

**Summary Record of Discussions
of the**

**2003 Government Negotiations
on Development Co-operation**

between the Kingdom of Cambodia and the Federal Republic of Germany

Bonn, 15 October 2003

Government negotiations on development co-operation were held between delegations from the Kingdom of Cambodia and the Federal Republic of Germany from 14 to 15 October 2003 in Bonn. The Cambodian delegation was headed by His Excellency, Mr Keat Chhon, Senior Minister, Minister of Economy and Finance and First Vice Chairman of the Council for the Development of Cambodia. The German delegation was headed by Mr Lothar Zimmer, Director for South-East Asia in the Federal Ministry for Economic Co-operation and Development. Lists of the members of the two delegations are attached (see annexes I and II).

The negotiations were conducted in the traditionally cordial atmosphere and in the spirit of friendship existing between the two countries.

The two delegations exchanged views on ongoing and future development co-operation and on other matters of mutual interest.

1. Opening Remarks

1.1 Opening Statement by the Cambodian Delegation (Summary)

H.E. Keat Chhon expressed his deep appreciation for the kind hospitality and excellent facilities extended by the BMZ and further reiterated the warmest congratulations from the Royal Government of Cambodia (RGC) to the Government of Germany and the German people on the occasion of German Unification Day. He informed the German delegation of the overall situation of Cambodia, emphasising that Cambodia is in full peace, stability and territorial unity and there are no more secessionist Khmer Rouge pockets. The liberal democratic system is becoming established and embraces the whole country who live under one constitution, one system of government. The

Cambodian side also informed the German side about the overall macro-economic performance, with an average annual GDP growth of 6.7% over the 5-year period starting in 1999. He also reported on the successful general elections that were held on 27 July 2003 and Cambodia's accession to the World Trade Organisation (WTO) in the previous month, as the first LDC member of the WTO. He further emphasised that this new situation brings Cambodia to face more huge challenges. The way out is to double efforts in the reform of all sectors. These reforms will go deeper and embrace more scope, being interlinked from the grassroots to the central government. So there will be no place for complacency. For this, Cambodians will have to change their mentality and commit to working hard to increase productivity, so that they are in a position to compete within the grouping of ASEAN and worldwide, to bring the fruits of economic growth to everyone and everyone has to be protected by the rule of law. The head of the Cambodian delegation emphasised that the co-operation with Germany is part of this by outlining some concrete and tangible results that help Cambodia to change its mentality and behaviour.

H.E. Keat Chhon emphasised that both sides are well prepared through a series of consultations and exchanges of views and ideas, and he considered these negotiations constituted another step to further strengthen the development partnership between the two countries. He further expressed, on behalf of the RGC, his sincere appreciation and thanks to the Government of the Federal Republic of Germany, one of the important partners in supporting the RGC's development priorities that are outlined in the second five-year Socio-Economic Development Plan (SEDP) and the National Poverty Reduction Strategy (NPRS). These two strategic documents will be synchronised and merged into a single document by 2005. He also reaffirmed the Government's commitment to the reform agenda that is being implemented and that the new Government will build on the momentum that has been achieved and continue with its vigorous commitment to the implementation of the reform agenda and especially good governance, as this is a "life-or-death" issue for Cambodia. The RGC remains committed to the principles of transparency, accountability, predictability, participation and partnerships with its external development partners, the private sector and the civil society. Finally, the head of the Cambodian delegation wished that the negotiations would be successful through an open and frank discussion to further deepen the development partnership between the two countries.

1.2 **Opening Statement by the German Delegation (Summary)**

In his reply, the head of the German delegation expressed satisfaction about the exceptionally smooth and successful co-operation so far. He welcomed the significant achievements in the RGC's reform agenda, especially in the post-conflict context. Congratulations on the successful accession to the WTO as the first LDC and our hopes for speedy ratification thereof!

With the adoption of the NPRS as a reference for RGC line agencies and donors alike, there is now a chance for greater impact, coherence and significance in the common endeavours to reduce poverty. Yet many challenges remain: it is of utmost importance now to make the NPRS operational by setting clear priorities and implement it vigorously. The RGC was assured that Germany would continue to provide relevant support within the framework of the priority areas agreed upon, including governance and democratisation as the future cross-cutting issues. The head of the German delegation highlighted the constructive dialogue between the donor community and the RGC during Consultative Group Meetings and commended the leading role of the CDC in these meetings. The Cambodian side was encouraged to keep up the pace and momentum of the reform process, particularly in the areas of legal and judicial reform, the anti-corruption programme, civil service reform and natural resource management, especially forestry and fisheries. The RGC was praised for its prompt reaction in actively dealing with governance problems encountered in the context of one project.

