CAMBODIA

ADDRESSING THE SKILLS GAP

EMPLOYMENT DIAGNOSTIC STUDY

International Labour Organization

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FOREWORD

Cambodia has made great strides toward sustained rapid and inclusive economic growth since its political environment stabilized in 1999. Its 7.8% average annual growth since then has dramatically brought down the poverty level, from 47.8% of the population living below the national poverty line in 2007 to a low 18.9% in 2012. However, 71.0% of Cambodians still live on less than $3 a day, which means that many of them remain vulnerable to falling back into poverty. A lack of decent jobs is at the heart of the problem. The share of self-employed and unpaid family workers, which was at 59.4% in 2013, remains high. Indeed, most of the working population is in the informal economy or engaged in vulnerable forms of employment.

Enhancing labor productivity could very well be the biggest challenge Cambodia will face in sustaining a strong and inclusive economic growth. Using a diagnostic approach to assess the dynamics of the labor market, this study jointly undertaken by the Asian Development Bank (ADB) and the International Labour Organization (ILO) has identified this and five other major challenges to generating more productive employment in Cambodia and the possible policy initiatives for addressing them.

In 15 years of economic expansion, Cambodia's growth has been largely driven by four main sectors: garment manufacturing, tourism, construction, and agriculture. However, long-term sustainability of growth will depend on the country's ability to move beyond these sectors, which in turn will require a wider and different range of skills from its work force. It also calls for the development of more mature relations between employers and employees to provide a more stable foundation for further industrial development and diversification.

Cambodia has been experiencing a rapid demographic transition, currently offering a limited window of opportunity to collect the dividends of that transition. However, the country's youthful labor force is relatively poorly educated, with more than half of those employed having had only primary education. These young workers often do not have the skills to match employers' needs. It is then likely that skill shortages and the lack of relevant workforce skills would be considerable obstacles to improving the country's employment outcomes.

Concerted effort is therefore needed to resolve this education–skills mismatch. Both the quality of education and access to it need to be improved. More and better-trained teachers are needed. As important, special attention should be given to improving the skills of those already in the workforce. Vocational training can be better coordinated with the main education stream, supported by substantial inputs from private sector employers. Considerable progress has already been made in developing a new qualification framework to ensure consistent national standards for the full range of academic levels, although effective implementation of this framework is yet to be seen. To better address the skills mismatch, there is also a need for improved information flows covering all aspects of the labor market.

Three other important issues demand attention: (a) rural residents need better income-earning prospects, (b) most people need greater social protection, and (c) productivity and working conditions in informal sector work need improvement. A systematic program for increasing agricultural productivity will have a critical effect on employment outcomes. Enhancing the security of land tenure and the legal structure for land transactions will help improve land allocation and access to rural credit. Further, policies that promote the growth of micro, small, and medium-sized enterprises (MSMEs) and the economy's informal sector will have a substantial impact on overall growth and employment. In particular, by providing incentives to MSMEs to join the formal economy, their workers can be extended the benefits and legal protection that labor laws give to formal sector workers; this will have the added benefit of increasing tax revenues by expanding the country's tax base as well.

A number of social protection schemes for Cambodia's working sector are being developed or only recently instituted without sound implementation plans, while the creation of adequate fiscal space is needed for the longer-term expansion of social protections.

This study was prepared by a team from the ADB's Economic Research and Regional Cooperation Department, under the supervision of Cyn-Young Park, director of the Economic Analysis and Operational Support Division, and from the International Labour Organization (ILO), under the supervision of Maurizio Bussi, director of the Decent Work Technical Support Team for East, Southeast Asia and the Pacific. The team consisted of Sakiko Tanaka, Paul Vandenberg, and Lilibeth Poot from ADB; Makiko Matsumoto and Sukti Dasgupta from the ILO; and experts including Ronald Miller, Sewin Chan, Hans Hwang, and Megan Reeve.

From ADB, Sophea Mar, Kimie Tanabe, and Madeleine Varkay provided useful inputs and valuable comments in its finalization. From the ILO, John Ritchotte, Carmela Torres, Kazutoshi Chatani, and Miranda Kwong contributed. Jasmin Sibal and Tibor Hanappi provided research assistance. The report was edited by Eric Van Zant and proofreading was done by Teri Temple. Michael Cortes did the layout, cover design, and typesetting. Ricasol Cruz-Calaluan provided excellent administrative and secretarial support.

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The study team consulted representatives of key government agencies, academic and research institutions, the private sector, and trade unions about the study framework, approach, and findings. Staff at ADB's Cambodia Resident Mission led by Eric Sidgwick and Sophea Mar and the ILO Country Office for Thailand, Cambodia, and the Lao PDR led by Maurizio Bussi and Sophorn Tun provided invaluable support and commentary. Feedback greatly benefited the report, and provided important inputs into the formulation of the National Employment Policy.

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ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CBA	collective bargaining agreement
CBHI	community-based health insurance
CIPS	Cambodia Inter-Censal Population Survey
CQF	Cambodia Qualification Framework
CSES	Cambodia Socio-Economic Survey
FDI	foreign direct investment
GDP	gross domestic product
HDI	human development index
HEF	health equity fund
ILO	International Labour Organization
LAC	Labor Advisory Committee
LFS	Labor Force Survey
MOEYS	Ministry of Education, Youth and Sport
MOLVT	Ministry of Labour and Vocational Training
MOU	memorandum of understanding
MSME	micro, small, and medium-sized enterprise
NEET	not in employment, education, or training
NSSF	National Social Security Fund
NTB	National Training Board
TVET	technical and vocational education and training

HIGHLIGHTS

ECONOMIC BACKGROUND

Cambodia achieved sustained high growth, with gross domestic product (GDP) expanding at 7.8% a year on average between 2000 and 2014. After a brief but dramatic interruption during the global economic crisis, growth moved back to above 7% a year in 2011 and kept to that level since then. Agriculture remains dominant, with nearly 80% of people still rural dwellers, but the sector's share in total output has fallen, while industry's has increased. Services have remained stable and tilted significantly toward tourism.

