



## **Technical Consultations between the Royal Government of Cambodia and the Federal Republic of Germany on Development Cooperation**

Held at the Palais de Gouvernement  
Phnom Penh, 29 November 2018

### Summary of Discussion

#### **Political Dialogue**

Germany expressed its sincere appreciation for the long-standing, well-established and trustful development cooperation. It fully aligns with the Rectangular Strategy Phase IV, the Royal Government's Key Macroeconomic Policies 2018-2021, and key priorities of Cambodia's development strategies as outlined during the consultations. Consequently, Germany envisages a continued and gradually evolving cooperation in social protection, rural development and governance.

Germany underlined Cambodia's success in improving its social protection schemes, advancing public health and reducing poverty. Germany also congratulated the Royal Government on its ambitious target of reducing greenhouse gas emissions by 27 percent, the commitment to fight malnutrition as well as continuous economic growth and increase of tax revenues, allowing for taking over development partner-funded activities step-by-step.

Within the introductory session, Germany expressed its concerns about limiting political and human rights in Cambodia prior to the parliamentary elections on July 29<sup>th</sup>, 2018. Germany appreciated recently announced and partially implemented activities to re-open political and civic space and expressed its hope for further steps to follow. I have attached my opening speech to this letter.

#### **Focal Area Social Protection.**

Germany noticed significant achievements in reaching universal health coverage and in improving the quality of public health care services. Germany underlined the ambitious and steady progress in establishing a comprehensive social protection system.

Germany underlined the need for strengthened, widened, coherent and unified social protection schemes. Germany elaborated on the advantages of health services decentralisation, a strengthened Quality Assurance Office, an independent Payment Certification Agency and the strategic role of the National Social Protection Council. Germany also outlined that implementing decentralisation in health will lead to a fundamental change of the Ministry of Health's responsibilities from a provider of health services to a regulator. Germany underlined the importance of an impartial accreditation agency for both private and public health service providers.

Germany suggested focusing future cooperation on the preparation of a comprehensive approach to support Cambodia's Social Protection Policy Framework and a new initiative on pre-service vocational training as a foundation for high quality health services. At an initial



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stage, the path towards to universal health coverage will be at the centre of German technical cooperation in the sector. Additional funds for the on-going Social Health Protection Programme of GIZ are envisaged to be committed at bilateral government negotiations in 2019, providing for the necessary resources for the transition of our engagement. For financial cooperation it is intended to conduct a fact finding study in 2019 to develop options for future cooperation.

Germany informed that the financing agreement for the second German contribution for H-EQIP should be signed in December 2018 so that project implementation can be started immediately thereafter.

Germany announced a financial contribution of 10 million euros to the World Bank's new Nutrition-Specific Health Project. Germany intends to formally commit funds via Verbal Note in 2018, financed by the One World – No Hunger Initiative of the German Federal Ministry for Economic Cooperation and Development. Based on the positive experiences made during the implementation of H-EQIP, Germany urged the Royal Government for a continuous takeover of co-funded activities and multi-sectoral exchange.

Germany announced that the on-going MUSEFO programme funded the One World – No Hunger Initiative will be pro-longed until 2023. Budget and content are subject to an assessment in early 2019.

### **Focal Area Rural Development**

Both sides in principle agreed on the introduction of concessional loans (Reduced Interest Loans) in bilateral development cooperation in all future GER-funded infrastructure investments). Reduced-interest loans will enable both sides to significantly expand the volume of their cooperation in order to achieve better visibility and higher impact. Reduced-interest loans are an additional instrument and complementary to our grant-funded investments in social protection as well as all technical cooperation activities.

Germany invited the Royal Government to an in-depth dialogue on common activities to mitigate and adapt to climate change at governmental negotiations in 2019. Germany informed on preparatory measures, studies and piloting activities to introduce crop insurance schemes in Cambodia as a potential field for future cooperation. Germany also considers providing grant funding for a feasibility study to be coordinated by KfW in 2019 and which would expand on the results of a BMZ funded scoping study for potential support in the area of agricultural risk insurance in Cambodia. Germany is pleased with the readiness of MEF to be available as a partner for KfW to conduct this study and to coordinate the further course of action to ensure that the findings of other activities (e.g. ADB, IFAD and from regional projects funded by Germany) are appropriately integrated.

Germany announced the provision of a reduced-interest loan to finance energy efficiency investments in Cambodia's rural areas of up to 30 million euros. This loan has been formally committed by Verbal Note on December 3<sup>rd</sup>, 2018. Project preparation is already well advanced; a detailed BMZ-funded feasibility study will be available within the first quarter of



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2019. Project appraisal and conclusion of a loan agreement is envisaged for 2019. Germany takes note of Cambodia's wish to further soften financing conditions beyond terms usually offered for reduced-interest loans in comparable cases. While detailed negotiations about terms and conditions will be conducted within the usual project preparation process, Germany pointed out that the initial and non-binding conditions offered by Germany are highly concessional by OECD DAC standards, and are eligible to be accounted for as ODA. [However, Germany considers making available an additional grant of 2 million Euros for accompanying measures (i.e. consulting services to support Cambodia's efforts to improve energy efficiency in rural areas) as an integral part of the project. This additional grant will be made available by Verbal Note in 2018. Its commitment is based on the GER understanding that the overall financing package for the project "Energy Efficiency in Rural Power Supply", comprising (i) a grant for the ongoing feasibility study, (ii) a Reduced Interest Loan and (iii) an additional grant for accompanying measures, will then meet with Cambodia's expectations towards concessionality.]