Both sides stressed the high concurrence in their analysis of the economic and social outlook for Cambodia. The establishment of a truly competitive, diversified economy, not relying solely on textiles, presents a particular challenge. The current stable economic performance with sound growth rates so far can only be secured if the institutional weaknesses and deficiencies in Cambodia's physical infrastructure can be overcome. For the sake of greater competitiveness, the high potential of a young, committed workforce urgently needs to be complemented by adequate qualifications. Particular attention must be paid to absorbing the potential consequences of full WTO membership on the textile sector, threatening livelihoods, especially of women. Given the difficulty of lowering the comparatively high average labour costs – US \$61 per month as against for example US \$46 in Indonesia – increased productivity and diversification must be sought, e.g. tourism with its significant potential to generate income and employment, if wisely planned as a domestic affair. The net increase in the labour market of 250,000 job seekers annually cannot be absorbed by the traditional agricultural sector alone. Off-farm rural income possibilities must be identified. In conclusion, Cambodia's economic performance shows the paradox of

high potential on one side and great vulnerability on the other, thus demanding wise leadership. Germany remains committed to supporting Cambodia on this difficult but promising path.

2. **Priority Areas of Development Co-operation**

Both sides agreed that democracy, civil society, public administration and good governance are vitally important for Cambodia's further development and should play an even more significant role in future development co-operation. Special attention is therefore to be paid to these aspects as cross-cutting issues, to be taken into account in the agreed priority areas of co-operation.

These are:

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

Furthermore, it will still be possible for individual projects concerned with democracy, civil society and public administration to be considered upon presentation of pertinent applications in the usual format.

The German side stressed that all activities in development co-operation are oriented towards the goal of poverty reduction.

The German side announced that strategy papers for the agreed focal areas will be elaborated and discussed before and jointly adopted at the latest at the next Government Negotiations.

Both sides agreed that the strategy papers will be derived from the NPRS or the envisaged merged NPRS and SEDP document respectively and relevant sector plans. This also includes closer co-operation with other bilateral and multilateral partners. As far as possible, programme-oriented co-operation with them is to be explored. The Cambodian side commended the early initiatives taken by the German side to promote programme approaches away from single-project measures. Achievements in this respect have been made in the fields of rural development, health and economic reform.

3. **Financial Co-operation**

Both delegations expressed their appreciation for the highly satisfactory absorption and the tangible and significant results achieved so far.

3.1 **Ongoing Projects**

3.1.1 **Sector-related Health Programme III**

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

3.1.2 **Reproductive Health**

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 centre in Kampot, was signed in August 2003. It is recommended 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.

3.1.3 **Rural Infrastructure (Tertiary Road Improvement Programme – TRIP III)**

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 in October. 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 evaluation for TRIP II is planned for the beginning of 2004. 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.

3.1.4 **Flood Repair Programme**

Both sides welcomed the successful completion of the measures in spring 2003. The final evaluation is planned for the beginning of 2004.

3.1.5 SME Programme

The aim of the project is to improve access for private SMEs to medium and long-term loans. An additional component of the programme 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).

3.1.6 Study and Expert Fund (SEF) I

The funds are to be used for the preparation of future financial co-operation projects and for other short-term expert services. The amount of funds remaining is €166,872.22. An amount of €70,000 will be used to finance a study as part of the project "Transmission Line Takeo-Kampot" (see paragraph 3.2.2).

3.1.7 Study and Expert Fund (SEF) II

The contract for the SEF II was signed on 7 November 2002. The total amount of €1.022 million is still available for the purposes of the Fund.

3.2 **New Commitments for 2003/2004**

The total volume of financial co-operation with the Kingdom of Cambodia to date is almost €80 million. In addition, the Government of the Federal Republic of Germany undertakes to provide the Government of the Kingdom of Cambodia with a new amount of €15.0 million for the 2003/2004 commitment period.

This amount is to be used for the following measures:

3.2.1 Rural Infrastructure

€7.0 million

The aim of the programme is to improve the living conditions of the rural population. It makes good sense to continue completing the road network, building on the experience gathered in implementing the Rural Roads Programme. Furthermore, the programme will explore how the transport conditions thus improved can best be complemented by other rural infrastructure, such as rural water supply and critical small-scale civil works. The programme will be prepared by experts, financed by the Study and Expert Fund.