Poverty is falling. Official statistics show that the poverty rate (per capita daily income below national poverty lines at 3,871 Cambodian riels) fell from 47.8% in 2007 to 18.9% in 2012. Poverty measured against the international poverty line also dropped sharply. The proportion of the population living on $1.25 a day or less fell from 30.8% in 2007 to 10.1% in 2011. But many Cambodians remain economically vulnerable. About 40% were still living in poverty in 2011 as measured against the threshold of $2 a day, but this figure goes up to 72% if measured against the $3-a-day mark.

The growth path followed for the past 20 years—attracting foreign direct investment to take advantage of low-cost and abundant labor—may not be viable for much longer. Demographic transition, a crucial determinant of labor market structure in all economies, started at an early stage of economic development. Cambodia's population growth nearly halved to 1.8% by 2014 and continues to decline, longevity has increased substantially, and fertility has begun to drop rapidly. So, although past high fertility has provided the country with a relatively young labor force, the proportion of younger cohorts in the labor market will get progressively smaller. Cambodia currently enjoys a demographic dividend, but this window of opportunity is expected to start closing in 2045.

The economy needs to diversify beyond tourism and the garment industries. Labor productivity—the most important long-term determinant of wages and critical to increasing productive employment—has been rising. The increase has come from improvements in services and agriculture and the release of labor from agriculture into industry. However, little long-term growth in manufacturing productivity has been achieved.

Labor force participation is high and the official unemployment rate is low, although urban youth unemployment is substantial. These figures likely reflect economic necessity more than strong demand for labor. More than a million Cambodians were likely working abroad in 2013, with about three-quarters in Thailand. This compares to a total domestic labor force of 8.3 million, and provides income for families left behind and employment for workers. The country's labor force is young, but relatively poorly educated.

Higher education and the enhancement of skills are critical to economic diversification and structural transformation. While 98% of children now enroll in primary school, many students still drop out before finishing school, for lack of funds or low perceived economic returns to education. Only about 30% of youths complete high school, constraining economic transformation.

Low secondary and higher school enrollment and quality has led to a mismatch between the skills young workers have and those that employers seek. In one survey, more than 4 out of every 10 young workers lacked sufficient education to perform well at their jobs.

Cambodia adopted its first National Employment Policy (NEP) to promote decent jobs and economic growth. The NEP, which was formally announced by the government on 22 October 2015, aims to increase decent work, to enhance skills and human resources development, and to improve labor market institutions and governance. The NEP covers the period 2015–2025, very much in line with the national development strategy, to put the creation of quality jobs at the center of economic policymaking.

CHALLENGES AND CONSTRAINTS TO PRODUCTIVE EMPLOYMENT

This study has identified the following six major challenges and constraints to productive employment in Cambodia: (1) sustaining long-term growth and the macroeconomic environment, (2) skills acquisition and productive employment, (3) agricultural productivity growth and rural development, (4) reducing vulnerable employment, (5) limited social protection, and (6) improving industrial relations.

1. Constraints to sustaining long-term growth and the macroeconomic environment

(a) **Inadequate fiscal space to finance public investments in infrastructure, human capital, and health and social protection.** Cambodia's fiscal policy is generally prudent; that is, counter-cyclical with manageable and sustainable deficits. However, to support private-sector-led growth, the share of government revenue in GDP will need to increase over the medium term to finance essential public investments and services. Government deposits at the National Bank of Cambodia, the major fiscal policy instrument, increased significantly in 2014. With large past budget gaps financed by grants and by drawing down government accounts at the central bank, fiscal accounts need rebuilding to meet substantial public investment requirements and to allow flexibility for future crises.

(b) **Low domestic investment.** Cambodia's domestic investment rate, at about 20% of GDP, is far below rates that have historically prevailed in the most successful Asian economies. For example, domestic investment rates hovered around 30% of GDP in the Republic of Korea, 32% in Malaysia, and 34% in Thailand during their high-growth periods in the 1980s and 1990s prior to the 1997/98 financial crisis. More recently, the People's Republic of China registered an average of 43% for 2000–2013. Cambodia has depended on foreign direct investment for a very large share of investment, but sustainable rapid growth may require equally strong domestic investments.

2. Constraints to skills acquisition and productive employment

Over 15 years of economic expansion, Cambodia's growth has largely been in garment manufacturing, tourism, construction, and agriculture. Long-term growth requires moving beyond these sectors and, in turn, the development of additional skills. Yet, skills among youths do not adequately match employers' needs.

(a) **Quality problems in education.** Poverty drives many children into the labor force before they acquire much schooling and malnutrition affects what they can learn when they are in school. Another challenge is the quality and relevance of the education that is currently provided. One reason for quality problems in education is that teachers themselves are often underqualified—in part because teacher development and training reforms have just started to rehabilitate the education system after its destruction under the Khmer Rouge in the 1970s. Implementation of the newly adopted teacher policy and action plan is an important step forward.

The pupil–teacher ratio in primary schools needs to be reduced by supplying and deploying more qualified teachers and providing incentives to keep them in underserved areas. Curricula can be reviewed, with an eye to preparing students for further study in the science and engineering fields that tertiary education currently undersupplies.

