

## SECTOR ASSESSMENT (SUMMARY): TRANSPORT (ROAD TRANSPORT)<sup>1</sup>

### Sector Road Map

#### 1. Sector Performance, Problems, and Opportunities

1. The main modes of transport in Cambodia are roads and railways. Road transport is the principal mode for the movement of goods and people in Cambodia, and between countries in the Greater Mekong Subregion (GMS). Roads are critical to social and economic development, especially in areas where roads are the only available transport mode. The main domestic need is to provide access and rural connectivity; the principal regional need is to facilitate connectivity and trade within the GMS, as well as with the Association of Southeast Asian Nations (ASEAN) countries.

2. The primary road network comprises 2,243 kilometers (km) of paved one-digit national roads, connecting the country with its borders, the GMS, and the ASEAN network; 8,664 km of two-digit national roads (or secondary national roads), 38% of which are paved; and 6,441 km of provincial roads, 10% of which are paved. By the end of 2014, 5,984 km of roads were paved. The management of national and provincial roads is the responsibility of the Ministry of Public Works and Transport (MPWT). MPWT manages an infrastructure investment program which, in 2013, was worth \$1,173 million. Funded by 10 development partners, this budget is spent primarily on roads and bridges. Currently, MPWT and its development partners are largely targeting secondary national roads and roads that link to other GMS countries. Improving rural road access to provincial towns is a medium-term target.

3. The remaining network of about 39,720 km of rural roads is the responsibility of the Ministry for Rural Development (MRD). MRD's ongoing investment program for rural road development totals \$313 million, with six development partners. The ministry's high-priority pipeline projects for rural road infrastructure amount to \$306 million. The budget for rural road rehabilitation enables the government to improve only 400 km–500 km per year. MRD has presented a substantial expansion plan for its high-priority pipeline projects, and will require investment and institutional capacity support from development partners.

4. Cambodia's underdeveloped transport sector constrains regional integration, as well as regional and global trade, and therefore holds back economic development and poverty reduction. The main challenges facing the transport sector are lack of connectivity to services and markets, resulting in lost economic opportunity; high operating, maintenance, and logistics costs; lack of competitiveness; and unsafe and unsustainable infrastructure. These problems are caused by incomplete national and regional transport policies and incomplete legal and regulatory frameworks; low institutional capacity; low private sector participation; and incomplete and inefficient transport infrastructure networks, especially with regard to provincial and rural roads and railways. The poor condition of the transport network is caused by a variety of factors, such as low capacity for performing maintenance, vehicle overloading, heavy rain for 7 months in the year, and poor traffic safety. The government is tackling these issues systematically.

5. Both MPWT and MRD have developed supporting strategies and policies to bridge the regulatory framework gaps, with technical assistance (TA) from the Asian Development Bank (ADB) and other development partners. Road Law has been approved in 2014 but is still in the

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<sup>1</sup> The proposed additional financing and to the fact that it does not trigger any material changes to the current project's outputs and scope, but merely covers a shortfall in financing.

stage of preparing the implementing guidelines, thus not effective in reality. Helping counterparts prepare focused public investment programs is an important role for development partners.

6. The government recognizes that the private sector has a vital role to play in the development of transport infrastructure. Cambodia has made progress in improving the legal and regulatory environment to facilitate formal private sector development. It adopted several important laws and regulations: (i) the Law on Commercial Enterprises (2005) and the Law on Commercial Arbitration (2006); (ii) the Law on Customs (2007) and many related regulations; (iii) the Law on Secured Transactions (2007); (iv) the Law on Concessions (2007) governing public–private partnerships in infrastructure; and (v) the Law on Insolvency (2008), as well other regulatory reforms, such as streamlined business registration procedures. The Government–Private Sector Forum, an ongoing mechanism set up for public and private sector consultation on investment climate and business environment issues, ranging from policy to day-to-day operations, has received high marks from related stakeholders for its organizational effectiveness and its impact on both the reform process and private sector development.

7. To improve transport efficiency, the government and its development partners will undertake additional road development, which should target the paving of selected rural roads to enhance connectivity. It will also be essential for the private sector to undertake other big projects largely or entirely on its own, such as the north–south rail link, which will be crucial for shipping ore if mineral exploration in northern provinces leads to successful mining ventures. Although development of the primary national road network is almost complete, paving the secondary or provincial network is progressing slowly. The primary and secondary networks provide the foundation for reducing poverty, but unfortunately these roads have yet to reach and benefit the rural poor. In order to raise rural incomes, rural roads must be improved, so that farmers and rural agro-enterprises can transport their products to market on time and undamaged. Progress in implementing GMS initiatives is essential to realize the benefits of improved transport infrastructure in Cambodia. Cambodia has signed and ratified all 20 GMS cross-border transport agreements (CBTA). While Cambodia and Viet Nam are implementing their bilateral transport agreements, implementation of the GMS CBTAs has not yet started, awaiting the approval of proposed additional financing.

