

Making the Most of Cambodia's Human Resources

*Chan Sophal summarises the third session of the 2008 Outlook Conference and looks at the progress in matching skills to market demand.**

Cambodia's human resources were the topic of the third session of the conference. The session was chaired and moderated by Dr Ing Kantha Phavi, minister of Women's Affairs. Pich Sophoan, secretary of state, Ministry of Labour and Vocational Training (MoLVT), presented "Responding to Changing Labour Market Needs". He was followed by Dr Chea San Chanthan, the rector of Pannasastra University, who talked on "Quality Higher Education Reform and Cambodia's Future". Ms Sandra D'Amico, managing director of HR Inc Cambodia, presented the topic "What the Private Sector Needs". The session concluded with Chan Sophal, senior research manager, CDRI, talking on "Labour Market Policy Challenges". The following summarises issues that were discussed.

Key Messages

Cambodia faces significant challenges in developing human capital and a skilled workforce. These include low productivity and high youth unemployment, even among university graduates. Much of the population remains rural and poor. Most rural workers need only basic skills, while there is a limited demand for higher skills in urban areas. Several speakers stressed the need to move towards a skills-based economy rather than a resources-based economy.

There has been some progress in matching skills to demand and need, in particular through development of a national technical and vocational education and training (TVET) framework and the adoption of competency-based skills standards. Job matching (through creation of a national employment agency and job centres) is also part of this approach. However, public, private and employer-delivered vocational training is still limited and not tailored to employer needs. For example, most students are learning social sciences, not studying technology or engineering.

* Chan Sophal is senior research manager for Economy, Trade and Regional Cooperation.

In tertiary education, the number of providers has risen exponentially, but the quality of education remains a concern. Important steps include establishment of entry level requirements, creation of an accreditation agency and introduction of a standard first year of tertiary education to provide basic skills. Many students come out of tertiary education still lacking adequate or appropriate skills. There is a shortage of qualified people and of demand for courses in areas such as social work, as well as a lack of the generic skills employers are looking for, such as critical thinking, writing and leadership.

Employers experience significant difficulties in recruiting suitable staff. They express considerable frustration about the low skills, narrow qualifications, unrealistic expectations and general lack of work readiness among young university graduates. Certification of skills and experience is a critical gap, as is a better understanding among young people of the labour market and what skills they need to get and keep a job. Limited supply drives salaries up and creates high turnover as people shop around for better wages and conditions.

On broader labour market issues and the challenge of youth unemployment, two strategies were proposed: to increase the demand for basic skills by improving food security and meeting basic needs of the rural poor through freeing agricultural land (including land tied up in economic concessions) for productive purposes; reducing the costs associated with overseas migration, and introducing social protection mechanisms, to maximise returns from these jobs.

Presentations and Discussion

While overall population growth has slowed to 1.96 percent in recent years, the youth population (15–24 years) is growing at 3.2 percent. About 250,000 people are added to the labour force annually. Unemployment—those not working but available for work—among young people in Phnom Penh was 20.1 per cent in 2004, which is quite alarming. The rate was 27.8 percent for youths aged 15–19 years and 16.6 percent for those aged 20–24 years. Growing numbers of young people in need of job opportunities and appropriate skills will continue to be a challenge.

This high level of youth unemployment likely results from insufficient job opportunities to absorb the increased labour force; job opportunities are relatively limited, especially in agriculture. However, even at the current level of demand for labour, investors and businesses complain about a shortage of the skills they need. There are substantial deficiencies in education and training

services, while many youths cannot attend training because of overriding short-term needs to obtain food and other basic items.

Lack of job creation is partly due to an unfavourable investment climate in the past, although considerable efforts are currently being made to improve it. There is a serious shortage of employment in rural areas, leading many residents to migrate to urban areas or other countries, mainly Thailand. Cambodia has a contentious policy of aiming to keep 60 percent of the country forested. There is a question whether this is realistic when so many rural people need to make a living and much of the forest is already degraded. There is a trade-off between forest land and agricultural land. With the policy of keeping 60 percent forested, the status of much deforested land remains unclear and the land is not used productively, resulting in the waste of potential production and employment.

Meanwhile, there are serious constraints on gaining more from international labour migration. The cost of formally going to work in Thailand is too high, at USD600 to USD700 per person and three to six months of waiting, compared with USD100 and three days for informal migration. About 6000 people have chosen the formal way, while more than 180,000 are still engaged informally. However, informal migration involves risks and underpayment. Remittances were estimated at about USD200 million a year in 2005. This could rise to USD500 million if labour migration to Thailand were better managed (Vietnam and Thailand receive USD4 billion and USD1.5 billion respectively).

