



CDRI
Cambodia Development Resource Institute

ANZ Royal

Cambodia Outlook Brief

Getting Things Moving - Regional and National Infrastructure and Logistics for Connectivity, Growth and Development

We must work together to achieve higher levels of quality public and private investment to develop and fill the gaps in multimodal and cross-border transport and logistics systems, including the improved maintenance of our national highways, particularly on key routes for industrial transport, trade and tourism; the completion of railroad restoration and extension; and the enhancement of airport and seaport infrastructure.

*Samdech Akka Moha Sena Padei Techo Hun Sen
Prime Minister, Kingdom of Cambodia*

Remarkable improvement but not sufficient to match growth aspirations

Cambodia has made remarkable progress in the development of both hard and soft infrastructure, logistics and broader connectivity over the past two decades. This includes the restoration, maintenance and building of national roads, bridges, railways, seaports, river ports, waterways, telecommunication and internet networks, and border facilities for processing cross-border movement of goods and people. New transport corridors connect domestic markets to regional and international trade markets. The corridor linking Phnom Penh to Sihanoukville port is the main national trade route, while that linking Bangkok–Phnom Penh–Ho Chi Minh City is the main international corridor. Thanks to these efforts, between 2010 and 2014, Cambodia achieved an impressive improvement of 46 places in the World Bank Logistics Performance Index ranking.

Despite significant progress to date, transport networks and logistics services are inadequate to meet the demands of the next stages of Cambodia's development. The Industrial Development Policy (IDP) 2015-25 highlights five key obstacles to industrial sector development, one of which is inadequate transport and logistics capacity. Various CDRI studies have drawn a similar conclusion, that the development of Cambodia's transport and logistics sector is lagging behind its growth aspirations.

Now is the time to fast-track innovative and sustainable transport and logistics solutions. Cambodia must move swiftly to develop its transport and logistics sector so as to ensure regional and global connectivity to trading platforms and market gateways. Quality infrastructure is vital for economic growth and competitiveness: a 1 percent increase in the

This brief summarises the key points of discussion at the 2016 Cambodia Outlook Conference, co-organised by CDRI and ANZ Royal on 7 March 2016. It highlights the progress and major issues facing Cambodia's transport and logistics sector, proposes policy recommendations, and presents key success factors for the sector's development.

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stock of infrastructure directly contributes a 0.08 percent increase in GDP. The quality and extensiveness of local infrastructure networks reduce the effect of distance between regions, integrating and connecting Cambodia to emerging regional production networks. Quality transport and logistics also play a major role in mobilising and attracting investments and promoting industrialisation and exports. Better infrastructure also has positive impacts on social development outcomes such as education, public health and community capacity.

Major policy recommendations

To constructively address the challenges facing Cambodia's transport and logistics industry and to bring the sector to the next stage of development that best serves the country's growth aspirations, this brief proposes the following policy recommendations:

1 Finalise and implement the Master Plan for Transport and Logistics

The need for Cambodia to have a Master Plan for Transport and Logistics is articulated in the National Strategic Development Plan (NSDP) 2014-16 and Industrial Development Policy 2015-25. Discussion at the Conference echoed an even stronger need to fast-track the design of the Master Plan. Efficient transport and logistics development requires that governments formulate a concrete vision for a transport and logistics system that best serves the interests of comprehensive socioeconomic development planning. The Master Plan outlines what Cambodia's transport and logistics system will look like and sets the direction for transport and logistics policy. It should also link to the Master Plan on ASEAN connectivity and other regional and subregional frameworks.

In terms of institutional arrangements, the Ministry of Public Works and Transport should be in charge of the design and implementation of the Master Plan, but must work in close consultation with relevant ministries and private sector partners. The Master Plan is expected to improve the quality and efficiency of the transport and logistics sector by connecting

all parts of the country to each other and to neighbouring countries. Consequently, it will help enhance the country's competitiveness and people's welfare, especially in historically disadvantaged areas.

2 Establish the National Transport and Logistics Task Force

Cambodia does not have a central body to plan and develop a multimodal transport and logistics system. Since coordination and cooperation between ministries and agencies are at best uneven, a strong task force to coordinate transport and logistics planning and implementation is crucial. International experience suggests that countries with a master plan and a transport and logistics task force achieve significantly better logistics performance. Importantly, Cambodia must establish an effective coordinating mechanism to promote interagency cooperation and collaboration on the key elements of infrastructure, transport and logistics strategy and to monitor policy implementation.

The Task Force should be under the supervision of the Minister of Public Works and Transport with the strong participation of the Ministry of Economy and Finance, Ministry of Commerce, Council for the Development of Cambodia, and private sector partners. The Task Force should be responsible for designing, implementing and monitoring the action plans as stated in the Master Plan for Transport and Logistics. The Task Force would likely address coordination failure, leading to more effective implementation of policy and enhancing the quality and efficiency of transport and logistics infrastructure.

3 Focus on domestic connectivity

Despite enormous efforts in building physical infrastructure, transport networks linking urban and rural areas and connectivity between special economic zones (SEZs) remain inadequate. This is largely because of lack of investment in physical infrastructure combined with logistics inefficiencies due to the poorly integrated multimodal transport system, for example, land transport (roads and railways) and waterway transport (maritime and inland). The importance of domestic connectivity has been overlooked.

