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# Cambodia Outlook Brief\*

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## Consolidating Gains, Preparing for Change: Cambodia's Labour Force and Diversification

“Education allows people to become resourceful and search for answers to solve their own problems... [it] is the foundation of peace and development.”

*H.E. PAK Thavin*

*Director General of Higher Education*

*Ministry of Education, Youth and Sport*

### Driving Productivity in Cambodia's Labour Market<sup>1</sup>

Cambodia has a young, mobile and dynamic population. With appropriate policy, this “demographic windfall” has the potential to be a huge asset in driving and diversifying growth.

Cambodia's labour force has been a vital ingredient in the country's on-going economic transition. Traditionally, low cost labour has been an important factor in attracting foreign investment to Cambodia, particularly to the manufacturing sector. This investment has provided thousands of jobs as well as given Cambodia a firm foot-hold on the industrial ladder.

While low cost labour has given Cambodia a needed leg up, consolidating these gains and realising a diversified economy will require a concerted policy push on the part of government. Key is the government's ability to provide the labour force with the skills necessary to drive diversification, as well as improving labour productivity in traditional sectors such as tourism and garments.

There are some core areas and constraints that government labour policy must prioritise. A key aspect of diversifying growth is increasing labour productivity in the agricultural sector. This will have the effect of driving agricultural output, but also releasing excess agricultural labour into the highly productive industrial and service sectors.

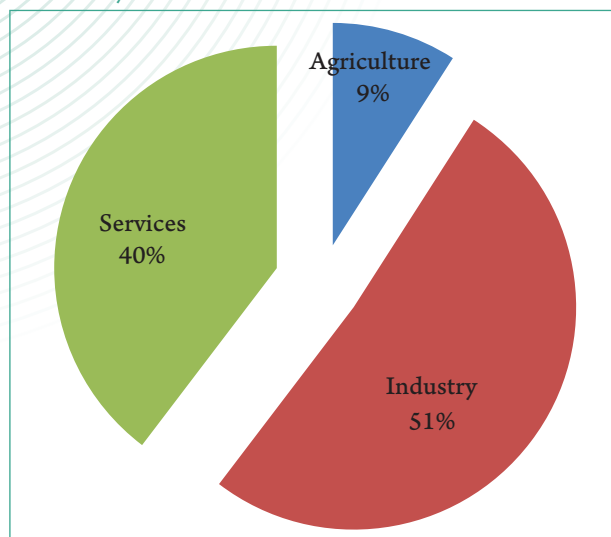
To effectively harness the productive potential of excess agricultural labour, as well as Cambodia's “demographic windfall”, the government will have to build the capacity of Cambodia's current education and vocational training systems. These frameworks will need to provide good quality education to a broad intake, and develop the skills necessary to drive Cambodia's economy forward in the future.

### Labour Productivity in the Agricultural Sector

Taking a broad view, it is clear that Cambodia's labour distribution is of sub-optimal efficiency. Important

<sup>1</sup> This is a summary of the 2011 Cambodia Outlook Conference presentations by H.E. Dr Heng Sour, Director General, General Department of Administration and Finance, Ministry of Labour and Vocational Training, Royal Government of Cambodia; Ms Sandra D'Amico, Managing Director HR Inc. Cambodia & Vice President of Cambodian Federation of Employers and Business Associations (CAMFEBA); H.E. Pak Thavin, Director General, Directorate General of Higher Education, Ministry of Education, Youth and Sports, Royal Government of Cambodia.

Figure 1: Per Capita Contribution per unit of GDP Growth by Sector



Source: adapted data from Dr Heng's presentation to the Cambodia Outlook Conference, 16 March 2011

in this regard is the issue of labour productivity in the countryside.

Given that the majority of the labour force is employed in the agricultural sector, its contribution to GDP is underwhelming. Employment in agriculture in 2008 accounted for 72 percent of Cambodia's total work force, yet it constituted just 33 percent of GDP. In contrast, the 8.6 percent of the population employed in industry contributed 22.4 percent to GDP; the service sector employing 19.3 percent contributed 38.8 percent of GDP.

The per capita contribution per unit of GDP growth is unevenly distributed between sectors (Figure 1). It is clear that a worker in agriculture is proportionally much less productive than one who is in industry (the most productive) or in the service sector.

In response the government has focused on increasing labour productivity in the agricultural sector, disseminating new skills, technology and training to the rural labour force. The national budget has provided significant support to provincial agricultural training centres to provide training programmes in cultivation methodology, producing fertiliser, post harvest storage, multi-crop production in between seasons and basic entrepreneurship.

