

Human Capital Implications Of Future Economic Growth In Cambodia: Elements of a Suggested Roadmap



Executive Summary



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ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CAS	Country Assistance Strategy
CSES	Cambodia Socio-Economic Survey
DGTVET	Directorate General of Technical and Vocational Education and Training
ESDP II	Education Sector Development Programme
EU	European Union
FDI	Foreign direct investment
GDP	Gross domestic product
HEIs	Higher education institutions
ICT	Information and communications technology
IFC	International Financial Corporation
ILO	International Labour Organization
MDGs	Millennium Development Goals
MEF	Ministry of Economy and Finance
MIME	Ministry of Industry, Mines and Energy
MoEYS	Ministry of Education, Youth and Sport
MoLVT	Ministry of Labour and Vocational Training
MoP	Ministry of Planning
NEA	National Employment Agency
NIS	National Institute of Statistics
NSDP	National Strategic Development Plan
NTB	National Training Board
OECD	Organisation for Economic Co-operation and Development
PNPM	National Programme for Community Empowerment (Indonesia)
PPPs	public-private partnerships
PTBs	Provincial Training Boards
PTCs	Provincial Training Centres
RGC	Royal Government of Cambodia
SME	Small- and medium-sized enterprises
SNEC	Supreme National Economic Council
SWAp	Sector-wide approach
TVET	Technical and vocational education and training
UNDAF	United Nations Development Assistance Framework
UOC	Open University of Catalonia (Spain)
USAID	United States Agency for International Development
WTO	World Trade Organization

FOREWORD

The global economic downturn gave everyone pause for thought, not least those countries with economies that relied largely on European and American markets for their exports. The resulting calls for economic diversification have provided an opportunity for countries to reconsider their industrialisation policies and to look at longer term means of sustaining their economic growth. Successful diversification requires commitment and investments in both human capital and infrastructure.

Cambodia's economy grew at an astounding pace through the 1990s. Narrowly concentrated on exports, however, the country was left vulnerable to external shocks. As a result, it became very clear that in the future, resilient growth would be more important than rapid growth.

The Royal Government of Cambodia (RGC) has taken advantage of this opportunity to look more closely at the country's economy and its vulnerabilities, and to plan for a revived, more diverse, and more resilient economic future.

At the Fourth Cambodia Economic Forum in February 2011, H.E. Prime Minister Hun Sen highlighted the need for Cambodia to modernise its economy by promoting industrial development to achieve sustainable growth and take it to a higher stage of development. The industrial development policy presented at the Forum is designed to capture more value added in the existing core sectors (agriculture, garments and tourism); upgrade emerging industries with growth potential (furniture and handicrafts, construction materials, household appliances, extractive industries); and to identify areas of latent comparative advantage in software development, chemical industry, renewable energy, and creative industries.

A comprehensive and coordinated industrial development strategy for Cambodia's future will need to include a human capital development strategy to prepare the labour force for the opportunities that will come with growth. The roadmap outlined in this report highlights the need for diversification and resilience, and the steps that will make this a reality.

At present, there exists a significant gap between market demand and the skills available, and existing educational institutions and curricula are often unresponsive to market demands and the needs of the private sector. The process of building up high quality human capital will take time, but with systematic and coordinated efforts from all relevant institutions and Government Ministries, today's youth can be prepared for tomorrow's challenges.

Strategically located at the heart of South-east Asia, Cambodia possesses a youthful workforce that has the potential to drive the country's transition from a least developed country to a middle-income country. And with 300,000 individuals expected to enter the labour force each year, human capital development, at all levels, represents a vital investment in the country's future.

“Successful diversification requires commitment and investments in both human capital and infrastructure.”

There are immediate steps that can be taken, but as this report outlines, there are also short-, medium- and long-term steps that can be integrated along the path to human capital development that will work together to create a more diverse and resilient economy to benefit all of the people of Cambodia.

Reaffirming the importance of a human capital development policy for Cambodia, the Prime Minister, in his Keynote address at the Fourth Cambodia Economic Forum, stated that “The Royal Government will pay special attention to...strengthening and increasing the efficiency of vocational and skill training, which are needed to improve the competitiveness of Cambodia.”

UNDP is working to support the Royal Government and other development partners in preparing for the next phase of Cambodia’s human development, and sustainable and inclusive economic growth. UNDP’s work in the area of human capital is geared toward responding to the needs of the private sector and supporting the RGC as it works to expand and improve the country’s human capital, providing opportunities for the more than 65 percent of the population that is under 30 years of age.

Setting out on this path, and aspiring to reach middle-income country status by 2020, the Royal Government can build a stronger, more equitable and more prosperous future for all of its citizens.