(b) **The country's rapid demographic shift.** This could be an additional challenge unless preparations for it are made well in advance. The population grew more than 3% per year during the first half of the 1990s, dropping to 1.83% in 2013 and continuing to decline. Cambodia has a relatively young labor force and an extremely low dependency ratio. These are strong advantages for now, but the demographic window of opportunity is narrowing fast. Many members of the largest 5-year age cohort, ages 20–24, are already in the labor market but have relatively weak educational attainments. The subsequent cohorts entering the labor market will be better educated, but will be successively smaller in number.

(c) **Inadequate skills of the current work force.** Priority needs to be given to rapid improvement of Cambodian workers' current skill sets as well as preparing for future skill demand given the pace of the country's demographic shift. Special emphasis is needed for skills enhancement for those already in the workforce. This could be in the form of re-entry into education streams or technical and vocational education and training (TVET). TVET can be better coordinated with the main education stream, and more work needs to be done to implement the newly approved Cambodian Qualification Framework. All revisions to the TVET system, including the skills standards to be set, require substantial input from private sector employers. The implementation of the framework can also be facilitated by introducing trainee or student accreditation and recognition system among and between technical and vocational education and training institutes, secondary schools, and higher education institutions.

3. Constraints to agricultural productivity growth and rural development

Agricultural productivity in Cambodia is held back by little mechanization, inadequate irrigation, little use of fertilizer, and predominant use of low-value rice strains.

To encourage sustainable growth, the following improvements in the agricultural sector need to be undertaken: (a) increase investments in irrigation and transportation; (b) promote the mechanization of farming and more intensive agricultural cultivation; (c) encourage and promote the planting of high-value rice strains to increase the value of rice harvests, thus enabling farmers to earn higher incomes without having to commit additional labor to production; and (d) Improve the access of farmers to modern inputs, technology, and credit.

In addition, the legal framework for land tenure remains ineffective and subsistence farming is widespread, partly due to its function as a security net. Improving the security of land tenure and the legal structure for land transactions will help with land allocation and access to rural credit. Increased clarity of land tenure can also help prevent abuses of land rights. Strengthening rural electricity enterprises, expansion of the network of paved rural roads, and improving water supply and sanitation in rural areas are also needed.

4. The challenge of reducing vulnerable employment

In 2011, 99.8% of business establishments and 73% of employment in Cambodia were accounted for by micro, small, and medium-sized enterprises (MSMEs). Most of these MSMEs are in the informal sector, however, with 97% of them unregistered and their workers often lacking the legal protections of formal workers. MSMEs are informal for many reasons: complicated paperwork for registration, expensive and cumbersome administrative procedures, or avoidance of tax burdens and other official obligations, including compliance with the labor laws.

Incentives for formalization could extend legal protection to more workers and increase tax revenues. Improving the regulatory environment for business can encourage informal businesses to move into the formal sector and increase growth opportunities for enterprises that are already in it. Areas of particular value for reform include procedures for opening a new business, regulations regarding business insolvency, and the system for awarding construction permits.

5. Constraints created by limited social protection

Social protection in Cambodia is at an early stage, and most people have little or no effective coverage. The lack of social protection schemes constrains structural transformation for sustainable long-term economic growth; for example, the need to maintain the family farm as a form of social insurance is one of the factors preventing the release of labor from agriculture.

The absence of social health insurance, in particular, adversely affects the health and well-being of workers. And broadening health insurance is also important. At present, many of the very poorest in Cambodia are protected by projects funded by national and international nongovernment organizations. Indeed, many existing government initiatives cover only the formal sector, and, even in the formal sector, the coverage of the smallest enterprises is very limited. The government is developing a number of social protection schemes but they are of questionable financial viability, many of them having no long-term funding plans.

In the short run, fiscal constraints limit the expansion of social protection, but planning for the longer term can begin today. Programs need to be financially sustainable and adequately publicized to increase public faith in them.

6. The challenge of improving industrial relations

Industrial relations have advanced significantly over the past decade, but substantial room for improvement remains, especially in the areas of social dialogue, collective bargaining, and compliance with labor rights. Strikes, protests, and violence in the garment sector attracted global attention at the end of 2013 and the beginning of 2014. The proliferation and lack of experience of trade unions in the sector is a challenge to creating harmonious labor relations through constructive social dialogue and "tripartism" among business, labor, and the government. Difficulties in industrial relations can in turn reduce output and deter foreign investment.

Collective bargaining in Cambodia has had limited effectiveness to date and does not reach most workers, who in any case are mostly in the informal sector. This is underpinned by inadequate knowledge of and experience with collective bargaining among both workers and employers.

Both employers and employees need more education and capacity-building in labor relations to improve norms and practices, promote safe and healthy working conditions, and enhance productivity. Further attention is needed in sectors outside garment manufacturing. It is important to consider extending the protections supplied by labor laws and other regulations to the informal economy. It will also help to have increased transparency in government policy making in industrial relations and in setting the minimum wage. Advances have been made in the garment and footwear sector in this regard. The policy in setting minimum wage needs to take into consideration the needs of workers, the capacity of employers to pay, and requirements for socioeconomic development. Important factors to consider are competitive unit labor cost based on rigorous analysis of the labor market, the competitiveness of Cambodian industry to induce investment, workers' livelihoods, and an estimation of a living wage.

1. ECONOMIC BACKGROUND

The Cambodian economy has performed well over the past 15 years, but ongoing changes in the overall economic structure have implications for future growth and employment generation. It is a relatively small country, with lower population density than other countries in the region, and a large rural majority. It remains among the poorest countries in the Association of Southeast Asian Nations (ASEAN).