A number of specific projects have implemented this capacity-building agenda. These include the National Training Fund for Poverty Reduction, provided by provincial offices of the Ministry of Labour and Vocational Training (MLVT), the Special Training for Ethnic Minorities and the Samdech Techo Special Training Fund.

Development partners' resources have also been mobilised to address the problem of an under-skilled

rural labour force. The ADB has been especially visible in this regard as part of its GMS initiatives. Projects include the Voucher Skills Training Programme (VSTP), the Post Harvest and Skills Bridging Programme, and the Strengthening Technical, Vocational and Educational Training in the rural labour force programme.

Increasing the productivity of agricultural labour should be complemented with policy that harnesses the latent productive potential of excess rural labour. Government action in improving access to and capacity of education and vocational training to prepare is of paramount importance. Only this two pronged approach will redress Cambodia's inefficient distribution of labour, increasing per capita productivity in the agricultural sector and training excess labour in preparation for work in the service or industrial sectors.

### Broadening Access and Building Capacity in Education

It is vital to address skills shortages in the Cambodian labour market to develop an adaptable, flexible and productive workforce that is able to meet the demands of economic diversification. Key to this is improving both the standard of education and to broaden access, particularly among underrepresented groups.

Indicative of shortcomings in the education system, the World Bank's 2007 Investment Climate Survey found that 15.5 percent of employers identify skills and education as a "severe or very severe" constraint to the operation and growth of their business. Skills constraints are more important for large and medium firms (18.8 percent and 21.8 percent respectively) than small firms (12.8 percent) and for foreign firms (22 percent) than local firms (13.5 percent). A recent rapid assessment by HR Inc. shows preliminary data supporting the 2007 study. Skills shortages among senior management (64 percent) middle management (48 percent) and professional staff (50 percent), are major constraints on firms' growth.

The government has set education sector reform as a priority in response to this issue. The Rectangular Strategy –Phase I and II, and the Education Strategic Plan (ESP), have aimed to promote growth, employment, improve quality, and human resource development, and also create partnerships between the public and private sector in higher education.

The private sector has been the driving force behind the rapidly growing number of Higher Education Institutions (HEIs) in Cambodia. The number of HEIs has sharply increased from around 10 in the 1990s to 90 in 2011, educating over 195,000

students, with 37 percent being female. These institutions have been critical to Cambodia's social, economic, as well as cultural and artistic development.

Despite the massive and continuing growth in the number of HEIs, a number of issues have to be addressed to ensure the sector's sustainable growth and optimise labour force development outcomes. A key issue is regulation and quality of the education offered by these institutions. Most HEIs fall short of international standards in core areas such as research, governance and teaching. Compounding limitations in institutional capacity are the lack of teaching and research materials, such as books, up-to-date information and communications technology (ICT), laboratories etc.

There are also issues with access to HEIs. There exist huge disparities regarding rates of enrolment between rural and urban populations, which are heavily weighted in favour of the urban elite.

The 2009-2013 National Strategic Development Plan (NSDP) Update is tackling these challenges by targeting both the capacity and reach of higher education institutions. Increased access to higher education will be facilitated through scholarships for underrepresented groups (e.g. poor, women, ethnic minorities) as well as outstanding achievers. Quality of teaching, learning and research in higher education will improve by implementing updated teaching methodology (e.g. utilising ICT), developing curriculum and equipping HEIs with facilities that respond to the needs of teaching, learning and conducting research. The government will focus on English, mathematics and the sciences, which will pay high dividends both in terms of individual employability and economic development more generally.

As well as actively building the institutional capacity of HEIs, there should also be a focus on appropriate regulation. Codes of conduct, standards and proper systems of accreditation will give incentives for HEIs to improve, and offer more information to employers and potential students about the content and quality of their degrees.

It is important to improve education capacity outside HEIs given the fact that basic literacy, numeracy, problem solving, decision making and soft skills are prominent areas of weakness. Labour force policy should include primary and secondary education, which is crucial in equipping the labour force with the fundamental skills and knowledge that increase employability from a young age.

There are still aspects of the primary and secondary education system that greatly constrain labour force development despite the huge advances. There needs to be significant investment to build the capacity of teachers, such as adequate training, provision of materials and adequate labour conditions.

Adequate nutrition is also key to enabling poor students to break free from the cycle of poverty, to maximise their potential and gain more from investments in other aspects of the education system. The Ministry of Health has shown that vitamin deficiencies (such as vitamin D) exist in the population and adversely impact on students' capacity to learn.