8. The government has committed to increase maintenance funding by 5.5% per year to improve the sustainability of the road network. Although a road fund is an appropriate mechanism to ensure annual funding, the government prefers to allocate funding from central government resources. The Road Asset Management Project, cofinanced by ADB, the World Bank, and the Australian government, contributes to improving the maintenance of the national road network.<sup>2</sup> Six permanent weighbridge stations have been operating on major roads since March 2011, to reduce road damage caused by vehicle overloading. The government has established the Working Group on Overloading Control and Management to achieve overloading control on national roads. The National Road Safety Committee is dealing with traffic safety through its 15-point National Road Safety Action Plan, supported by information collected and reported under the Road Crash and Victim Information System.<sup>3</sup>

<sup>2</sup> ADB. 2009. *Report and Recommendation of the President to the Board: Proposed Loan to the Kingdom of Cambodia for the Road Asset Management Project*. Manila.

<sup>3</sup> The National Road Safety Action Plan was approved by the Government of Cambodia on 20 October 2005.

## 2. Government's Sector Strategy

9. The government's national strategy for growth is set out in the Rectangular Strategy Phase III (2013–2018). It emphasizes the need for development of physical infrastructure with three other core areas (agriculture promotion, private sector development and employment, and capacity building and human resource development). The primary document to guide the government is the National Strategic Development Plan (NSDP), 2006–2010, which at the midterm review in 2008 was extended to 2013 to match the term of the fourth legislative period. The NSDP midterm review recorded that developments collectively had reduced poverty from 34.7% in 2004 to 30.1% in 2007, or by about 1% per year. The NSDP for 2014–2018, which was passed by the National Assembly in June 2014, has an overarching objective of reducing poverty by more than 1% annually.

10. The NSDP for 2014–2018 clearly defines the role of the transport sector. It emphasizes that although progress has been made, further rehabilitation and construction of transport infrastructure is essential. In the current context of Cambodia, the transport network plays a role as a prime mover of economic growth, with arteries linking all parts of Cambodia into a cohesive economic body, and the means to integrate the Cambodian economy into the region and the world. The strategy gives high priority to the rehabilitation and reconstruction of a multimodal transport network connecting all parts of the country and neighboring countries. This will enable provision of convenient, stable, safe, economically efficient, lower-cost transportation and logistics services, aimed at fostering trade, tourism promotion, rural development, regional and global economic integration, and national defense.

11. Since the government and development partners cannot shoulder all the costs of improving transport infrastructure—roads, railways, and both dry and water ports—private investors are required. The government has made progress in developing public–private partnerships, notably for three international airports, one primary national road (NR4), and the operation of the railway. MPWT lists 36 public–private schemes in various states of consideration, of which 12 are active. The Law on Concessions was approved in October 2007. To accelerate the development of the transport sector, it is essential that further regulations are put in place to convince potential private sector entities to contribute to infrastructure development. In addition, innovative schemes could be considered, such as contracts for building and maintenance for long periods—e.g., 15 years (longer than the implementation of loans). This would lead large national contractors to delegate smaller contracts for long-term maintenance to local contractors, including those contractors that are eligible for deconcentration and decentralization contracts.

## 3. ADB Sector Experience and Assistance Program

12. **Sector experience.** ADB assistance in the transport sector has consisted of five loan projects,<sup>4</sup> four grant projects co-financed by bilateral donors, and three TA projects. The Fact Sheet for Cambodia, issued in April 2016, states that its transport sector has received \$523.35 million in cumulative lending from ADB (including cofinancing), or 19.73% of total lending. These interventions were focusing on rural development and private sector growth. Projects were rated *satisfactory* and *successful*. Progress was made in increasing transport efficiency by reducing vehicle operating costs and travel times, and enhancing robust economic

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<sup>4</sup> Excluding Loan 2852-CAM: Flood Emergency Rehabilitation Project and its additional financing (approved in 2014); these interventions cover roads, as well as the water sector under emergency assistance.

growth. TA projects contributed to better transport planning and policymaking directly aimed at improving efficiency and resource allocation, although the policies remain as drafts.