3.2.2 Development of the Transmission Link between Takeo and Kampot

€4.5 million

In order to ensure adequate funding, the amount of €7.67 million already committed is to be increased by an additional €4.5 million (total: €12.17 million). Energy supply is

one of the main bottleneck factors for growth – and thus for poverty reduction. This project aims to provide a cost-efficient power supply to Kampot and its surrounding areas with imported electricity from Vietnam. Furthermore, co-operation within the GMS region will be strengthened. To move ahead with the preparation of the project, a feasibility study will be funded from the Study and Expert Fund (see paragraph 3.1.6). Preparation and implementation of the project will take place in close co-ordination with the ADB, which is financing the transmission line from the Vietnamese border via Takeo to Phnom Penh (completion planned for the end of 2006).

3.2.3 Promotion of Small and Medium Enterprises **€3.5 million**

This project is to strengthen the refinancing capacity of the productive private sector and to support the consolidation of the financial sector. Special emphasis will be given to the promotion of women's entrepreneurship in the context of SMEs. The funds will be channelled to SMEs via partner banks, which will be identified according to predefined selection criteria, e.g. strong interest in participating in the SME credit line and acceptance of related obligations, a minimum of two years of SME lending experience and a license as a commercial or specialised bank. The formulation of the project requires the involvement and participation of all stakeholders, i.e. the Ministry of Economy and Finance, CDC and the Ministry of Women's and Veterans' Affairs.

3.3 **Reprogramming**

Both sides were pleased to note that there was no need for any funds to be re-programmed.

3.4 **Project proposals not to be pursued**

Feasibility Study and Preliminary Design Water Supply and Sanitation Project for Preah Vihea, Mondolkiri and Kratie Provinces.

4. **Technical Co-operation**

Both delegations expressed their appreciation for the highly satisfactory absorption and the tangible and significant results achieved so far.

4.1 **Ongoing Projects (not requiring additional funds)**

4.1.1 Non-formal Vocational Training

The project will be reviewed in October 2003. Based on the respective findings, successful components will be integrated into the programme for Economic Reform and Development of a Market Economy - ERDME (see paragraph 4.3.2.1).

4.1.2 Forestry Management

The project will be terminated as planned in April 2004.

4.1.3 Study and Expert Fund

The funds are to be used for the preparation of future technical co-operation projects and for other short-term expert services. The amount of funds remaining is €768,294.

4.2 **New Commitments**

The total volume of technical co-operation with the Kingdom of Cambodia to date is approximately €55.1 million. In addition, the Government of the Federal Republic of Germany undertakes to provide the Royal Government of Cambodia with a new amount of €14.835 million for the 2003/2004 commitment period. €12.5 million of this amount is from the regular budget. Furthermore, €1.585 million from the special budget for the Programme of Action 2015 and €0.750 million from a specific budget line for trade promotion are also being provided.

4.3 **Use of Funds**

It was agreed that the new commitments (paragraph 4.2) will be used for the following project extensions (paragraph 4.3.1) and new projects (paragraph 4.3.2).

4.3.1 Extension of Ongoing Projects

4.3.1.1 Support of Gender Equity and Promotion of Women's Rights **up to €0.8 million**

These additional funds are being provided to implement the National Action Plan against Domestic Violence. As soon as the RGC has established an adequate legal basis, these funds will be made available.

4.3.1.2 Land Management **up to €2.5 million**

The German contribution to the multi-donor project with the World Bank and Finland covers issues such as land policy, property, land use and tenure rights, fair access to land and arbitration of land conflicts, also in the border zone.

4.3.1.3 Training of Health Personnel and Family Planning **up to €1.0 million**

An additional component on health insurance is to complement the ongoing project as part of Cambodia's health sector reform strategy. Furthermore, a pilot health insurance scheme for the poor will be tested in Kampot or Kampong Thom Province.

The Cambodian side is committed to continuing its support for the reform of the health sector and will ensure annually increased budget allocations.

4.3.1.4 Rural Development Programme **up to €3.5 million**

The thrust of the next phase is to increase the self-help potential of the rural poor in order to make better use of the services provided by government institutions, civil society and the private sector. Support for decentralisation and de-concentration will be essential elements of the programme to secure proper functioning of commune councils. In order to foster synergies and strengthen sustainability, the new programme will co-operate closely with other German-funded measures, especially land management, decentralisation and health. The IFAD-funded project "Community Based Rural Development Project Kampot and Kampong Thom" is a further component of this programme.