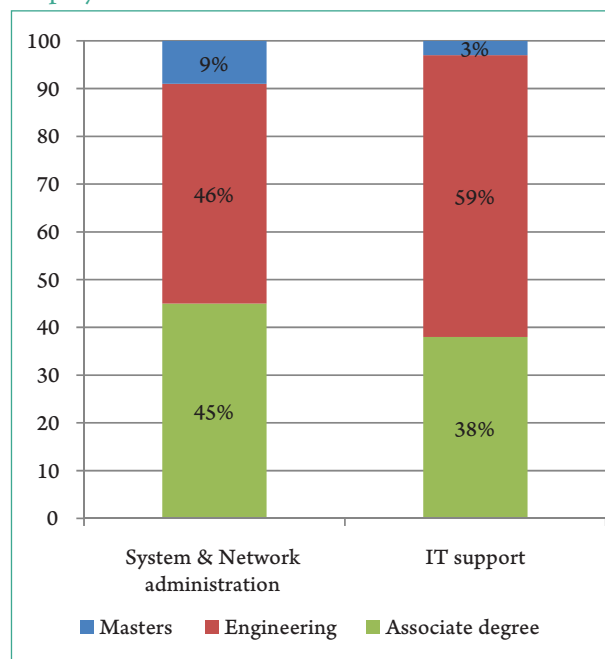
Focusing on providing primary and secondary education to the poorest in society will help reduce poverty as well as contribute to sustainable growth. The World Bank has already begun a Conditional Cash-Transfer scheme to help widen access to education in this area. Such policy frameworks should be expanded.

### Vocational Training to Meet the Demands of a Diversified Economy

A key constraint to Cambodia diversifying its economy is the mismatch between the skills that the private sector wants and the skills that the education system, particularly HEI's, provides. This is especially true as regards specific vocational and occupational skills required for certain types of industry.

A market survey of the information technology (IT) sector by the Centre for Information Systems Training (CIST) shows a classic case of mismatch between labour market skills and employer needs. The IT sector in Cambodia is characterised by the predominance of low value-added jobs that require only basic skills. However, more than 55

Figure 2: Qualifications of Low Value-added IT Employees



Source: Ms Sandra D'Amico's presentation to the Cambodia Outlook Conference, 16 March 2011



percent of those that do these jobs have advanced degrees in engineering or a Masters (Figure 2). The requisite skills could easily have been provided by technical and skills training courses. This results in problems of staff retention associated with highly qualified staff in low skilled jobs.

Technical, Vocational and Educational Training (TVET) is the government's overarching labour-policy framework to rectify this issue. The aim is to build up Cambodia's labour market through developing the skills that are desired by employers. Key initiatives include the reform agenda of the National Training Board (NTB), the establishment of the National Employment Agency (NEA) and the ADB funded Strengthening Technical and Vocational Education and Training programme (STVET).

The STVET programme focuses on conducting training in mechanics, construction, ICT and tourism. It also develops labour force capacity outside of urban centres. STVET plans to upgrade five provincial training centres to Regional Training Centres, each specialising in specific subjects that are of benefit to that region.

The NEA augments the STVET by facilitating better lines of communication between employers, the workforce and training providers. In particular they offer career guidance and counselling, and run job centres to support the rural labour force. The duality of STVET and the NEA means that training represents the needs of employers, and appropriate skills diffuse into the labour market.

There are significant challenges to TVET, however. Perhaps foremost is society's perception that TVET courses are for workers and not professionals. There is social and familial pressure for students to enrol in HEIs and engage in white collar professions where salaries are perceived as higher. This view markedly differs from the reality, which is that most graduates are over qualified for the positions they hold. To address this issue, it is necessary to "re-brand" TVET to reflect the reality that it provides individuals with skills that will increase their employability. Mainstreaming and coordinating TVET programmes, as well as appropriate accreditation, would go a long way in changing these perceptions.

There is also a growing need for increased linkages between the private sector, policy makers and the labour force. This is particularly relevant at a time when Cambodia is seeking to diversify up the value chain, and the needs of employers may change quickly. Policy needs to be sensitive and dynamic to these changes, so that training programmes adapt quickly to represent changing economic realities and the labour force is quick to take advantage of nascent opportunities. A very current example is the urgent need for training to maximise opportunities emerging in special economic zone (SEZs). To identify these emerging labour market needs, in depth empirical research plays an important role in providing timely and relevant labour market information to policy makers.