It has grown by successfully replicating existing growth models in the region, but has been relatively slow to diversify and move up the value chain. In recent years, significant increases in agricultural productivity have aided growth. The economy is built around agriculture, garment manufacturing, construction, and tourism, and much of the growth over the past 15 years has been generated by investments financed by foreign direct investment in garment manufacturing and tourism, which dominates exports. That said, even as export volume has surged, unit value has stagnated. Diversifying the economic structure and moving up the regional value chain is essential for Cambodia to sustain high growth and create better employment outcomes.

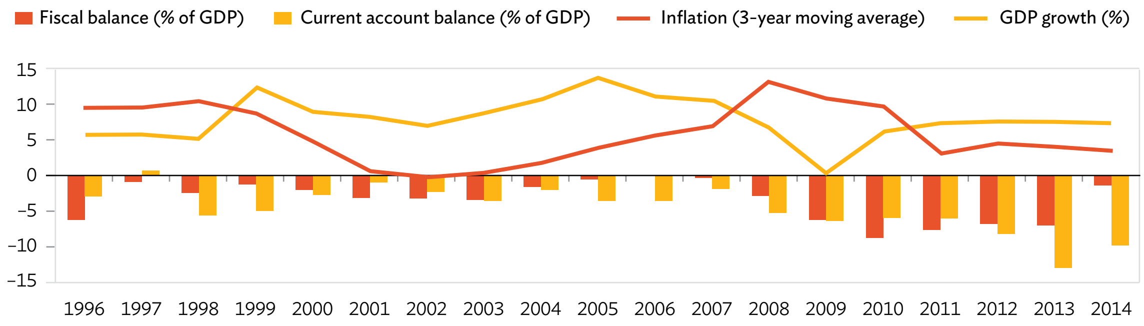
Section 1.1 reviews development performance and examines potential vulnerabilities in the macroeconomic policy framework that could hinder future economic growth and the improvement of employment outcomes. Section 1.2 assesses income inequality and poverty and section 1.3 compares Cambodia's development challenges and opportunities in the ASEAN context for the prospect of future economic growth and labor market dynamics.

1.1 Strong Macroeconomic Performance, with Signs of Vulnerability

In the last decade and a half, the Cambodian economy has grown strongly and been generally stable, with political stabilization in 1999 ushering in a period of strong, sustained growth. Between 1999 and 2008, gross domestic product (GDP) growth averaged 9.5% (Figure 1.1), an excellent performance in comparison with many other countries in Asia and the Pacific. Following a near-zero growth in 2009, the economy rebounded strongly, registering an average growth rate of 6.9% between 2010 and 2014.

In addition to strong growth, inflation has been moderate and budget deficits reasonably well controlled since 1999. Although the crises in 2008 and 2009 highlighted a certain degree of vulnerability of the economy to external shocks, the subsequent quick recovery of key macroeconomic indicators suggests that overall conditions for growth are favorable. Apart from the 2 main crisis years, consumer price inflation has remained low and fiscal deficits have been manageable. Thus, macroeconomic conditions have been broadly positive and stable, which should be conducive to continued employment and wage growth.

Figure 1.1: Macroeconomic Indicators, 1996–2014



GDP = gross domestic product.
Sources: ADB. 2015. *Key Indicators for Asia and the Pacific.* Manila; International Monetary Fund, World Economic Outlook Database, accessed September 2015; and World Bank, World Development Indicators, accessed September 2015.

Nonetheless, as the economy grows and as people become better-off, demand will grow for public services, infrastructure, and imports.

In absolute terms, public expenditure increased strongly between 2007 and 2013, when nominal government expenditure more than doubled. Further, the composition of these expenditures has changed greatly over the last 2 decades (Figure 1.2). Defense spending, which accounted for more than 60% of government expenditure in 1994, had plunged to around 20% by 2008, and settled there.

Expenditure for general public services, in turn, has increased markedly since 1999, more or less concurrently with the acceleration of overall economic growth. The share of health expenditure increased to 11% in 2000, but has risen little since, with modest increases from 2009 onward leading to a level of 13% by 2013. Spending on social protection policies stagnated in absolute terms until 2005, but increased rapidly after that to around 4% of total expenditures by 2009. A second round, starting in 2009, then led to a total share for social protection expenditure of 6% in 2013. The new social protection programs associated with this expansion will be discussed in more detail in section 3.5.

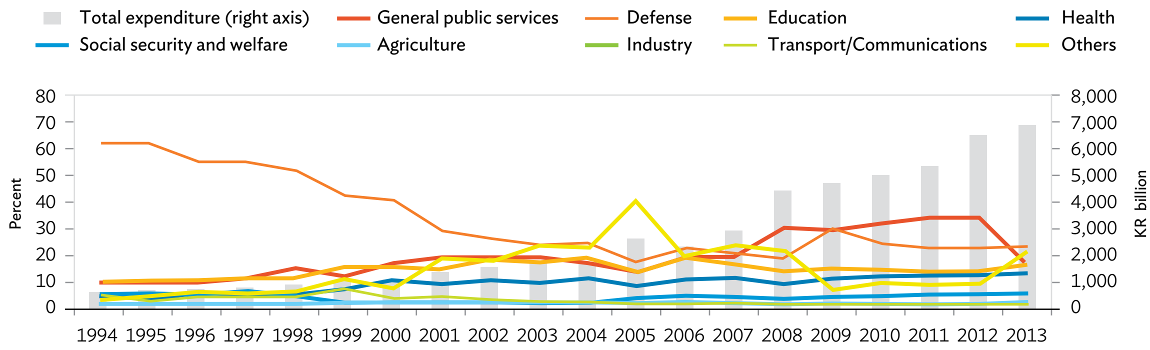
The expenditure share for education rose significantly in the late 1990s and early 2000s, but has subsequently fallen; it is now around the same level as in 2000, accounting for about 16% of total expenditures in 2013. Nevertheless, overall government expenditure increased considerably over this period, so that absolute expenditure on education has increased substantially since 2000.[1]