4.3.1.5 Decentralisation **up to €2.0 million**

The project will help the Ministry of the Interior and the Council for Administrative Reform in the Council of Ministers to develop and implement decentralisation and de-concentration reform to strengthen democracy and local governance. The project will co-operate closely with the ADB. The project is to continue with Phase II, starting in early 2005.

4.3.2 Commitments for new projects

4.3.2.1 Economic Reform and Development of a Market Economy (ERDME) **up to €2.7 million**

The programme will contribute to the economic development of the private sector through the improvement of the market economy and the respective legal framework.

Consequently, related services for SME promotion, including financial services will be developed and supported. The contribution will be harmonised within the ongoing private sector promotion programmes of the KfW Development Bank, the World Bank, ADB and other donors. The design of pertinent measures will take into due account the proposals presented by the RGC at the Government Consultations on 4 June 2003.

4.3.2.2 Special Commitment for Trade Promotion **up to €0.750 million**

The project is to begin in 2004. Its aim is to enhance the efficiency of value-added chains and thus the value and the volume of trade in selected sub-sectors of the processing industry, e.g. for agricultural products. The project is to be carried out in close co-ordination with the programme mentioned in paragraph 4.3.2.1. The funds will be provided from the Fund for Trade Policy and Trade Promotion and are not eligible for reprogramming.

4.3.2.3 With regard to helping Cambodia honour its commitments in the context of WTO membership, both sides agreed that, as soon as an official request has been received by the German side through the usual channel of CDC, respective measures will be taken.

4.3.2.4 Special Commitment from the Programme of Action 2015 **up to €1.585 million**

Special funds are to be provided in support of the UN Millennium Development Goals. The project activities are intended to enable poor people to make productive use of newly allocated land and secure title to the land. The funds are being provided within the framework of the German Programme of Action 2015 as special funds for combating poverty. The funds are not eligible for reprogramming.

The aim of the measure is to elaborate a poverty-oriented land distribution strategy on the basis of the criteria for access to land for poor people as stipulated in Articles 3, 10 and 11 of the Sub-decree on Social Land Concessions. Furthermore, the development of methods and instruments for the implementation of the "Local Social Land Concession Programme" described in the sub-decree is envisaged.

The measures will be integrated into the areas where German technical co-operation is already active.

4.4 **Reprogramming**

Both sides were pleased to note that there was no need for any funds to be re-programmed.

4.5 **Project proposals not to be pursued**

- Governance and Management Policy of Urban Areas
- Support to Industrial Statistics
- Permanent Exhibition Centre in the Compound of Angkor Wat

5. **Complementary Fields of Co-operation**

5.1 **Scholarships**

In 2002, a total of 202 professionals and executives were trained by InWEnt (International Capacity Building Germany), established through the merger of the CDG and DSE. The German Academic Exchange Service (DAAD) funded a total of 18 scholarships for Cambodian scientists, academics and postgraduate students in the year 2002 .

5.2 **Centre for International Migration and Development (CIM) / Integrated Experts Programme**

The German government is willing to assist Cambodia in its efforts to cover the need for experts in areas relevant for development, including the private sector, where no local experts are available. To that end, the German government can support the recruitment of suitable experts on the German labour market and grant them a salary-supplement within the scope of its financial possibilities.

At present 6 integrated experts are working in Cambodia. The placement of further experts will concentrate on the priority areas of co-operation agreed upon between the two governments.

Applications for integrated experts may be submitted directly to the Centrum für internationale Migration und Entwicklung (CIM), Barckhausstr. 16, 60325 Frankfurt, Germany by government and private employers based in Cambodia. The selected candidates will be communicated to CDC.

5.3 **Senior Expert Service (SES)**

The SES seconds highly qualified retired experts on short-term missions, mainly in the areas of management and vocational and other technical training, but also in many other fields of activity. Target groups are enterprises and institutions.

Since 1995 through 2002, the SES made a total of 7 assignments, in 2003 so far 2 assignments have been carried out.

The SES is prepared to provide Cambodia with more support, if required.

5.4 **German Development Service (DED)**

The German Development Service (DED) is currently providing 31 development workers and technical assistance in the priority areas of German development co-operation and an additional 9 development workers in the special programme "Civil Peace Service". The DED's activities in that area are intended to contribute to a culture of dialogue and participation and to the spread of techniques for non-violent conflict resolution in Cambodian society. The DED co-operates closely with projects supported by the GTZ and KfW Development Bank and supports self-help initiatives.