Foreign employment will likely continue to rise. Since 1998, 10,532 workers have been sent legally to Malaysia, 3984 to South Korea and 6114 to Thailand. Thailand forecasts a labour deficit of 6 million over a relatively short period of time so more labour demand from Thailand is expected. There are also more opportunities for Cambodians to work in Malaysia, South Korea, Japan, and Singapore. What is needed is lower costs of legal migration, especially to Thailand. There is a need for to reduce the passport fee to USD40 or less, and processing time to 10 working days or less. Actions of both Thai and Cambodian governments should reduce the total cost of sending workers to Thailand from USD700 to USD300. There is a need for special consideration for female migrants, who are vulnerable to abuse and trafficking.

Improving education and skills requires a balance between education supply and demand. The education budget was USD136 million in 2007. Food security and basic needs are met first before education is demanded. There should be a stronger policy to raise the income

of the poor by improving agricultural productivity and providing vocational training. This entails increasing the national budget for agriculture and vocational training. The Ministry of Agriculture, Forests and Fisheries (MAFF) was allocated only USD15 million in 2007 and the MoLVT only USD7 million. Income can be raised in one to two years through improved agricultural productivity or vocational training.

Creation of productive employment requires further improvement in the investment climate (the government and World Bank are working on improving trade facilitation), reduced energy and transportation costs and a re-think of land and forest policy. There is a need for clear boundaries of state land and forests. Technically, 80 percent of the country is state land. Is this not too large? Land titles and thus tenure are impossible on new land for average people when the Forestry Administration still claims 60 percent of Cambodia. Non-performing economic land concessions should be turned into social land concessions.

Universities provide many management, accounting and marketing courses. However, the following skills are badly needed but little provided by universities: road and bridge construction, building construction, irrigation, electrical repairs, plumbing and mechanics.

A young population presents both challenges and opportunities. To sustain high growth in the medium and long terms, there is a need to move from resources-based to skills-based growth. Improvement in the quality of labour is therefore needed. The means to achieve this should be a balance between long-term educational investment and short-term income/skills-raising investment. Educational investment will yield long-term gains only if short-term needs can be met. Securing food and raising income through improving agricultural and land productivity and increasing technical and vocational education and training are key. Thus, more resources should be provided to the MAFF and MoLVT.

HR Inc Cambodia highlighted that it is difficult for employers to recruit qualified human resources. Many young applicants have no skills. There is a shortage of Cambodian managers and management skills and of specialised skills. It is difficult to retain staff. High pay is provided because there is no other option, not because of skills. It is difficult to recruit because certification does not reflect skills. Everyone wants to be a manager. There is a serious lack of conceptual thinking skills. A big survey of employers' needs and young people's skills found that 76 percent of youths do not have the right skills; only 12 percent of employers were fully satisfied.

It takes an average of nine months for a graduate to find a job. It is difficult to find proactive workers. For basic jobs, what is missing is a good work attitude, technical skills, foreign languages and decision-making ability. It is very difficult to find specialised workers or those with analytical skills. At the professional level, it is very difficult to find people with analytical decision-making skills and relevant experience. Salary expectations are a big problem, leading to loss of staff to other jobs.

HR Inc calls for increased TVET and enhanced university education, ongoing training in employment and meaningful accreditation and certification linked to skills and ability. Young people need to understand the market and market expectations. Employers need to spend a lot of time identifying needed skills. Universities need to provide appropriate skills and link young people to jobs.

Pannasastra University provided evidence that most students do not want to read; they want teachers to create summaries of textbooks. Compromise on standards is not helpful. Reading is key to success and to better writing and knowledge.

There is limited publishing in Khmer, limited availability of resources including both novels and textbooks. More needs to be published. The availability of other media is discouraging reading.

Students are attending two or three universities at the same time, believing that one is not enough. This suggests that university education is not meeting demand. Graduates can have two degrees and know nothing. The curriculum is of poor quality; universities copy each other's curricula. There is a real need to comply with international standards and meet local needs. There is a need to match the student market and job market. Most students want to do management and accounting. There is no study of the employment market. What does Cambodia need? There is a bad need for key skills including critical thinking, not just passively but proactively. Reporting and writing skills are key. Students cannot write because they do not read. There are no courses in social work and other areas of need. Equally, areas such as gender and leadership studies are not well covered here.