The sources of public finance show potential constraints on generating sufficient fiscal space for providing adequate social protection and public services (section 3.1). The role of grants in financing the fiscal deficits of recent years can be seen clearly in Figure 1.3. In 2010 and 2011, grants made up more than a quarter of total government revenue. In 2012–2014, inflows of grants were still substantially larger than they had been before the global financial crisis. It is unclear whether grant flows, even at this somewhat more modest level, can be maintained.

A less favorable external economic environment and uncertainty concerning the government's fiscal space may hamper sustained high growth and the improvement of employment outcomes. The current macroeconomic policy framework may be insufficient to support further economic

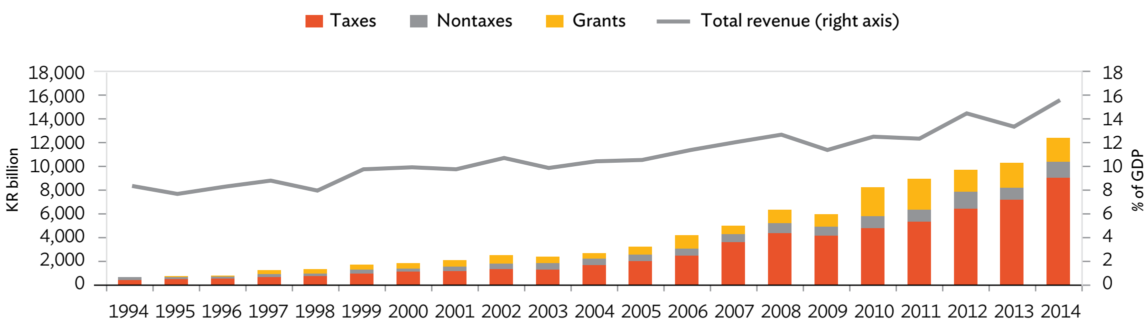
[1] In 2013, authorities dramatically reduced the number of expenses categorized as General Public Services, such that some of the increases in the shares of other categories in that year may be the result of reclassification of some services into more specific categories.

Figure 1.2: Public Expenditure by Category, 1994–2013



KR = Cambodia riel.
Note: Total expenditure in constant 2000 riels; sector shares are shown as percentages of total expenditure.
Source: ADB. 2015. *Key Indicators for Asia and the Pacific.* Manila.

Figure 1.3: Sources of Public Revenue, 1994–2014



GDP = gross domestic product, KR = Cambodia riel.
Note: Total expenditure in constant 2000 KR.
Source: ADB. 2015. *Key Indicators for Asia and the Pacific.* Manila.

development, growth, and diversification. First, de facto dollarization of the economy limits the traditional use of monetary policy instruments, leaving fiscal policy as the only real tool for macroeconomic stabilization.[2] This in turn constrains the credible "fiscal space" for the government to pursue its development aspirations and objectives. Deficits so far have been largely financed by drawing down government deposits with the National Bank of Cambodia. Gradual de-dollarization would be needed to increase the decision space of the central bank and the government's fiscal space, allowing for better economic governance based on a coordinated fiscal and monetary policy.

Second, the Cambodian economy has depended on a favorable external environment to grow, and strong domestic foundations for growth are yet to be developed. However, the economy is vulnerable to changes in the external environment for several reasons. In the past, generous official development assistance and concessional loans supported

[2] Dollarization in Cambodia was not explicitly adopted as a policy choice. Rather, a combination of inflation instability and an enormous influx of paper US dollars brought in under the UN Transitional Authority in the 1990s led to substantial dollarization. The extent of foreign currency deposits as a percentage of M2 (a measure of the domestic money supply that includes M1 [cash and checking deposits] plus "near" money," which typically includes savings, time deposits, and personal balances in money market accounts, which are less liquid and not as suitable as exchange mediums but can be quickly converted into cash or checking deposits) was gradually increasing in the 2000s, reaching around 82.6% as of 2014 (NBC 2014). While riel circulation has increased significantly in the same period, it is clear that the share of foreign currency deposits in total money circulation remains dominant.

Cambodia's socioeconomic development. But such generous flows of assistance and loans are unlikely to continue, especially now that the economy is stable, growing well, and demonstrating resilience during crisis. Yet a growing economy will most likely make increasing demands for public intervention and investment—for example, on much-needed physical and social infrastructure—even as the country faces deficit constraints.

Third, uncertainty over future fiscal space makes Cambodia more vulnerable to crisis, whether internally or externally generated. Rebuilding of reserves drawn down during the financial crisis is urgently needed to cope with future crises (World Bank 2011), further restraining fiscal space.

1.2 Income Inequality and Poverty

Cambodia remains among the least developed countries in the world, notwithstanding strong recent growth. Many Cambodians are still poor or live in precarious conditions, especially in rural areas. As in many other poor countries, rural people engaged in subsistence agriculture are highly vulnerable to climate shocks, including droughts and flooding. Generally poor health care (especially maternal care), poor nutrition, high seasonal unemployment, and low education levels also contribute to the problems of the poor. A much larger vulnerable population is at high risk of falling into poverty during an economic downturn or after a natural disaster. In some cases, events such as illness, the death of the primary earner, or unemployment can increase a household's vulnerability and cause the family to fall even deeper into poverty, and there is little in the way of a formal social protection net to help.

