



A Partnership of CDRI and ANZ Royal

2016 CAMBODIA OUTLOOK CONFERENCE

Getting Things Moving

Regional and National Infrastructure and Logistics
for Connectivity, Growth and Development

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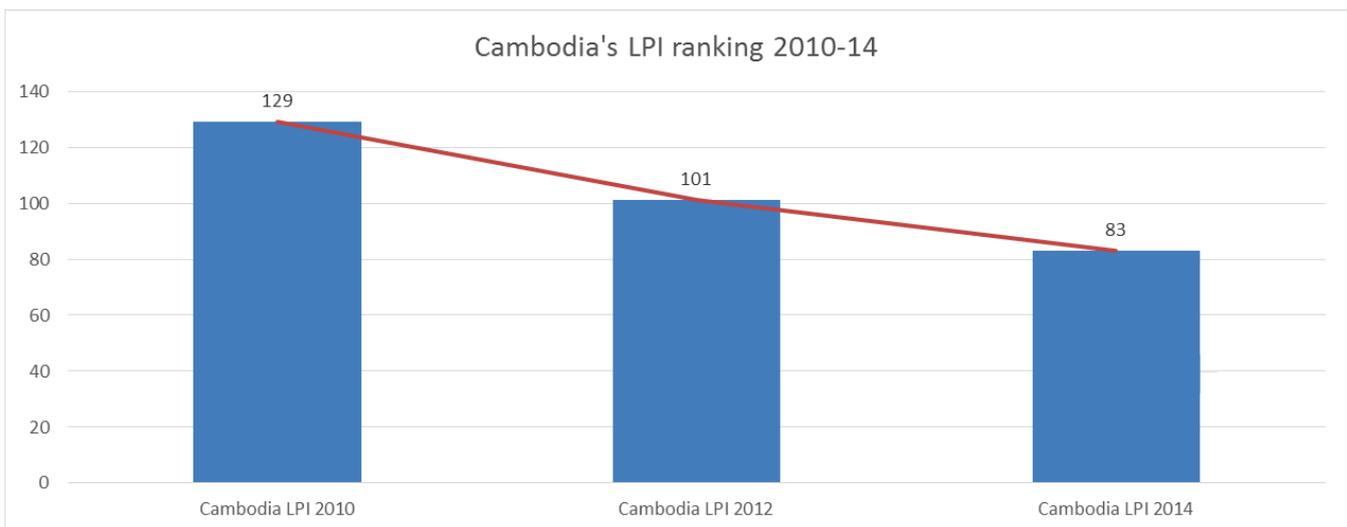


TRANSPORT, INFRASTRUCTURE AND LOGISTICS IN CAMBODIA:

Remarkable improvement but sufficient for
its growth and development aspirations?

UPWARD MOVEMENT IN WORLD BANK RATINGS HIGHLIGHT MAJOR PROGRESS

World Bank's Logistics Performance Index (LPI) demonstrates improvements in Cambodia's infrastructure. Cambodia is now better connected to regional and international trade markets by several domestic and international corridor systems.



Ranking out of 160 of countries: the lower number the better.

Sources:

- World Bank's Logistics Performance Index (LPI).
- RGC. 2013. Rectangular Strategy for Growth, Employment, Equity and Efficiency Phase III.
- MOP. 2014. National Strategic Development Plan 2014-2018.

ARE THE IMPROVEMENTS STILL INADEQUATE TO MEET THE DEMANDS OF THE NEXT STAGE OF DEVELOPMENT?

Industrial Development Policy (IDP) 2015-25 highlights 5 key obstacles, including inadequate supply of electricity, infrastructure and logistics

- Public investment in infrastructure remains low
- Roads linking rural areas to major cities and urban transport systems are not well developed
- Inland waterways have received little investment despite their potential to be a key transport network
- Rail network – little traffic, but weak links to regional route
- Port efficiency improved but costs are high
- Electricity supply is limited and unit costs remain among the highest in the world

Sources:

Infrastructure and Regional Integration Technical Working Group. 2015. Overview of the Transport Infrastructure Sector in the Kingdom of Cambodia (5th Edition).