Germany welcomes Cambodia's request to continue and expand the successful cooperation in rural infrastructure and announced that it envisages a further commitment of another reduced-interest loan for a new phase of the Rural Infrastructure Programme (phase VIII), planned to be implemented in close cooperation with AFD (and potentially the European Union), subject to approval by both AFD and EU. A new German commitment may be agreed on at governmental negotiations in 2019. The provision of this reduced-interest loan will be seen in connection with the grant funding for phase VII (7 million EUR; already committed in 2017) and is therefore be considered a highly concessional financing package.

Germany announced that it envisages a commitment for a new phase of the Rural Economic Development Programme. Subject to a co-financing agreement with SDC for the ongoing RED IV programme, additional funds may be made available for the current phase.

Germany announced the possibility of a new project financed by the One World No Hunger Initiative, corresponding and closely linked to the on-going ILF programme. The new project would aim at improving the livelihood of relocated villagers from the Tonle Sap. This new engagement would be conditional upon the Royal Government of Cambodia providing social land concessions, adequate infrastructure, assuring the voluntary character of resettlements of former inhabitants of floating villages and providing Cambodian citizenship to the affected population. The project would focus on strengthening aquaculture.

### **Focal Area Good Governance**

The Royal Government informed on the progress in implementing decentralisation and administrative reforms and on the momentum given by the clear appeal to accelerate its implementation by Prime Minister Hun Sen. The Royal Government further informed on the progress in developing, implementing and spreading the commonly introduced performance management system.

Cambodia explained the challenges and planned steps for the functional assignment process in 2019. Germany acknowledged the process and expressed its wish to accelerate the effort.



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Germany informed the Royal Government that the new program phase committed at governmental negotiations in 2017 to support the Decentralisation and Administration Reform will start in May 2019 and include the strengthening of civic participation as well as complaint mechanisms. The new phase will end in April 2022.

Germany informed that at the 2021 governmental negotiations it will be decided if additional funds will be allocated for the sector. This assures the alignment of the program with the next 10- year plan for administration reform and decentralisation.

Germany has foreseen additional funds for the Ministry of Planning in two tranches to be managed by the IDPoor project.

One tranche is funded of the Agenda 2030 programme of the German Federal Ministry for Economic Cooperation and Development and will focus on strengthening statistical capacities at the National Institute of Statistics and IDPoor. A German-funded chief technical advisor will support the 2019 census and the 2020 DHS. The corresponding verbal note was handed over on December 3<sup>rd</sup>, 2018.

An additional commitment is foreseen to be agreed on at governmental negotiations in 2019. This additional budget should allow Germany to support IDPoor IT capacity as well as the establishment of the so-called On-Demand IDPoor service.

### **Study Visit on Decentralisation under the leadership of Deputy Prime Minister and Minister of Interior Sar Kheng**

The Royal Government proposed a renewed invitation of Deputy Prime Minister Sar Kheng to a study visit on decentralization to Germany. Germany took note of the request and will forward it to the Secretary of State of the German Federal Ministry for Economic Cooperation and Development for decision.

Both sides agreed that corresponding to the high-ranking status of Deputy Prime Minister Sar Kheng and his delegation, a sound mixture of political meetings, an exchange with parliamentarians and representatives of civil society, as well as technical sessions and on-the-spot visits on decentralisations should be envisaged. Germany will inform the Royal Government on the decision of the Secretary of State on a renewed invitation and, if the decision is of a positive nature, propose a concrete date for the visit.

### **Elimination of DSA-financing from the GER side by 2020**

Both sides agreed that German development cooperation will stop the financing of DSAs by 2020 for governmental officials as agreed at negotiations in 2017. The Royal Government will incorporate respective budgets on a project-by-project basis in 2019 to take over DSA-financing from January 2020 on-going.



**New legal requirements on the identity verification of contract signatories**

Germany informed about a change in its legal framework due to changed EU regulations, which results in more stringent due diligence requirements. This includes that KfW is requested to identify signatories of agreements by verifying their passports or identification cards, even in cases where Ministers act as signatories. This is a standard procedure which KfW needs to perform compulsory in all countries for all contracts.

Germany asks for understanding that KfW must comply with the procedure prescribed by law; and for cooperation of the involved Cambodian ministries in a specific first case. The Financing Agreement and the Separate Agreement for the additional German contribution to H-EQIP (committed in 2017) are ready to be signed. Germany asks MEF to allow that KfW can carry out the identity verification of the persons designated for signing the contract on behalf of the royal government of Cambodia; and that KfW is provided with a photocopy of the verified ID documents.