICIPANTS****THE GOVERNMENT OF THE KINGDOM OF DENMARK**

Mr. Peter Lysholt Hansen	Head of Bilateral Department and Head of the Danish Delegation
Mr. Ulrik Helweg-Larsen	Ambassador
Mr. Ole Winckler Andersen	Head of Technical Adviser Division
Mr. Niels Richter	Deputy Head of Asia Department
Mr. Mogens Laumand Christensen	Minister Counsellor, Danida-Cambodia

**THE ROYAL GOVERNMENT OF CAMBODIA**

H.E Keat Chhon	Senior Minister of Economy and Finance and 1 <sup>st</sup> Vice-Chairman of CDC, Head of the Cambodian Delegation
H.E Chhieng Yanara	Deputy Secretary General, CDC
H.E Leaph Vannden	Deputy Secretary General, CDC
H.E Prach Sun	Under Secretary of State, Ministry of Environment (MoE)
H.E Uk Sokhonn	Under Secretary of State, Ministry of Agriculture Forestry and Fisheries (MAFF)
H.E Keo Khemara	Under Secretary of State, Ministry of Land Management Urban Planning and Construction
H.E Oeur Hunly	Under Secretary of State, Ministry of Water Resources and Meteorology
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H.E Kim Saysamalen	Under Secretary of State, Ministry of Planning
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Mr. Rith Vuthy	Director of EU Aid Coordination Department, CDC
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Dr. Steffen Johnsen	Advisor, CDC-DANIDA NRE Programme
Mr. Hour Lim Chhun	National Advisor, CDC-DANIDA NRE Programme



## Proposed Allocation of the Danish 2003 Commitment Frame

<i>Danish Environmental Assistance</i>	<i>Million DKK</i>	<i>Comment</i>
<b>DANIDA BOARD PRESENTATION</b>		
<ul style="list-style-type: none"> <li>• CCB-NREM Component</li> </ul>	38,3	Approved by the Danida Board meeting October 22 <sup>nd</sup> Planned presentation to the Danish Parliament Finance Committee on 22 <sup>nd</sup> November 2003
<b>EMBASSY LOCAL GRANT AUTHORITY APPROVED</b>		
<ul style="list-style-type: none"> <li>• Support to formulation of the CCB-NREM Component</li> </ul>	0,5	Local consultancy services for the formulation of the CCB-NREM Component
<ul style="list-style-type: none"> <li>• Support to a International Conference by Cambodian Agricultural Research Institute</li> </ul>	0,1	Support a Int./Regional Conference on Sustainable Agricultural Development (Prof. Pinstrup)
<ul style="list-style-type: none"> <li>• Support to a RGC/ Donor Working Group on NRM Trust fund facility to support reforms in the NRM sector</li> </ul>	1,1	Support joint RGC /Donor /NGO activities related to reforms within the MREM sector
Other activities	3,6	
<b>Total planned commitment frame</b>	<b>43,6</b>	

The exchange rate: 1 USD is approx. 6,70 DKKR

## Process Action Plan

Action	TIMING	RESPONSIBILITY
Annual Consultations	November 2003	RGC and Danida
<b>PROCESS OF THE CCB- NREM COMPONENT</b>		
Commune and Land Management Component (CCB-NREM) Presentation to the Danish Parliament Finance Committee	November 2003	Danish Ministry of Foreign Affairs
Government to Government Agreement	December 2003	RGC and Royal Danish Embassy
<b>Start of CCB-NREM Component</b>	January 2004	RGC (Seila Secretariat)
<b>PROCESS OF THE FORMULATION OF THE A NEW NRE PROGRAMME</b>		
Meeting of The Programme Coordination Committee (PCC) <i>- Discussions of the Agreed Minutes of the Annual Consultations November 2003</i>	First part of December	Chairman of PCC
Action Plan for alignment of the NCDP and CZMP and other relevant projects to RGC decentralisation policies and NPRS for approval by the PCC	February 2004	Project Management of the NCDP, CZMP and other relevant projects
Meeting of the Programme Coordination Committee (PCC) <i>- Discussions and agreements on actions plans for alignment</i> <i>- Detailed work plan for Programme formulation</i>	March 2004	Chairman of PCC
<i>Joint Annual Programme Review 2004</i>	April/May 2004	Danida Copenhagen
Meeting of the Programme Coordination Committee (PCC) <i>- Presentation of outcomes of the APR</i>	May 2004	Chairman of PCC

Possible technical support mission(s) <i>Combination of local consultants and possible external consultants</i>	From 2 to 4 quarters of 2004	Chairman of the PCC and the Danida Office in Phnom Penh
Formulation of a Concept Framework Paper for the new NRE Programme	4 <sup>th</sup> quarter of 2004	Chairman of the PCC and the Danida Office in Phnom Penh
Meeting of the Programme Coordination Committee (PCC) - <i>Presentation of Concept Framework paper for the new NRE Programme</i>	4 <sup>th</sup> quarter of 2004	Chairman of PCC
Presentation of Concept Framework Paper of the new NRE programme to Danida Copenhagen	4 <sup>th</sup> quarter 2004	Danida Copenhagen
Preparation of a Draft Programme Documents for the new NRE Programme	1 <sup>st</sup> - 3 <sup>rd</sup> quarter 2005	Chairman of PCC and the Danida Phnom Penh
Appraisal Mission of the Draft Programme Document	3 <sup>rd</sup> quarter 2005	Danida Copenhagen
Meeting of the Programme Coordination Committee (PCC) - <i>Presentation of the outcome of the appraisal mission</i>	3 <sup>rd</sup> quarter 2005	Chairman of PCC
Presentation of the new NRE programme to the Danida Board and the Danish Finance Committee of the Danish Parliament	4 <sup>th</sup> quarter of 2005 or 1 <sup>st</sup> quarter of 2006	Danida Copenhagen
Government to Government Agreement	4 <sup>th</sup> quarter of 2005 or 1 <sup>st</sup> quarter of 2006	RGC and Royal Danish Embassy Bangkok
<b>Start of the new NRE programme</b>	1 <sup>st</sup> or 2 <sup>nd</sup> quarter 2006	RGC