There are now 60 public and private universities and institutes. A key concern is the quality of university education. The Accreditation Committee of Cambodia has established entry-level requirements, attempting to bring regulation and consistency to the sector.

Public universities take the better students, private universities take the rest. Attempts are being made to address the quality of entrants, e.g. through entrance

examinations. Textbooks are in English, so students have to study in another language.

The MoLVT described its mandate and responsibilities to provide leadership in matching the skills of the national workforce with the opportunities as well as creating an environment in which all partners understand, accept and perform their roles. MoLVT coordinates the national effort to match skills with needs, encourages partners to find workable solutions to skills development and creates new partners.

MoLVT has developed community-based skills training (Voucher Skills Training System) in which more than 60,000 villagers have improved their skills in order to earn more money in rural areas. "Earn and learn" is the basis of the urban TVET system and of MoLVT's response to a changing labour market in the formal economy.

Unemployment among secondary school and university graduates is another concern. If more of these graduates had marketable skills, they would be hired by companies. High school graduates are estimated at 53,500 in 2007/08. This will rise to 190,050 in 2014/15.

It is time to address the needs of the country for practical diploma and degree holders who meet business standards. Having a good system makes no difference if nobody knows it is there. MoLVT aims to begin a social marketing campaign to inform students, families and employers and change the public perception that a university degree is the only road to good employment and that TVET is just for bottom level jobs. It is the skilled workforce of technicians and engineers that drives the economy in Singapore and South Korea, and these workers earn attractive salaries and have good career prospects.

In response to changing labour market needs, MoLVT intends to provide the tools we need to adjust to change, to develop partnerships with enterprises and learners (cost sharing), to continue using skill development as a tool for poverty reduction, to improve productivity and management through skill upgrading, to raise capacity utilisation and lower average costs in factories, to establish enterprise-dictated competency standards (training leads to employment and to recognition), to create a national employment agency (to improve the functioning of the labour market), to expand the public provision of TVET (to train technicians and engineers), to encourage more TVET from employers, to support the growth of quality private sector training institutions through a national network of TVET trainers and to change the way young people and their parents view TVET.

Cambodia 2008 and Beyond: Public-Private Partnership

*Eng Netra summarises the main issues discussed at the fourth session of the Outlook Conference and highlights the frameworks for government-private sector partnership already in place and the need for independent mechanisms to promote coordination and cooperation between business and government.**

The discussion started with an overview of government policy and initiatives to enable private sector development presented by Cham Prasith, senior minister and minister of Commerce. Bretton G. Sciaroni, from the International Business Club of Cambodia, discussed the important and successful mechanisms for bringing government and the private sector together to exchange views and work out ways forward, and provided suggestions for future mechanisms. The third presentation, by Eng Netra from CDRI, outlined some major governance challenges, their implications for private sector development and measures to address some of them. Finally, Tim Duffy, the director of Oxiana company, gave an example of how the private sector works and contributes to and influences the community and development in Cambodia. Following are highlights of the four presentations.

Public-Private Partnership in Cambodia's Future

Cham Prasith, senior minister and minister of Commerce

The Cambodian government is very receptive to private sector development. There are a number of mechanisms in place to facilitate it. First, twice a year the prime minister meets with foreign and local investors in the Government-Private Sector Forum and addresses issues of interest to the private sector. This mechanism has been institutionalised since 2000. In addition to the Government-Private Sector Forums, there are eight government-private sector working groups that meet monthly to tackle urgent issues. Major issues from these working groups are submitted to the prime minister during the forums.

Second, the government has set up a Private Sector Development Steering Committee, and three subcommittees on: investment climate and private participation in infrastructure; trade development and trade-related investment; and small and medium enterprises.

Third, Cambodia has adopted a liberal trade regime designed to encourage FDI and support foreign companies

in setting up businesses. This regime allows local trading companies, either joint venture or 100 percent foreign companies, to import and export. There is no price control of goods by the government. There is no discrimination or differentiation between state-owned enterprises and private companies. The government does not allow foreign ownership of land, but it is possible to obtain a lease of up to 99 years.

Fourth, the government has adopted a sector-wide approach for trade in order to coordinate the efforts and resources of government, local actors and development partners on a single and shared strategy to develop Cambodia's trade. Three pillars of the approach are: reforms and related issues, product development and services, and capacity building. Each of the pillars has a design team with diversified membership from government, development partners and civil society. These pillars will look into how to assist our products and their markets; otherwise people just produce what they have always produced, and there is no market for it.