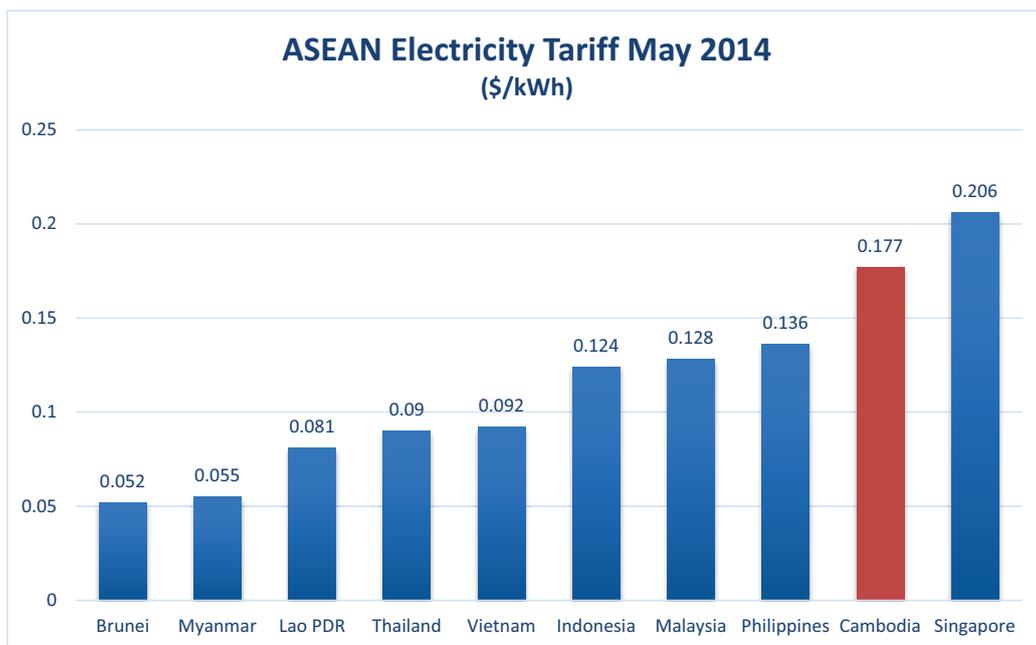
RGC. 2013.

Cambodia Development Resource Institute. 2013. *Cambodia's Development Dynamics: Past Performance and Emerging Priorities*. Phnom Penh: CDRI.

Hing Vutha. 2013. *Leveraging Trade for Economic Growth in Cambodia*. Working Paper Series No. 81. Phnom Penh: CDRI.

HOW DO WE FARE WITH OUR NEIGHBOURING COUNTRIES?

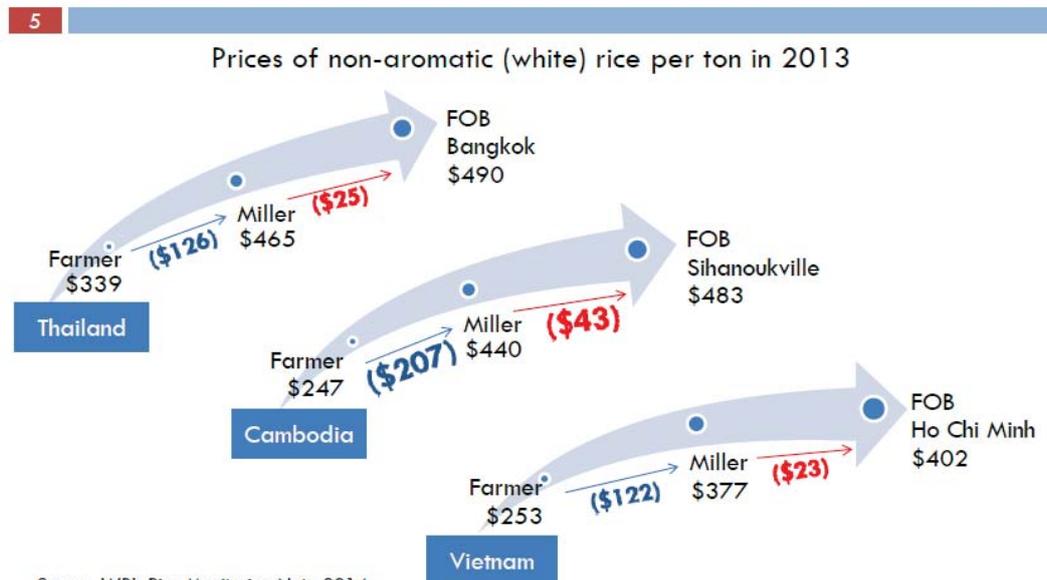
Electricity prices are still one of the highest in the region. Actual end user cost is often much higher than \$0.177 depending on location and margin added



HOW DO WE FARE WITH OUR NEIGHBOURING COUNTRIES?