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EXECUTIVE SUMMARY

Cambodia: Human Capital Development for a Future Diversified Economy

Cambodian Human Capital in Light of the Recent Global Economic Crisis

1. Cambodia is in the midst of recovering from its most severe economic shock in two decades. This shock is made more severe because it was unexpected. It is difficult to over stress the social impact of this shock, coming as it did after a decade of 10 percent growth, one of the highest anywhere in the world.
2. The output shock following the recent global economic crisis revealed a number of key structural weaknesses in the Cambodian economy. Its growth was concentrated in a few foreign direct investment (FDI)-dependent industries such as garments, tourism and construction. Most of this is also concentrated in a few urban centres, especially the capital, Phnom Penh. Its domestic private sector remains a collection of tiny family enterprises within the informal economy. High economic growth in the recent past triggered a structural transformation in the composition of the gross domestic product (GDP). However, Cambodia remains a largely agrarian economy. The agricultural sector is characterised by subsistence farming with rice being the principal crop.
3. Rapid economic growth in a few concentrated areas and sectors and the rapid expansion of the urban labour market that accompanied it has served to conceal underlying structural problems in education and skill formation. While Cambodian primary education enrolment ratios showed a sharp increase from 1997 onwards, from just over 50 percent of the relevant student age to over 81 percent a decade later, this drops sharply in later stages of the educational cycle. In 2007, only 24 percent of Cambodian children completed lower secondary school, 15.6 percent upper secondary school and just 2.7 percent completed tertiary education. This is a cause for worry. Comparative ratios in neighbouring countries within the Association of Southeast Asian Nations (ASEAN) such as Indonesia, the Philippines and Thailand are substantially higher despite a doubling of secondary school enrolment ratios in Cambodia over the 1997-2007 decade. Cambodia is especially far behind its regional neighbours in tertiary education. In 2007 the enrolment ratio in this sector was just 5 percent, compared to 12 percent in Lao PDR, 17 percent in Indonesia, and 28 percent in Philippines.
4. Rapid growth of GDP during the decade prior to the recent global economic crisis, combined with a demographic structure in which some 60 percent of the population are below 24 years of age, has generated high levels of internal migration on the one hand and the highest rates of projected labour force within ASEAN on the other. This serves to complicate the skill development problem even further. Migrant populations are more difficult to identify and redirect into formal secondary school programmes. In addition, a fast growing labour force also puts stress on an already poor school infrastructure. This is not taking into account the impact on poverty of the recent economic crisis which encourages the short-term

“The output shock following the recent global economic crisis revealed a number of key structural weaknesses in the Cambodian economy.”

economic premium on sending children to work instead of the long-term benefits of finishing school.

5. Sharp inter-regional differences in school attendance and quality only complicate this overall picture of weak human capital development in Cambodia. While primary school enrolment is relatively uniform across regions in Cambodia, the picture is quite different when it comes to secondary and tertiary education. In the case of lower secondary education alone this can vary from low performing regions such as Rattanakiri to the highest, Phnom Penh, at a ratio of one to ten. Equity and access dimensions of skill development even at this rudimentary level are thus likely to be of major importance to policy-making in the future.
6. On a political note, the Royal Government of Cambodia (RGC) has responded to these policy challenges by designing a comprehensive development strategy, the Rectangular Strategy for Growth, Employment, Equity and Efficiency in Cambodia, which focuses not only on economic growth, but also on social stability and welfare, on governance and anti-corruption as well as on economic diversification. This strategy provides most of the key building blocks for future sustained recovery, particularly because it seeks to integrate economic policies with human development ones.
7. In the immediate context of the recent global economic crisis, however, Cambodia continues to face a number of critical policy challenges. First, finding ways to mitigate the impacts of the output and trade shocks on the poor. Second, putting laid-off workers in its principal industries – such as garments, tourism and construction – back to work. Third, promoting new sources of future growth so as to partially insulate the Cambodian economy from international financial and economic shocks in a globalised economy. Fourth, ensuring that future growth is broad-based so as to reduce income inequality across regions and households.
8. An important challenge facing policy-making is to work out how to link the short-term priorities of employment generation and poverty alleviation with the longer-term task of economic diversification, building a robust human capital base and strengthening government capacity to face future challenges of financial regulation, climate change mitigation and combating economic inequality, problems now being faced by almost every country in the ASEAN plus region.

Economic Diversification and the Human Capital Development Roadmap

9. The government's approach to human capital development in the context of the recent economic shock was, in addition to maintaining macroeconomic stability, to restore the employability of its laid-off workers as well as to seek to restore FDI flows to Cambodia, which were badly damaged during the global credit squeeze. It has also acted to improve labour market information through the creation of a National Employment Agency, promote vocational training through a National Training Board (NTB), close the skill mismatch between skilled labour supply and demand through structured consultation and joint reviews with the private sector,

as well as engaging in a search for an appropriate and market friendly future industrial diversification policy.