Cambodian poverty rates have declined significantly, especially among the very poorest. Based on the international poverty line of $1.25 a day, the poverty headcount rate declined from 30.8% in 2007 to 10.1% in 2011, and the poverty rate at the national line also saw important reductions,[3] falling from 45.0% in 2007 to 17.7% in 2012 (Table 1.1). But many Cambodians remain "nearly" poor: at the $2-a-day international standard, as of 2011, 41% of people were still poor, and at the higher $3-a-day benchmark, 72% were poor.

The vast majority of Cambodia's poor live in rural areas. Poverty was more prevalent in rural (54.2%) than in urban areas (28.5%) in 2004 and remains more common in those areas today. In 2012, the rural poverty rate was 20.8%, nearly triple 6.4% urban poverty. Thus, although poverty rates declined significantly and consistently in both rural and urban areas, remaining poverty is now highly concentrated in rural areas. Since most Cambodians live in rural areas—at 80%, the highest in ASEAN—the vast majority of its poor are rural.

Rapid poverty reduction can be attributed to strong growth throughout the economy and in the agriculture sector in particular, where growth has increased rural household incomes (ADB 2014a). Strong growth in agricultural productivity since political stabilization likely provided a major boost to household earnings in rural areas. Despite significant productivity gains, average rice yields remain below those of neighboring countries (ADB 2014a). Agricultural productivity and rural income could increase substantially more through application of modern farming practices, in addition to the use of fertilizer and better irrigation, which have boosted rice yields thus far.

Regional variations are important, with poverty concentrated in some areas. As Figure 1.4 shows, 2009 poverty rates exceeded 30% in 5 out of the 24 provinces. Evidence from literacy rates also points to substantial regional inequality; provinces with high poverty rates, such as Ratanak Kiri, Preah Vihear, and Kampong Thom, also had low literacy rates of

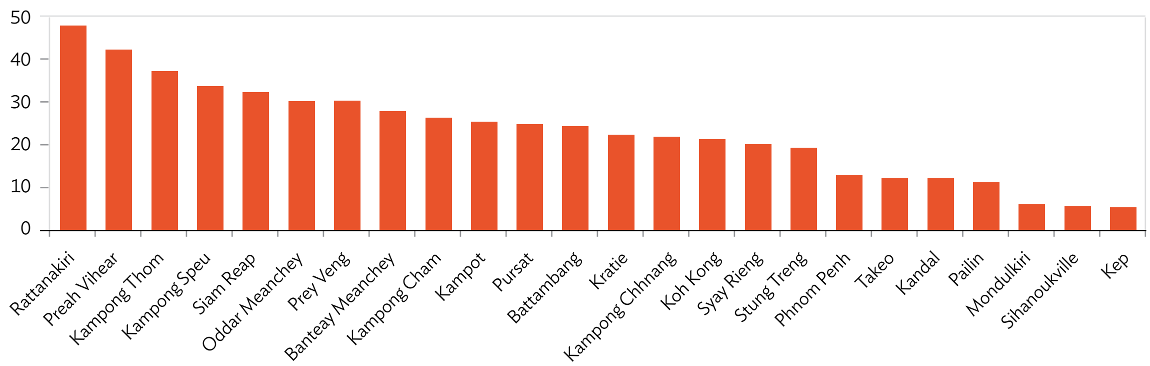
[3] The official national poverty line is based on household consumption data. It consists of a food poverty line (based on an unchanging food bundle providing the minimum nutritional requirement for survival, of 2,100 calories) and three nonfood allowances. Different national poverty lines are applied by region, with separate values for Phnom Penh, other urban areas, and rural areas. In 2009, for example, the relevant poverty lines were 6,347 riels per person for Phnom Penh, 4,352 for other urban areas, and 3,503 for rural areas (NIS 2009).

Table 1.1: Poverty Measures, 2004 and 2007–2012 (%)

	Cambodia						
Poverty Measure	2004	2007	2008	2009	2010	2011	2012
Poverty headcount ratio at $1.25 a day (PPP)	32.8	30.8	20.9	12.9	11.3	10.1	...
Poverty headcount ratio at $2 a day (PPP)	64.4	59.4	51.1	40.7	40.9	41.3	...
Poverty headcount ratio at national poverty lines (PPP)	50.2	45.0	34.0	23.9	22.1	20.5	17.7
Rural poverty headcount ratio at national poverty lines (PPP)	54.2	51.4	38.5	27.5	25.3	23.6	20.8
Urban poverty headcount ratio at national poverty lines (PPP)	28.5	18.3	15.1	8.0	8.5	8.7	6.4

...= data not available, PPP= purchasing power parity.
Source: World Bank, World Development Indicators, accessed September 2015.

Figure 1.4: Poverty Rates across Cambodian Provinces, 2009 (%)



Source: Calculations using data from Cambodia's National Institute of Statistics data, as presented in ADB. 2014a. *Cambodia: Diversifying Beyond Garments and Tourism. Country Diagnostic Study*. Manila.

55.2%, 72.3%, and 75.8% respectively, based on the 2008 census. Phnom Penh's literacy rate that same year was 96.2%, while in Preah Sihanouk, which also had a low poverty rate, it was 87.7%. Thus, there is substantial regional inequality in poverty and human development.