Cambodia needs intensive and consistent investment in transport infrastructure. Specifically, it needs to improve and maintain provincial and rural road networks to ensure better linkages between urban and rural areas. Also required is the upgrading of national highways, construction of expressways and improvement in connectivity between SEZs, including promotion of more effective use of national waterways for public and commercial transport, further development of river port facilities, and creation of “logistics corridors”. Moreover, Cambodia must fast-track completion of national and cross-border railroad restoration and extension to promote cost-effective freight and passenger rail transport and national and regional connectivity. As well as hard infrastructure, essential transport services and other services essential for the smooth running of SEZs and other industrial areas should be promoted.

4 Fast-track regulatory framework for public-private partnership

While infrastructure development at global level is constrained by shortages of capital from both national budgets and development partners, private investment via public-private partnerships (PPPs) has emerged as a viable source of financing for infrastructure projects. PPPs allow governments to expand the provision of services by using market tools rather than publicly provided and managed facilities. Restricted budgets, ineffective public spending control and inefficient infrastructure management have led governments to consider the need to shift investment efforts to the private sector. The Cambodian government is already using PPP to finance a number of infrastructure projects, for example, Phnom Penh International Airport, through “build-operate-transfer”.

Successful PPPs require not only an effective and supportive institutional environment but also strong regulatory frameworks and public procurement regimes with high standards of transparency and accountability. It is therefore imperative that Cambodia swiftly puts in place policy and legal frameworks and institutional structure and processes for managing PPPs. In

his opening remarks, Prime Minister Hun Sen instructed the Ministry of Economy and Finance to lead the preparation of the policy to develop a PPP mechanism.

5 Modernise and simplify import, export and transit operations

Complex customs formalities including paperwork, clearance, regulations and fees remain a key impediment to imports and exports. More attention must be paid to supportive soft infrastructure and logistics efficiencies. Improvements can be achieved through the elimination of all forms of informal fees, reform and modernisation of customs, wider information sharing and integration in regional road transport markets. Cambodia should fast-track the completion of a National Single Window for cross-border transactions and its linkage to the ASEAN Single Window.

6 Promote healthier competition in national transport and logistics industry

Despite rapid development, there is a lack of healthy competition between logistics providers, including road hauliers, sea and air freight operators. This jeopardises the country’s efforts to develop an integrated transport and logistics system. International experiences prove that healthy competition enhances the quality, variety and efficiency of services provision. For example, Singapore, ranked as top performer in infrastructure and logistics by several international assessments (e.g. Logistics Performance Index and Global Competitiveness Index), has over 7000 logistics companies with over 180,000 employees and many qualified logistics professionals. This underlines the importance of encouraging healthier competition and a better balance of large and medium-sized service providers in Cambodia’s transport and logistics industry.

7 Develop human capital specifically for transport and logistics industry

Lack of logistics professionals is another major problem for Cambodia’s transport and logistics sector. There is a need to develop and implement higher education curricula on transport and logistics, and to provide

scholarships and exchange programmes with leading regional education institutions, so as to build a pool of young technically qualified Cambodian professionals. Another possible option for building human resources in the logistics profession is that the Cambodia Freight Forwarders Association (CAMFFA) in close cooperation with the National Transport and Logistics Task Force establish a Cambodia Logistics Academy to promote training, professionalism and excellence in the logistics industry.

8 Utilise the Asian Infrastructure Investment Bank and Silk Road Fund

The Asian Infrastructure Investment Bank (AIIB), initiated by China but now with broad international partnership, including Cambodia as a founding member, is a major new regional response to the huge need for infrastructure development and financing in the region, with a capital base of USD100 bn. Complementing this multilateral development bank, China established the Silk Road Fund with USD40 bn capital, aimed at breaking the connectivity bottleneck in Asia. More specifically, the Fund provides investment and financing support for trade and economic cooperation and connectivity under the framework of the Silk Road Economic Belt and the 21st Century Maritime Silk Road Initiative (known as One Belt One Road).

For Cambodia, it will be important to determine how the AIIB and the Silk Road Fund can support major infrastructure and connectivity projects in addition to existing multilateral and bilateral partnerships. This is especially important in improving and expanding connectivity between China and ASEAN member states.

Key success factors for Cambodia's transport and logistics development

Learning from international success stories in infrastructure development, some major factors for Cambodia to consider in its future infrastructure development might be:

Strong vision and commitment. Efficient infrastructure development requires that government formulates a concrete vision for an infrastructure system that serves the best interests of comprehensive socioeconomic development planning. As well as a long-term master plan, a strong leading institution to coordinate infrastructure planning and development is necessary, as is a culture of cooperation and collaboration between government ministries and agencies and their close engagement with the private sector.

Transparency and quality control. Decision-making processes for infrastructure investment usually face considerable political pressures. Transparency and professional expertise in regulatory decision-making are necessary to mitigate these pressures. This is particularly important in tendering and selection processes for major infrastructure projects, as there is much international evidence that a lack of genuinely competitive procurement procedures is a major factor in the failure of PPPs.

Private sector participation in infrastructure development. The key to successful infrastructure development in many countries is the ability to attract private investment in major infrastructure projects. This requires not only an effective and supportive institutional environment but strong regulatory frameworks and public procurement regimes with high standards of transparency and accountability.

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