10. These are all important initiatives although they still lack the critical minimum mass to make a significant dent in the employment picture. Nevertheless, they reflect a partial approach to what is an economy-wide problem: the creation of a human capital base commensurate with the government's economic diversification strategy on the one hand and its social welfare priorities on the other. In fact, the structural problems facing the education and skill development sector today are partly the result of not being able to address them during years of record growth. As Cambodia goes forward towards a more diversified, sustained economic growth in the future, it is time to design and implement a new, comprehensive Human Capital Development Roadmap.
11. The urgency of creating such a Roadmap is also rooted in recent thinking on economic diversification strategies themselves. The reform of the education and skill sectors being undertaken by most developed and dynamic developing countries, especially within Asia, along skill and product lines, suggests a growing acceptance of the view that future growth and productivity will be driven by 'knowledge products' including the capacity of countries to emulate frontier technologies. Only a comprehensive approach to future human capital development captured in a Human Capital Development Roadmap will allow Cambodia to integrate short-term measures of employment promotion with the longer term priorities of economic diversification and the building of state capacity to deliver such a diversification programme on the ground.
12. Putting all of the above requirements of preparing the foundation of a national policy for tapping into the global knowledge economy, and transforming these into a roadmap for human capital development implies keeping the following main principles centre stage:
 - Ensuring nationally defined minimum quality, access and participation rates in basic and secondary education in order to provide a sure foundation for vocational and on-the-job training as well as for institutions of higher learning. This means addressing the root causes of school drop-outs, inter-regional disparities in secondary school access and quality, and the curricula relevant to entry into the world of work. This is a major challenge for the Cambodian education system, but even this by itself will not be enough to ensure the success of industrial diversification policies without adopting a long-term knowledge economy paradigm.
 - Adopting a life cycle approach to human capital development whereby opportunities for new learning are made available at all segments of the life cycle.
 - Assessing human capital requirements not only of business, but also of research and development (R&D), innovation networks and business parks, and of capacity building requirements of government agencies.
 - A careful integration and ordering of long-term education and training targets and quality benchmarks with short-term, informal education and

"...a Human Capital Development Roadmap will allow Cambodia to integrate short-term measures of employment promotion with the longer term priorities of economic diversification..."

work retooling, without expecting short-term skill mismatches to be settled through mainstream education programmes.

- Balancing the contributions of mass expansion of secondary and higher education with the need to build specialised elite institutions able to tap into international research and technology for the knowledge economy.
- Producing a long-term financing plan for public expenditure on human capital in a knowledge economy framework, taking into account the possibility for public-private financing of education and training programmes already prevalent in many Asian economies.
- Development of an institutional mechanism for coordinating and joint programming of the Human Capital Development Roadmap taking into account the four pillars of the knowledge economy, perhaps with the participation of non-governmental agencies (e.g. a National Knowledge Agency or a Productivity Commission).

Human Capital and State Capacity Building

13. Since short-term job creation and poverty alleviation priorities have dominated education and training policy following the global economic crisis, little attention has been given to human capital development problems within the government sector itself.
14. However, as Cambodia continues to consolidate its democratic system, promote social welfare, deal with a number of global problems ranging from financial regulation to climate change, and move further towards economic integration with ASEAN, the human capital dimensions of government and associated bodies will become increasingly critical. It is therefore key that the proposed Human Capital Development Roadmap not only be linked to the Economic Diversification Programme, but also to ensure that the State has the right set of skills in sufficient quantity to implement such programmes.
15. Another key recommendation of the present report is that raising the quality of growth by promoting equitable access to education and skill development opportunities is an integral element of a future Human Capital Development Roadmap. In the context of an economy diversified to enable it to absorb new products and new types of knowledge-linked FDI, wide access to innovation and knowledge is part of the process of raising productivity levels. Equity therefore will continue not only to have social relevance, but also economic and productivity related relevance.

Investing in Human Capital in Cambodia

16. This Report reviews the sectoral data and skill gaps, and human capital priorities in major industries ranging from garments and tourism to mining and information technology. While data on employment and skill gaps is still rudimentary, it does point to the need for concrete action in a range of areas. An overall set of actions is illustrated in the policy matrix attached to this summary.