Finally, there are some ongoing challenges. These include regional integration of markets and reduction of production costs. For example, how can Cambodia compete, and how can we diversify when production costs, especially for infrastructure (e.g. electricity) are so high? Electricity is critical for education as well as for the private sector. The government has approved a number of electricity projects throughout the country to address the problem. There are initiatives to create special economic processing zones for diversification and job creation and to obtain electricity from neighbouring countries.

A Private Sector Enabling Environment

Bretton G. Sciaroni, senior partner of Sciaroni & Associates and chairperson of the International Business Club

There are many positive aspects about investing in Cambodia. Economic growth and political stability have been hallmarks in recent years. The investment environment includes the ability to form 100 percent foreign-owned companies, no restrictions on the transfer of funds and tax benefits for investing companies.

One major selling point for Cambodia is the partnership established for nearly a decade between business and government, the Government-Private Sector Forum. This forum is seen as means to influence laws and policies and to seek action from the government.

For potential investors, it is an important institution because it is a very visible indication of the government's positive attitude toward investment. The success of the forum, according to an International Finance Corporation (IFC) review published last year, indicates its effectiveness and importance to the reform process. Among the various criteria by which the forum's economic impact can be judged, the annual value of the private sector's pro bono

* Ms Eng Netra is CDRI research manager for Democratic Governance and Public Sector Reform.

input into the forum is US\$350,000, which compares favourably with donor funding, which is US\$160,000.

However, with this impressive record as a background, the forum is at a crossroads. What is needed is a road map as to how the transition should be done so that the business community can take over the coordinating role that is played by the IFC today. So I would like to suggest a path by which that objective can be achieved. That would be to strengthen those with the greatest stake in the forum—the Private Sector Working Groups (PSWGs) and the Cambodian Chamber of Commerce—to take over the coordinating role at some point in the future.

So what will be the future of the forum? Aside from its current mission, which is providing a mechanism for exchange of information with the government and problem solving, there should be new missions undertaken by the private sector working groups. These include:

- *Establishment of a focal point in each province:* There should be a single person or office to receive problems encountered in business and forward them to the Phnom Penh-based forum for resolution. Because the biannual forum is nationally televised, everyone in Cambodia should be familiar with it.
- *Regional forums:* The forum could be held in regional centres to extend its reach and familiarise businesses in the provinces with the dialogue.
- *Private sector initiatives:* The PSWGs should be more proactive in making proposals to improve the business climate. In the future, with adequate staffing and resources, the business community should be taking the initiative to introduce policy initiatives or proposals to improve the economy.
- *Public sector advisory role:* The PSWGs should be more active in providing input to major public policy. A recent example was the submission to the Financial Sector Blueprint 2006–2015.

Governance and Private Sector Development Challenges

Eng Netra, research manager, CDRI

Cambodia has enjoyed impressive economic growth over the past 15 years. Peace and the subsequent stability allowed rapid expansion of economic activity in all sectors. This success has been achieved despite a challenging situation with respect to human rights, rule of law and overall governance quality. Cambodian governance is easy to criticise but very complex and difficult to reform. Some of the major challenges follow.

CDRI poverty studies show that the poor are still far from the reach of policy and are often excluded from basic public services. The poor also experience unequal treatment and are adversely impacted by corruption of government officials. The studies further indicate that elite capture and patronage networks exert influence and

power as they wish, limiting access of the poor to natural resources and decision making. Other CDRI studies on accountability of sub-national government indicate that the Cambodian governance system has limited success in managing public funds rationally and with clear linkage to planning, and seems to fail in recruiting and rewarding qualified public officials according to merit.

While the World Bank's "Doing Business 2008" ranked Cambodia 145 out of 178 countries for ease of doing business, it noted that Cambodia had improved slightly in relation to starting a business, licensing and employing workers, but did not rank well on policy certainty, corruption, property rights, courts and crime. However, in plenary discussion at the 2008 Cambodia Outlook Conference, the role and influence of such comparative global indexes of factors contributing to a positive business environment, and related surveys on governance and corruption, were seen as being of questionable value by both Cambodian government and private sector representatives. They questioned whether such surveys actually give any real or useful picture of opportunities for private sector development and entrepreneurialism, and raised serious questions about their methodologies and legitimacy.