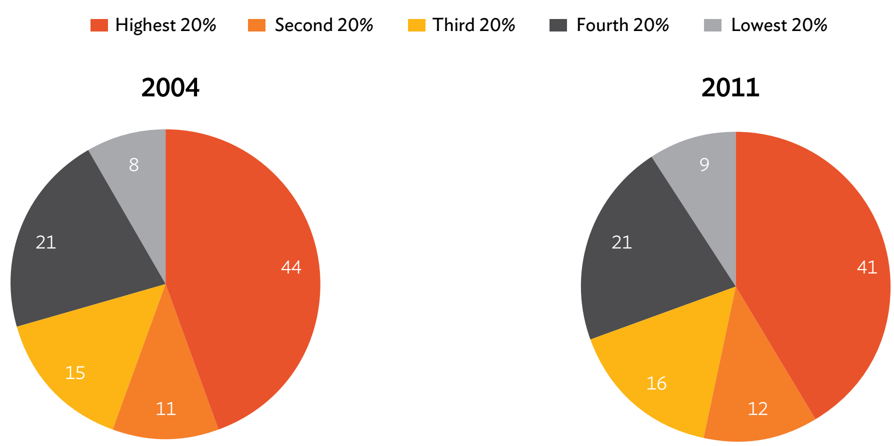
Overall, Cambodia has enjoyed both high and inclusive growth. The commonly used Gini coefficient actually fell from 0.38 in 1994 to 0.35 in 2004, according to the World Bank's World Development Indicators, indicating declining inequality.[4] Although measured inequality then rose until 2007, it subsequently fell even further during the more recent phase of rapid growth. By 2011, the Gini coefficient had fallen to 0.32, significantly below the benchmark of 0.40 that conventionally separates moderately unequal countries from those with high inequality.

Gini coefficients can also be calculated on a regional basis. This calculation reveals that while inequality within Phnom Penh is similar to rural areas, in other urban areas, inequality is substantially higher. In 2007, the Gini coefficient was 0.36 in rural areas, but was above the 0.40 threshold, at 0.47 in other urban areas (ADB 2014a).

The structure and trend of inequality are captured in the distribution of income in Cambodia by income quintile in 2004 and 2011 (Figure 1.5). The highest 20% in the income distribution still account for 41%

4 These figures, based as they are on survey data, may substantially understate inequality. High-income individuals may tend to be less willing to accurately report income to government interviewers than those less well-off. For example, survey data from Colombia would indicate that the top income centile collected only 5% of total income, while tax return data indicate that this group receives about 20% of total income (Piketty 2014). As such, all of the income inequality measures presented in this section potentially understate true inequality.

Figure 1.5: Income Shares in 2004 and 2011



Source: World Bank, World Development Indicators, accessed September 2015.

of total income, while the poorest earn only 9% of it. However, the share of the top fifth has declined from 44% in 2004, while the share of the bottom fifth has increased from 8% in that year. During the recent period of declining inequality, the income shares of the other three quintiles also rose.

Human development indicators in Cambodia show substantial inequality relative to those in neighboring countries. As well as income inequality, access to other important resources is also significantly unequal. An inequality-adjusted human development index (HDI), published by the United Nations Development Programme, takes account of a country's inequality in the three dimensions of the HDI, namely a long and healthy life, access to knowledge, and a decent standard of living. The difference between the HDI value and the inequality-adjusted HDI value gives an indication of the inequality in a country. This measure may be less subject to measurement error than survey measures of income inequality. In 2011, Cambodia's inequality-adjusted HDI was 0.38. This represents a 27% discount to its HDI value of 0.52. This discount is higher than in the Lao People's Democratic Republic (Lao PDR) (23%), Viet Nam (14%), East Asia (21%), and the global average (23%), indicating greater inequality in these three dimensions of human development in Cambodia.

1.3 Cambodia's Place in ASEAN

Cambodia is one of the smallest and poorest economies in ASEAN. It accounts for only 0.7% of total regional economic activity and had the lowest GDP per capita in 2014 (Table 1.2). Only the Lao PDR has a smaller economy, and the next-poorest countries in the region in terms of GDP per capita are Myanmar, the Lao PDR, and Viet Nam. Yet GDP per capita in the Lao PDR exceeds Cambodia's by about 60% and Viet Nam's by 74%. Thailand's GDP per capita is more than three times Cambodia's.

Nevertheless, the Cambodian economy has been performing strongly relative to other ASEAN member states, albeit from a low base. The total output of the ASEAN region grew by 5.5% in 2014, while Cambodia grew well above this average, at 7% (Table 1.2). Unemployment in Cambodia is the lowest in the region, although this is largely because most of its people cannot afford to be unemployed.[5]

[5] There are also measurement issues for unemployment across available data sources in Cambodia. This is discussed in subsection 2.2.2.

Cambodia is a small economy with a young population, but its demography is changing fast. By land area, only Brunei Darussalam and the city-state of Singapore are smaller than Cambodia in ASEAN. Yet population density is modest: at 87 people per square kilometer, it is much higher than the Lao PDR and comparable to countries such as Malaysia and Myanmar (Table 1.3),[6] but much lower than Indonesia, Thailand, or Viet Nam. Population growth is above the overall ASEAN average, and is in

