

## INFRASTRUCTURE FOR PRO-POOR GROWTH: ADDRESSING THE CHALLENGES IN CAMBODIA

Cambodia has made substantial inroads into poverty reduction through political and macroeconomic stability and from greater integration into the global economy. At the same time, growth alone is not enough to meet MDG poverty reduction targets. Most poor people live in rural areas and have not benefited from the main sources of growth. Growth thus needs to be accompanied by efforts to bring poor men and women more fully into the growth process. Expanding and maintaining infrastructure assets is central to supporting this pro-poor growth agenda. Priority areas where development partners can help Cambodia to increase the impact of infrastructure on pro-poor growth include supporting a country-led implementation framework, and by aligning their programmes with it, in line with the *Paris Declaration on Aid Effectiveness*, and developing infrastructure maintenance systems.

### Cambodia's recent growth and poverty reduction performance

In recent years, Cambodia has experienced double-digit growth rates and the proportion of people living below the national poverty line (USD 0.45/day) declined from 47% in 1994 to 35% in 2004.

Questions nonetheless arise about the continuity of this performance and the outlook for poverty reduction. Growth has been narrowly based, driven by a garments industry that mostly supplies the United States and which represents nearly 80% of all exports. To a lesser extent, tourism and construction have been other growth sectors. Favourable demographic developments have led to a lowering of the dependency ratio, which has helped reduce the poverty rate.

There are also concerns about widening inequality and the extent to which growth has been pro-poor (i.e. enhanced the ability of poor women and men to participate in, contribute to and benefit from growth). There are few multiplier effects on the local, mostly informal economy from the urban-based garment industry, nor from tourism. While the poverty rate in Phnom Penh in 2004 was only 5%, it was 39% in rural areas, where 90% of the poor live and work.

### Increasing the impact of growth on poverty reduction

As highlighted in Cambodia's National Strategic Development Plan (NSDP) 2006-10, encouraging growth in rural areas, notably by increasing agricultural productivity and diversification, is essential for increasing the impact of growth on poverty reduction. This will require:

- Institutional reforms that help resolve land tenure issues and increase farmers' access to arable land.

- Improving market outcomes for the poor, including more and better jobs and greater access to financial services.
- Development and especially maintenance of rural infrastructure (e.g. all-weather roads, water and electricity) to connect isolated areas up to economic opportunities and expand access to social services.
- Building up skills and human capital, including by improving primary school completion rates, especially for girls.

Enormous infrastructure needs are a legacy of the three decades of civil strife in Cambodia. In 2002, only one quarter of the 30 000 km national road network was in good-to-fair condition. Potable drinking water is in short supply outside the capital. And the rural electrification rate is very low, at 9%.

Nevertheless, Cambodia can achieve greater, more sustainable and broader-based prosperity for its 14 million people. It has a young population and an expanding labour force. It borders on two large and vibrant economies: Thailand and Viet Nam. Cambodia is neither mountainous nor landlocked and has a deep water port. If royalties from the exploitation of off-shore oil and gas reserves are well managed, they will provide the government with the means to increase investments and help more Cambodians to participate in and benefit from growth.

The international community is also supporting Cambodia's efforts to address its development challenges. Net official development assistance (ODA) reached USD 529 million in 2006. Around one-fifth of this supported the development of economic infrastructure and services, a sector which receives substantial support from China as well. Although not classified a Heavily Indebted Poor Country, in 2006

the IMF forgave 100% of the USD 82 million owed to it by Cambodia, as part of the Multilateral Debt Relief Initiative.

### **Testing the POVNET Guiding Principles on Infrastructure Development**

The DAC Network on Poverty Reduction (POVNET) has developed a set of Guiding Principles to help promote pro-poor growth through support to infrastructure. These are: i) use partner country-led frameworks as the basis for co-ordinated support by development partners; ii) enhance infrastructure's impact on poor people; iii) improve management of infrastructure investment to achieve sustainable outcomes; and iv) increase infrastructure financing and use all financial resources efficiently.

To test how these principles and possible policy responses can be applied at the field level, a workshop was held in Phnom Penh in October 2007. It brought together government representatives from Cambodia and neighbouring countries, as well as those development partners supporting infrastructure development. Three case studies provided a basis for testing and interpreting the POVNET policy messages in the Cambodian context. They covered: i) development of the national road network; ii) rural road development; and iii) polder rehabilitation.

The Guiding Principles stood up well to this reality check. They were seen as relevant, useful and important by all stakeholders. The real challenge is implementing this guidance at the field level in ways that promote the principles of the *Paris Declaration on Aid Effectiveness*.