Overcoming constraints to private sector development in achieving poverty reduction goals remain challenging. However, some recent reform initiatives (decentralisation and public finance management) are positive and worth building on. Some specific measures are:

- *The government continues to focus on ensuring stability.* This would mean that any reforms and attempted changes would be incremental and maybe ad hoc.
- *Enhancing the decentralisation reform* by establishing indirectly elected district and provincial councils with adequate power and resources and a wide range of functions including natural resource management, assistance to agriculture, service delivery, land use planning and management and assistance to economic development.
- *Building on the success of public financial reform* by the Ministry of Economics and Finance, which aims to rationalise budgets, rendering public finances both more transparent and more effective. Important aspects will include revenue mobilisation at all levels of government into the state budget, and the strengthening of public financial management so that government can respond to citizens' demand for public services.
- *Enhancing the Government-Private Sector Forum, and its eight Private Sector Working Groups,* which have proven effective for direct and frank communication between the most senior levels of government and people who do business in Cambodia. These are serious and useful platforms that can create

stronger accountability and responsiveness from the government to private sector challenges.

- *Rising new business leaders and elites*, over time through their close relationship with the government, may demand certain types of reform.

Quality Minerals Exploration and Mining Development **Tim Duffy, general manager, Finance Asia, Oxiana Limited**

Oxiana overview: Oxiana is a successful growing company with operating mines, new projects under development and a portfolio of exploration projects. Oxiana owns and operates the Sepon gold and copper mines in Laos and the Golden Grove base and precious metals operation in Western Australia as well as being involved in exploration and project development in Cambodia, China, Indonesia and Thailand.

Vision: Our vision is to grow a major mining company. We aim to achieve this through growth in our base and precious metals business as well as through progressive diversification. Our focus is on Asia, Pacific and Australia as well as other domains. Our assets are high margin, long-life, with plenty of upside and our company has a strong pipeline of development projects.

The global economy and opportunities for mineral resource development: Oxiana's focus on

Asia means that it is well placed in the world's fastest growing region. However, Asia's growth has not flowed through to the mining sector. Asia consumes 51 percent of the world's copper but produces only 15 percent. The countries of the Pacific Rim are also blessed with high mineral resource potential. Having mining operations located in Asia means that we can deliver our product more quickly and with reduced transportation cost into these dynamic markets.

The benefits of mining to developing economies: Well-calibrated mining legislation can lead to stable long-term GDP growth, as demonstrated by the example of Ghana. Since Ghana introduced its mineral code in the 1980s, erratic growth patterns and historical periods of deep recession have all but been eliminated.

The Laos example: In Laos, Oxiana has been able to develop a world-class mining operation on time and within budget in what was one of the remotest areas of the country. The Sepon operation is now one of the largest mining projects in mainland south-east Asia. Our approach to project development aims to ensure that the benefits flow to all stakeholders.

Cambodia: Oxiana is exploring in eastern Cambodia, primarily for gold related to intrusive (granites) systems as well as copper and other metals. Our head office is in Phnom Penh, and we currently employ 60-plus

people (including contractors). During exploration, environmental impact is low, but international standards need to be followed and operations closely monitored.

Conclusion: Oxiana is ready for a period of extended worldwide economic expansion driven by Asia. We are looking for resource development opportunities with a view to delivering sustainable economic benefits for nations.

Summary of Key Contents of the Session

The main highlights of this session were:

Frameworks for government-private sector dialogue, partnership and joint planning are already in place, including the Government-Private Sector Forum, which is perceived very positively by business.

However, mechanisms to promote coordination and cooperation between business and government cannot continue to be led by donors, but need to be independent. One option proposed is to strengthen the Cambodian Chamber of Commerce—although currently the CCC lacks the capacity to take up such a leadership role.

Another option proposed was to strengthen the eight private sector working groups, with the longer term goal of merging them into a single independent bureau.

Decentralisation to the provincial level to promote government-business cooperation and establishment of regional forums are also important to stronger regional businesses environments.

Challenges to private sector development were addressed from two different perspectives. The first focussed on practical measures such as regional integration of markets and reduction of production costs. Secondly, there remain governance challenges that impact on the private sector and its capacity to do business.

Governance challenges for private sector development include difficulties with property rights and enforcement of contracts. However, there are also positive developments. These include decentralisation and devolution of planning, public sector financial reform and the private sector-government partnership arrangements. A key emerging trend is the growth and rise of new business leaders and elites who are likely to ask for certain types of reform and may contribute to good governance.

One emerging opportunity that is under-explored is mining. Asia is driving demand for minerals, and there are opportunities to establish mines and deliver mineral products to Asian countries. If projects are undertaken responsibly and with social and environmental accountability, there is significant potential for Cambodia to benefit in terms of infrastructure development, capacity building and poverty reduction. This is still in the exploratory phase.