Consultative Group Meeting for Cambodia

December 6-7, 2004

Pledging Statement by the World Bank

The World Bank Group is now finalizing its new Country Assistance Strategy (CAS) which lays out its program of assistance for Cambodia for FY05-09. The CAS is fully aligned to and in support of the Government's vision for a well governed and prosperous Cambodia as laid out in the Government's **Rectangular Strategy.**

The CAS has been prepared in partnership with the Government of Cambodia, and with active consultations with other donors, the private sector and the NGOs. It is also being prepared in close collaboration with the Asian Development Bank, UK's DFID and the UN System and presents a shared assessment of the challenges facing Cambodia with these partners.

Good governance lies at the heart of the Rectangular Strategy and also of the proposed WB Group CAS. There are two pillars to the proposed CAS that aim to support the Government's efforts to promote good governance for higher growth and poverty reduction:

- Pillar 1: Removing governance impediments to growth and diversification (through lowering the cost of doing business, enhancing transparency and competitiveness in the public and private provision of infrastructure and access for the poor to natural resources)

- Pillar 2: Making service delivery for the poor more accountable, transparent and effective (through public financial management reform, decentralization and deconcentration and improved health, education and rural infrastructure services and justice for the poor, and support to the development and implementation of the next five-year development strategy).

The World Bank Group provides several forms of assistance to Cambodia: research, analysis and policy advice; IDA funds for policy and investment lending; grants for capacity building and technical assistance; and support for donor coordination through the co-chairing of the Consultative Group Meeting for Cambodia. All these instruments will be aligned to the two pillars presented above to get the maximum impact for growth and poverty reduction in Cambodia during the corning years. The World Bank is also committed to supporting the principles enshrined in the Rome Declaration on Harmonisation and Alignment, the RGC's Action Plan on Harmonisation and Alignment and the Partnership Principles that we have just signed last week. All of these commit us to working together in SWAps wherever and whenever possible, rather than in a standalone manner.

The overall IDA allocation for Cambodia makes an attempt to balance a country's needs (for example, its level of poverty) with its performance (i.e., its proven ability to use aid effectively to make an impact on poverty reduction). There is an increasing body of evidence that aid effectiveness depends heavily upon the existence of a sound policy and institutional environment. When such an environment is lacking, aid will not have the desired impact of reducing poverty and increasing welfare.

The World Bank therefore links the overall country program resource envelope to country performance in an automatic and non-discretionary manner. It uses an annual Country Policy and Institutional Assessment (CPIA) to score each country according to a range of criteria. The sub-set of governance indicators are now heavily weighted in the overall CPIA score (about 70%). In the case of Cambodia, the scores for three of the five governance indicators remained largely the same or declined between 1999 and 2003, with slight increases in only two dimensions. In terms of comparisons with other IDA countries, Cambodia in 2003 did as well on structural and social equity issues - but scored worse than the average for IDA recipients in all five governance criteria. As a result, the World Bank's overall IDA allocation for assistance to Cambodia has been reduced. In comparison to 2002, where the Bank pledged $70 million, this time we are able to pledge only $45 million. In the future, as Cambodia implements the program laid out in the Rectangular Strategy—in particular, starting with the benchmarks agreed to at, this CG Meeting--we hope that it will be able to access significantly higher IDA resources.