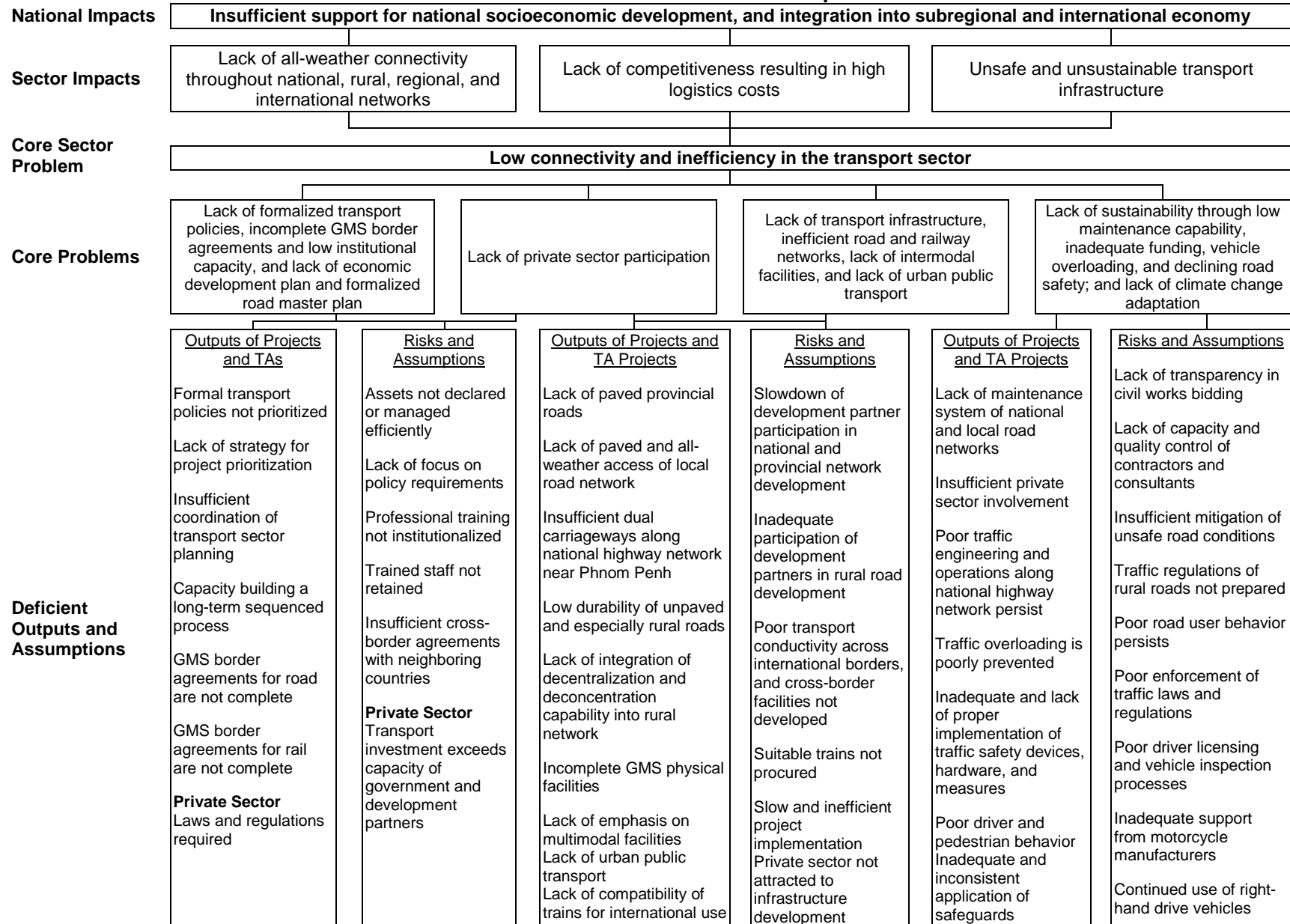
13. ADB's ongoing and pipeline loan projects are focused on rural and provincial road improvements. ADB's transport strategy for Cambodia is to connect transport infrastructure to growth sectors such as agriculture, and reach out to the rural poor through improvements in the rural and provincial road network, making markets and services more accessible at low cost. To achieve this, ADB's strengths in the transport sector (road and rail, national, and GMS) must be sustained. At the same time, the private sector must be engaged to maintain and then accelerate development of transport infrastructure.

14. **Assistance program.** The overarching objective of ADB's country partnership strategy, 2014–2018 for Cambodia is poverty reduction in line with the government's socioeconomic development priorities. The strategy supports the government in reducing poverty and vulnerability and in laying the foundations for Cambodia's future economic and social development. The pipeline program comprises the Second Road Asset Management Project for 2016 and the Rural Road Improvement Project III in 2018. Investments aim to promote gender equality and women's empowerment.

15. In the GMS program, ADB has financed four GMS road projects (all completed) and one railway project. ADB also provides assistance for construction of GMS cross-border facilities and implementation of GMS and bilateral CBTAs on road and rail, to achieve the objectives of GMS cross-border cooperation. Effective links between the proposed rail line to the Viet Nam border and the rehabilitated railway will also be important. The urban development projects will provide support so that both the rural and provincial roads connect to these growth centers with paved roads. The establishment of GMS towns will also be an important factor in determining the priority roads for improvement to paved standard.

16. **Lessons learned.** The the current project's design has incorporated lessons learned in the areas of procurement, governance, resettlement, policy formulation, loan covenants, and axle load control. In procurement, post-qualification of contractors will contribute to greater efficiency of civil works. Good governance will be promoted through rigorous project reviews, detailed due diligence, and close consultation with the Ministry of Economy and Finance. For resettlement, ADB will conduct frequent reviews and due diligence, affected people will be consulted at all stages to ensure timely provision of information on the process and entitlements. This approach increases the awareness of affected people and reduces disagreements and disputes regarding compensation. Policy formulation and related loan covenants are designed to be realistic and within the jurisdiction of the executing agency. Regarding axle load control, frequent reviews, detailed due diligence, and close monitoring are essential to support transparent, effective, and sustainable operations.

## Problem Tree for Transport



GMS = Greater Mekong Subregion, TA = technical assistance.