#### **Development of the national road network: Using Cambodia's policy framework**

Roads are an important means of transportation in Cambodia, accounting for some two thirds of all passenger and freight movements. Since 1993, almost 13 000 km of rural roads have been constructed. Nevertheless, road access remains limited in many provinces. In addition, frequent maintenance of the existing road infrastructure is needed due to the regular passage of over-loaded trucks and destruction caused by flooding

The government's "Rectangular Strategy for Growth, Employment, Equity and Efficiency" provides the orientation for development partners, but implementation of this vision is complicated because of different government actors with different areas of responsibility (e.g. national, provincial and rural roads) and with different policy emphases (e.g. on new roads vs. upgrading and maintenance, on trunk vs. rural roads, and on regional development vs. poverty reduction). The result is that development partners have difficulty in identifying the

most appropriate framework to use for alignment and co-ordination, thus supporting any preferences they may still have to use piecemeal and project-approaches over more co-ordinated and strategic sector-wide approaches.

This situation also makes prioritisation difficult. How should resources be split between road development and maintenance, between rural and national/provincial roads and between addressing short-term and expected longer-term needs? What criteria should be used and who will decide? Without structural reforms, such strategic choices can only be made at a high and central level, making it more difficult to incorporate the views of the farmers, micro entrepreneurs and local transportation providers who will be most affected.

Clearly, more could be done to use Cambodian road development strategies, both national as well as rural, as the basis for co-ordinating support by development partners. Progress can be made on both sides. Development partners could usefully help their Cambodian counterparts to produce a coherent implementation strategy, formulated in consultation with different stakeholders. But they also need to be ready to align their programmes with the result. Development partners can also help build up the skills and capacities so that Cambodia can better plan, manage and maintain its infrastructure assets.

#### **Rural road development: Enhancing impacts on poor people**

The improvement of rural roads is generally considered an essential contribution to achieving the MDGs. Evaluations of rural road development programmes in Cambodia have provided evidence of the positive impact on poor women and men. For example, there are economic benefits from increased commerce (with a particular benefit to women), a boost in employment opportunities and a rise in agricultural productivity. Household assets can be increased. There are also strong social benefits through increased enrolment of boys and girls in primary schools and better access to health centres. In this context, the uneven development of rural roads across the provinces takes on particular significance.

In light of a severe shortfall in the amount and quality of rural roads, and where financing is seen as the major constraint, targeting methods to decide on rural road priorities are critical. Targeting approaches look at various factors such as poverty levels, the value of agricultural production, beneficiaries, environmental consequences, etc., but too many projects still qualify in relation to the resources available. Present planning processes, from national level through provincial to community level,

result in ambiguous roles for the different organisations which generates a need for much greater system connectivity and co-ordination. Efforts are thus still needed to strengthen systems to permit and implement clear prioritisation based on needs and returns. *Ex ante* assessments can help decision-makers to prioritise on the basis of evidence.

Road quality declines the more rural they are. Many rural roads are now beyond normal maintenance and require more expensive rehabilitation. Maintenance is generally an afterthought, is insufficient and comes too late. Delayed maintenance is expensive: USD1 not spent on maintenance typically results in a USD3 penalty to the economy. But there are clear trade-offs between investing in new roads and investing in maintenance systems and capacities, with the former usually winning out. Policy makers in central and local government need to see rural roads as an asset and apply conventional asset management techniques, taking a lifetime perspective, as building maintenance capacities is a long-term investment. Better enforcement of traffic regulations (e.g. weight, speed) is also needed to prevent rapid deterioration. Appropriate, affordable standards and judicious use of surface/paving options and local resources would increase value, improve sustainability and have a greater impact on reducing poverty.

Financing is a major constraint. Some experts argue for a unified budget for both capital and running costs, but the issue will then be how to ensure a sufficient share for the maintenance component. The impact of poor rural road maintenance is underestimated at central government level. As tolls are often not considered feasible, there is considerable interest in rural road funds as a means to finance maintenance. In reality, it will be necessary to combine different financing mechanisms to help reduce the financing gap together with better co-ordination of local needs and integration into the national road network. Particular roles for development partners were seen as raising awareness about the importance of a maintenance system and support for rural road funds and resource mobilisation to achieve effective and sustainable outcomes.

### **Sustainable Polder rehabilitation: Improving the management of infrastructure investment**

The Polder Rehabilitation Project in Prey Nup provides a good illustration of what is needed for sustainable infrastructure management.

First, *a clear legal framework and empowering users is indispensable*. In Prey Nup, farmers initially expected the local government to manage the polder and the irrigation canals. However, the local government lacked both capacity and the budget to fully fulfil this task. The Prey Nup project

now has a clear-cut division of responsibilities between government (maintaining primary infrastructure) and the User Committee (managing and maintaining secondary infrastructure). To consolidate this division of labour and responsibilities, clear regulations were passed which set out the rights and responsibilities of all stakeholders and provide a structure to enforce these.

Second, *stakeholders need to be willing to contribute fees and labour for cost recovery and maintenance*. Cost sharing between government and users is a sensitive issue, and places considerable demands on management at all levels. Government needs to have clear and transparent budget lines, from national to local levels, for maintenance. User Committees are responsible for recovering costs, which is greatly facilitated by giving men and women secure land titles. An important lesson learned from Prey Nup is that users are willing to contribute to maintenance and management when they realise clear economic benefits.