Compared to Thailand and Vietnam, connectivity and quality of our transport networks are still far behind the regional average

Cambodia loses competitiveness due to high transport costs



Sources:

ADB. 2012. *Trade and Trade Facilitation in the Greater Mekong Subregion*. Manila: Asian Development Bank.

Julian Latimer Clark and Vannara Sok. 2013. *Getting Things Moving! Improving Cambodia's Logistics to Benefit Fully from Regional Growth*, Issue Sheet. Trade Development. Washington, DC: World Bank.

CAMBODIA'S DEVELOPMENT STRATEGIES AND INDUSTRIAL POLICIES SUPPORT IMPROVEMENTS

Public sector commitment to develop infrastructure and logistics is emphasised in government policies and strategies

Government policy	What it means
Rectangular Strategy III	<ul style="list-style-type: none"> • Transport and logistics sector identified as one of four key pillars • Commitment to continue to invest in transport infrastructure and trade facilitation through development of multimodal transport network system • Expansion of low-cost energy production and supply and distribution for energy stability and reliability prioritised
National Strategic Development Plan 2014-18	<ul style="list-style-type: none"> • Imbedded is the Master Plan for Transport Infrastructure Development to connect all parts of Cambodia to neighbouring countries • Expected outcomes: (1) lower transport costs, (2) improved reliability and effectiveness, (3) improved competitiveness, and (4) increased investment and trade
Industrial Development Policy 2015-25	<ul style="list-style-type: none"> • Manufacturing and garment sectors coupled with industry development in special economic zones indicate need for additional infrastructure to ensure efficient and timely shipping
Cambodia Trade Integration Strategy 2014-18	<ul style="list-style-type: none"> • Creation of a National Logistics Plan and linking it to existing ASEAN frameworks • Implementing Cross-Border Transport Agreements • Improving transport regulations • Reforms in customs and excise system to reduce illegitimate trade and informal payments • National Single Window system and integration into ASEAN Single Window

Sources:

IRITWG (2015)

WHAT DO WE NEED TO DO AND WHY?

**ON AVERAGE A 1% INCREASE IN
THE STOCK OF INFRASTRUCTURE
DIRECTLY CONTRIBUTES A
0.08% INCREASE IN GDP**

INTENSIVE AND CONSISTENT INVESTMENT IS NEEDED

From 2013 to 2020, Cambodia would need between \$12 bn and \$16 bn in infrastructure investment to keep up with economic growth

- Investment should support the development of multimodal and cross-border transport systems
- Need to improve and maintain roads to ensure better linkages and access to strategic industrial areas: upgrade national highways, build expressway to HoChiMin and Sihanoukville, complete development of the rail network and links to Vietnam and Thailand
- Thailand and Vietnam rely on inland waterways for cost-efficient shipment; Cambodia can realise costs and efficiency gains from developing inland water transport
- It is necessary to build small ports along the Mekong River where ships can load and transfer goods along the Mekong River in parallel with expanding Phnom Penh Autonomous Port; linkages to special economic zones and other industrial areas are paramount

Sources:

<https://www.cambodiadaily.com/archives/call-for-more-investment-in-infrastructure-33737/>

SOME SUGGESTED ACTION PLANS

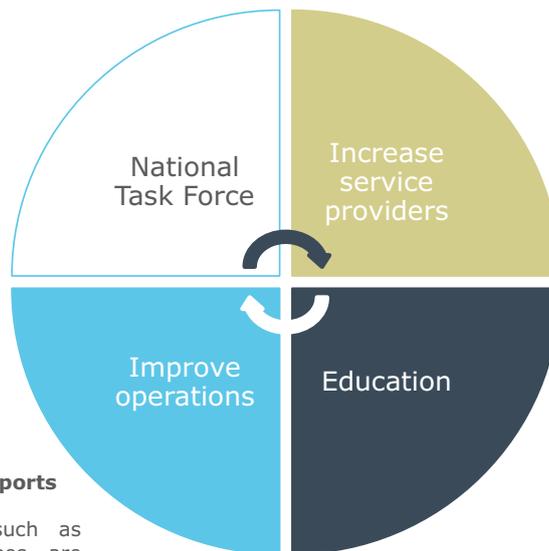
A strong, educated and experienced workforce is necessary for the development of a stable infrastructure and logistics industry

Create a National Transport and Logistics Task Force

- Cambodia should create a central body to manage, implement and monitor the sector's performance
- Thai's National Logistics Council, chaired by the PM has been effective in promoting trade facilitation
- Evidence suggests that countries with national logistics plans have significantly better logistics performance
- Such a body was proposed at the launch of Cambodia's Investment Climate 2014 Report