5.5 **Public-Private Partnership (PPP) programme of the Federal Ministry for Economic Co-operation and Development (BMZ)**

The German side informed the Cambodian side that public-private partnerships are encouraged. The purpose of such partnerships is to increase the effectiveness of development policy activities and to foster private sector activities. These activities are implemented via the GTZ, KfW Development Bank, DEG or SEQUA. The German side supplied a leaflet containing more detailed information on PPP.

5.6 **Partnership between the Koblenz Chamber of Small Business and Skilled Crafts and the Cambodian Crafts Co-operation**

The German side drew attention to this partnership, which is another example of fruitful private sector involvement. The project, which began in 1997, is being supported with funds from the BMZ via SEQUA. It has achieved impressive gains in income generation by member companies and new employment opportunities in the craft sector in rural areas. Furthermore, it has strengthened civil society by establishing the Cambodian Crafts Co-operation as a democratically organised business intermediary and has enhanced gender equality by providing vocational training and creating new income opportunities for more than 550 women entrepreneurs.

5.7 **Advice on Food Security Policy**

Both sides agreed that the project has been successful in implementing ecologically, economically and socially appropriate policies and strategies for improving the food situation of individuals and households suffering from or at risk of malnutrition. The

contributions to the dissemination of the NPRS were especially acknowledged. The project will be completed by December 2005.

5.8 **Contributions to Multilateral Development Organisations and Regional Programmes**

The German delegation pointed out that, in addition to its bilateral programmes of co-operation, the Federal Republic of Germany makes substantial contributions to the Kingdom of Cambodia via multilateral and international organisations such as the European Union, the Asian Development Bank, the World Bank, UN agencies and the Mekong River Commission. The Cambodian side expressed its appreciation for the political support it receives through German representation in these organisations.

5.9 **20/20 Initiative**

Both delegations stated their willingness to work for the implementation of the 20/20 Initiative in pursuance of the decisions taken to that effect at the 1995 World Summit for Social Development in Copenhagen and at the 2000 Special Session of the United Nations General Assembly on Social Development in Geneva, and in co-ordination with other interested donors. According to these decisions, 20% of development assistance and 20% of national budgets should be used for basic social services.

6. **General Remarks**

6.1 Both delegations agreed that all the contributions envisaged by the German side will only be made when:

- the Government of the Federal Republic of Germany has taken a positive decision once project/programme appraisals have been carried out by the KfW Development Bank, the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH and/or any other organisation commissioned with implementing the project;
- overall financing for the project/programme has been secured;
- the international agreements to be concluded (intergovernmental agreements and project agreements, the financing and loan agreements and the implementation agreements with the KfW Development Bank and the GTZ and, if applicable, any other implementing organisations) have entered into force.

6.2 The German side pointed out that commitments 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 co-operation a loan/financing agreement and in the case of technical co-operation, generally an implementation contract, had been concluded. Thus, commitments made during the 2003 negotiations are subject to a 31 December 2011 deadline.

6.3 Should one or more of the projects mentioned not be implemented or only be partially implemented, it/they may be replaced in mutual agreement between the two governments by another project/programme or projects/programmes.

The projects "Trade Promotion" and "Social Concessions" (paragraphs 4.3.2.2 and 4.3.2.4) do not come under the above rule. The funds from these special commitments must be fully deployed by 31 December 2006.

6.4 The Government of the Federal Republic of Germany and the Royal Government of Cambodia agree upon the following assessment on 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, and public support for, development co-operation and compromises the efforts of all who work to support sustainable development.

It compromises open and transparent competition on the basis of price and quality.

Both governments intend to co-operate 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 co-operation.

The German side reminded the Cambodian side that, since 1 October 2001, all financial co-operation contracts include an anti-corruption clause. The wording is as follows:

"The Recipient shall ensure that the persons charged by the same with the preparation and implementation of this financial contribution, the award of the contract on the supplies and services to be financed and with requesting disbursements of financial contribution amounts do not demand, assume, render, grant, promise or obtain a promise of unlawful payments or other advantages in connection with these tasks."

7. **Future Agenda**

The next Government Negotiations on development co-operation are scheduled to take place in Cambodia in 2005. Both sides agreed that Government Consultations and other forms of intergovernmental talks should take place at appropriate times at least once a year.

Done in Bonn on 15 October 2003

For the Delegation of the
Kingdom of Cambodia



Keat Chhon

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

For the Delegation of the
Federal Republic of Germany



Lothar Zimmer

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