17. At the same time, current data does not allow us to provide a micro level set of recommendations on how to improve skill mismatches, how to provide incentives for vocational training as an alternative to tertiary education institutions, how to attract skilled teachers to training institutions and so on. Plugging the information gap in the employment and skills area is an immediate priority.
18. It is also critical to understand more fully the concern with the 'shortage of soft skills', often cited by Cambodian employers. Moreover, a number of economy-wide initiatives are possible to address many of them (e.g. punctuality, politeness, and work attitudes) through national distance learning techniques that have been used in educational campaigns in many developing countries, such as Mexico.
19. The most important aspect of future policy on human capital development is to adapt mechanisms to integrate long-term and short-term priorities. Given that investment in human capital is an activity with a long gestation period, one of the key contributions of the Human Capital Development Roadmap is to create a long-term and sequenced framework within which crisis response concerns can be addressed. The suggested Policy Development Matrix in the annex provides some building blocks indicating how a country might proceed.

Human Capital in Cambodia: Reasons for Optimism

20. The construction of a Human Capital Development Roadmap in line with Cambodia's economic diversification, state capacity building and social welfare plans requires painstaking work. However, it is the only way to prevent the build-up of future structural bottlenecks such as those encountered in the decade from 1998-2008. However, given Cambodia's enormous economic development achievements in the past two decades, this is clearly achievable.
21. It is to Cambodia's enormous credit that despite a history of internecine conflict, loss of human capital, political instability and social conflict, events which might have pushed other countries into a prolonged state of institutional decay and economic ruin, it has managed to consolidate a new political system of electoral democracy, to usher in a period of record growth and to sharply raise its human development performance.
22. Moreover, Cambodia has not only recovered from social conflict and loss of human capital, it has also undertaken wholesale institutional transformation, established completely new sources of growth and employment (such as bringing enormous numbers of female workers into the labour force), decisively moved away from central planning to an open market economic system, reached out to international and inter-regional organisations and agencies (such as ASEAN), and initiated a formal and organised system of regular dialogue with the private sector. It has also had to battle with the fallout from two massive economic shocks, the first in the form of the Asian Economic Crisis in its own neighbourhood, and the second on a global scale triggered by the US mortgage crisis. In response, Cambodia has not only resisted protectionism, but has also increased its engagement with the private sector, and has invited aid organisations to work with it on many complex

"...one of the key contributions of the Human Capital Development Roadmap is to create a long-term and sequenced framework..."

areas of economic policy, from aid effectiveness to international competitiveness, investment climate, labour markets and human capital needs.

23. While future growth is unlikely to be a repeat of the past for reasons examined closely in the World Bank's country growth diagnostic report (2009c) and mentioned in the present paper, the prospects are not as dreary as might appear from a dry recitation of global economic data, competitiveness surveys or the quality of FDI and the footloose nature of the international garments industry. The economic diversification programme within a knowledge economy productivity framework is one part of the policy agenda. The construction of a Human Capital Development Roadmap, beginning with a long-term view and integrating short-term labour market and skill shortage concerns, is the other essential part. One way to address this is to provide policy makers with a comprehensive Human Capital Development Roadmap at the next meeting of the Cambodia Economic Forum, using the best global analytical techniques and country experiences possible.

Policy Recommendations

Immediate interventions

Crisis response and recovery

- Poverty alleviation
- Increase social safety nets and ensure safety nets have adequate funding
- Dealing with internal migration
- Promoting private sector development and cooperation

Addressing unemployment

- Targeting rural and poor individuals and communities most affected by economic crisis
- Investments in infrastructure that are employment intensive and encourage local development
- Improve labour market information

Stopping school drop-outs

- Increase in subsidies for continuing education
- Strengthen and expand the Scholarship for Poor Programme (lower secondary scholarships and pilot of primary scholarships)
- Increase minimum school-leaving age

Establish system able to pool data and information on relevant education and industry statistics

- Create information system of education and industry statistics
- Create system able to analyse and process information collected from information database for appropriate policy formulation

Short-term interventions

Filling the skills gap

- Improve conventional training to increase soft and hard skills
- Identify and expand training for key areas that are in need of increased skill provision
- Ensure adequate financial backing for new training and skill building programmes

Short- to long-term interventions

Improve vocational training

- Increase flexibility and modularisation of training
- Increase systems of quality assurance in TVET
- Improve quality of TVET facilities and equipment
- Opening up of pathways between TVET and higher education
- Expansion of private and NGO TVET providers

Policy Recommendations (cont.)

Long-term interventions	<i>Reform higher education</i> <ul style="list-style-type: none">• Reorganisation of management, governance, and financing of higher education institutions• Increased and sustained funding for higher education
	<i>Governmental institutional reform</i> <ul style="list-style-type: none">• Government focus shifting to more cooperative engagement in the higher education system• Increasing government and private sector cooperation
	<i>Life-long learning</i> <ul style="list-style-type: none">• Creation of life-long learning vision for Cambodia• Increased focus on individual returns generated from learning throughout one's lifetime• Increasing coordination and decreasing incompatibilities in educational qualification standards

For more information on policy recommendations, see Annexes.



Cambodia

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