Customs formalities a key impediment to exports

- Despite significant progress, formalities such as paperwork, clearance, regulations and fees are among the key factors to Cambodia's slow development
- Major efforts to improve soft infrastructure are needed to eliminate the culture and practice of charging informal fees



Competition is limited in Cambodia

- Limited number of domestic service providers
- Lack of healthy competition in trucking, port and freight services
- Competition promotes innovation, creativity and reduces costs

Cambodia should consider creation of a National Institute of Logistics and Transport

- Shortage of logistics professionals in Cambodia
- Singapore has 7000 logistics companies, with over 180,000 employees and many infrastructure and logistics centres
- Establishment of curriculum, programs and accreditation would improve the soft infrastructure needed to develop the industry

HOW DOES THIS INVESTMENT GET FUNDED?

Traditional financing from national budgets, domestic and foreign loans and ODA has been declining; Cambodia should consider a diverse funding strategy

Public-Private Partnerships (PPPs)

- A PPP is a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies
- PPPs allow expansion of services provision using the market rather than publicly provided and managed facilities
- South Korea as an example: 1990s expanded PPP and it is now highly profitable financial market
- Cambodia has some PPP examples
- **How can this be expanded?**
- **What legal and policy considerations are needed to make it more effective and transparent?**

Regional and subregional mechanisms

- Cambodia is a party to the Master Plan on ASEAN connectivity (MPAC).
- MPAC has identified projects and determined possible funding sources to support them
- ASEAN Infrastructure Fund has been implemented by MPAC but has struggled to mobilise funds
- Subregionally: GMS transport development program – National Roads 1 and 5 and completion of Tsubasa Bridge BKK-PP-HCM. GMS will continue to be a main source of funding
- **What efforts are needed to mobilise the funding available at MPAC?**

Asian Infrastructure Investment Bank (AIIB) and Silk Road Fund

- AIIB as a new player has broad international partnerships including Cambodia as a founding member
- AIIB has capital base of USD100 bn
- Cambodia needs to establish how the AIIB can support both its national and regional (GMS, ASEAN etc) infrastructure development and connectivity as a new source of funding and leverage its expertise
- Silk Road Fund – One Belt, One Road a USD 40 billion fund
- **How will Cambodia leverage its membership in AIIB?**
- **What investments may the Silk Road Fund look at for Cambodia?**

Sources:

- R.D. Croce. and S. Gatti. 2014. "Financing infrastructure – International trends." *OECD Journal: Financial Market Trends* 1.
- D.H. Brooks and F. Zhai. 2008. "Infrastructure Financing: Impacts on Macroeconomic Balances." In *Infrastructure and Trade in Asia*, edited by D.H. Brooks and J. Menon. London: Edward Elgar Pubs.
- Kim Jay-Hyung and Choi Seokjoon. 2011. *Public-Private Partnership Infrastructure Projects: Case Studies from the Republic of Korea*. Manila: Asian Development Bank.

WHAT ARE SOME OF THE KEY SUCCESS FACTORS?

Lessons learned from international stories should be considered in defining what success 'looks like'

- Decision-making processes for infrastructure investment usually face considerable political pressure
- Transparency and professional expertise mitigates this
- Important for tendering processes especially for PPP as lack of genuine competitive procurement is a major factor in the failure of PPPs



- Having a concrete vision for the infrastructure system which serves the best interests of comprehensive socioeconomic development planning
- Long-term master planning
- A strong coordinating institution to facilitate planning and development
- Ministry coordination and cooperation with the private sector

- Ability to attract private sector investment is a key success factor
- Needs to be coupled with a strong regulatory framework and public procurement regimes
- High standards of transparency and accountability needed

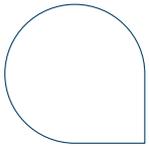
Sources:

1. Cuttaree, V. (2008) Successes and failures of PPP Projects, Washington, DC, World Bank

SOME POLICY QUESTIONS TO CONSIDER



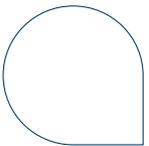
- What type of infrastructure, transport and logistics systems would best serve Cambodia's development goals?



- What is the most effective mechanism to improve coordination and cooperation in achieving successful outcomes?



- Is the creation of a national Transport and Logistics Taskforce a useful and feasible mechanism for improving policy coherence and coordination in achieving national goals?



- How to utilise AIIB and Silk Road Fund whilst fitting within existing arrangements with other multilateral organisations?



THANK YOU

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