Third, *capacity building for infrastructure management is essential*. Government at all levels, but mostly local-level government institutions, often have very limited planning, management and technical capabilities. Equally, women and men in User Committees usually need substantial capacity development. Only with adequate capacity is sustainable management possible.

This case study clearly shows that a combination of efforts above and beyond the provision of maintenance funds is necessary to secure the sustainable management of infrastructure. Investment in awareness raising, capacity building, legal frameworks and empowerment are core. This requires longer-term commitment from development partners, NGOs and government, and goes beyond building physical infrastructure. Negotiation of responsibilities, tasks and rights requires the bringing together of various stakeholders. While this can be a cumbersome process, without it the investment is unlikely to be sustainable. A prerequisite for cost-sharing between users (farmers) and government is that farmers realise an economic and social benefit.

### **Workshop conclusions and directions for development partners**

Overall, the Guiding Principles on how to use infrastructure to promote pro-poor growth were found to be helpful to all stakeholders. But the key challenge is to implement them at field level in ways that strengthen the contribution of infrastructure to pro-poor growth and to deliver infrastructure support in ways that promote the aid effectiveness principles of the Paris Declaration. In respect of each of the Guiding Principles, the following conclusions emerged.

**Using partner country-led frameworks as the basis for co-ordinated support by development partners.**

In Cambodia, there is still a tendency for development partners to take a piecemeal, project approach. A sufficiently solid sector-wide framework is not in place and there are serious institutional weaknesses, but the technical working groups between the Cambodian authorities and development partners set up by sector are making efforts towards this direction. Much more dialogue among stakeholders is needed to improve on the present situation and to move progressively towards more co-ordinated support. Development partners need to help Cambodia deliver such frameworks and then have sufficient discipline to use them. The dialogue has to move on from discussions with individuals in government to discussions with government institutions. Until progress is made, there will continue to be differences in agendas between development partners and the Cambodian government (e.g. growth over pro-poor growth, kilometres of roads over road quality), with these influenced by political economy and vote catching considerations.

**Enhancing infrastructure's impact on the poor.**

There is a need to increase the use of *ex ante* and *ex post* assessment tools and approaches to identify and compare impacts, both direct and indirect. This also needs to be complemented by a workable managing-for-results framework, to make poverty reduction impacts a more central decision-making criterion in the practices of Cambodian decision makers. A stronger poverty focus for interventions also requires improving the collection and dissemination of relevant data and more attention to improving targeting approaches to permit clearer prioritisation. Labour-intensive approaches to providing infrastructure need to be balanced against their generally higher up-front costs. As much as anything else, impact on the poor will benefit from seeing infrastructure as delivering essential services to the poor rather than as only a capital investment.

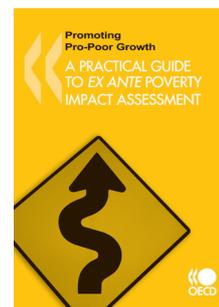
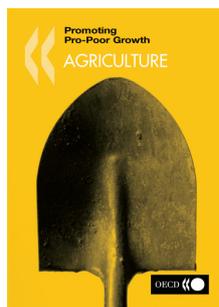
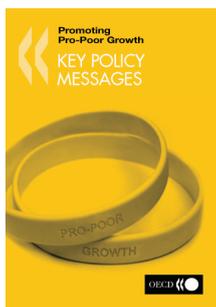
**Improving management of infrastructure investment, to achieve sustainable outcomes.** It was fully recognised that improving sustainability (and with it, service delivery)

is critical. Improving maintenance was recognised as the central issue. There is a tendency to prefer investments for new constructions, resulting in a lack of awareness about the importance of maintenance. Although participants confirmed an increase of maintenance budgets, implementation capacities are still low and budgets transferred from central to local governments might sometimes be used for purposes other than maintenance. As it is often not feasible to collect user fees from rural roads, an institutional approach is needed to provide the funding for infrastructure maintenance. Beyond this, a knowledge base about maintenance needs and private sector approaches is required.

**Increasing infrastructure financing and using all financial resources efficiently.** Important questions concern how to prioritise the use of available financing, issues surrounding bundling it to cover both capital and recurrent (maintenance) costs and how to better engage the private sector and local communities in mobilising finance. Is there too much development partner focus on the capital costs of infrastructure; if so, would seeing infrastructure as a flow of services increase their willingness to support recurrent costs? For the present, infrastructure has a very fragmented structure, with much finance outside programmes and with no collective look at the “big picture”, with all the implications this has for a reduced impact on economic growth and poverty reduction.

In Cambodia, it is necessary to spend more attention on building awareness and finding out how best to explain why infrastructure needs to be delivered and implemented to promote pro-poor growth. It was suggested that POVNET could contribute at a practical level in a number of ways, particularly by engaging its members in a dialogue to strengthen advocacy approaches by bringing in a service delivery perspective, showing the need for and how to build and finance maintenance systems and, more generally, institutionalising its role as an “honest broker” in facilitating dialogue on pro-poor growth and on the importance of infrastructure for it.

**For further reading:**



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