Table 1.2: ASEAN Macroeconomic Indicators

Country	GDP[a] $ million 2014	GDP[a] (%) 2014	GDP per Capita[a] $ 2014	GDP per Capita[a] $ PPP 2014	GDP Growth (%) 2014	Unemployment (%) 2013	Inflation[b] (%) 2014
Brunei Darussalam	17,257	0.7	40,776	75,700	5.3	3.8	–0.2
Cambodia	16,709	0.7	1,084	3,242	7.0	0.3	3.9
Indonesia	888,538	35.9	3,515	10,585	5.0	6.3	6.4
Lao PDR	11,772	0.5	1,708	5,162	7.5	1.4	4.1
Malaysia	326,933	13.2	10,830	24,715	6.0	3.2	3.1
Myanmar	64,330	2.6	1,198	...	8.5	3.4	5.5
Philippines	284,582	11.5	2,843	6,916	6.1	7.1	4.1
Singapore	307,872	12.4	56,287	82,763	2.9	2.8	1.0
Thailand	373,804	15.1	5,561	14,661	0.7	0.7	1.9
Viet Nam	186,205	7.5	2,052	5,629	6.0	2.0	4.1
ASEAN	2,478,002		3,978		5.5		

.... = data not available, ASEAN= Association of Southeast Asian Nations, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.
[a] At current prices.
[b] Measured in consumer prices.
Source: World Bank, World Development Indicators, accessed September 2015.

Table 1.3: ASEAN Demographic Structure, 2014

Country	Total Land Area (km²)	Total Pop[a] (thousands)	Pop Growth[a] (%)	Pop Density[a] (persons per km²)	Rural Pop (%)	Age <15 (%)	Age 15–64 (%)	Age 65+ (%)
Brunei Darussalam	5,270	423	1.3	80	23.1	25	71	5
Cambodia	176,520	15,408	1.8	87	79.5	31	63	5
Indonesia	1,811,570	252,812	1.2	140	47.0	28	66	5
Lao PDR	230,800	6,894	1.8	30	62.4	35	61	4
Malaysia	328,550	30,188	1.6	92	26.0	26	69	6
Myanmar	653,290	53,719	0.9	82	66.4	25	70	5
Philippines	298,170	100,096	1.7	336	55.5	34	62	4
Singapore	700	5,470	1.3	7814	...	16	74	11
Thailand	510,890	67,223	0.3	132	50.8	18	72	10
Viet Nam	310,070	90,730	1.1	293	67.0	23	71	7
ASEAN	4,325,830	622,964	1.3	144				

.... = data not available, ASEAN= Association of Southeast Asian Nations, km2 = square kilometer, Lao PDR = Lao People's Democratic Republic, Pop = population.
[a] Refers to/based on midyear population based on country projections.
Source: World Bank, World Development Indicators, accessed September 2015.

[6] Malaysia's population density would be much higher if only peninsular Malaysia were included, with its lion's share of the population and economic activity. In this sense, Myanmar is probably the ASEAN nation most comparable to Cambodia in population density.

Table 1.4: ASEAN Social Indicators

Country	Poverty $1.25[a] (%) 2012	Poverty $2[a] (%) 2012	GINI Coefficient 2012	Life Exp years 2013	Literacy (%) 2012	Employment[b] (%) 2013	Labor Force[c] (%) 2013	Age Dep[d] (%) 2014
Brunei Darussalam	…	…	..	78.6	95.4	61.6	64.0	38.3
Cambodia	10.1 (2011)	41.3 (2011)	31.8 (2011)	71.7	73.9 (2009)	82.3	82.5	55.8
Indonesia	16.2 (2011)	43.3 (2011)	35.6 (2010)	70.8	92.8 (2011)	63.5	67.7	49.5
Lao PDR	30.3	62.0	36.2	68.2	72.7 (2005)	76.6	77.7	63.6
Malaysia	0.0 (2009)	2.3 (2009)	46.2 (2009)	75.0	93.1 (2010)	57.5	59.4	44.2
Myanmar	…	…	..	65.1	92.6	75.9	78.6	49.9
Philippines	19.0	41.7	43.0	68.7	95.4 (2008)	60.6	65.2	58.0
Singapore	…	…	..	82.3	96.4	65.9	67.8	36.9
Thailand	0.3 (2011)	3.5 (2010)	39.4 (2010)	74.4	96.4 (2010)	71.7	72.3	39.0
Viet Nam	2.4	12.5	35.6	75.8	93.5 (2009)	75.9	77.5	42.3

… = data not available, ASEAN= Association of Southeast Asian Nations, Dep = dependency, Exp = expectancy, Lao PDR = Lao People's Democratic Republic.
[a] Poverty is measured as headcount ratio in PPP at 2005 international prices.
[b] Employment is measured relative to the population aged 15+.
[c] The labor force is the proportion of population aged 15+ that is economically active.
[d] Age dependency is the proportion of dependents (people younger than 15 or older than 64) per 100 working-age population (those ages 15–64).
Source: World Bank, World Development Indicators, accessed September 2015.

fact the highest (along with the Lao PDR) among the 10 ASEAN countries. Cambodia's population is also young, with 31% below 15 years of age and only 5% older than 65 (Table 1.3)**.** The old-age dependency ratio is among the lowest in the region.

While Cambodia has reduced the most extreme forms of poverty, many are still poor. In terms of various poverty measures, Cambodia is placed in the medium range among ASEAN members, excluding Brunei Darussalam, Myanmar, and Singapore due to lack of data (Table 1.4). At the same time, income inequality, as measured by the Gini coefficient, is the lowest in Cambodia among the countries. While many Cambodians are still poor, success at reducing extreme poverty has helped keep income inequality relatively low compared with other countries in the region.[7]

Cambodia lags in literacy and education. Despite the notable progress on some social indicators, Cambodia lags behind on literacy and education. Its literacy rate of about 74% in 2009 was lower than almost all other countries in the region (World Bank, World Development Indicators, accessed September 2015). Except for Cambodia and the Lao PDR, adult literacy exceeds 90% in other ASEAN countries (Table 1.4).

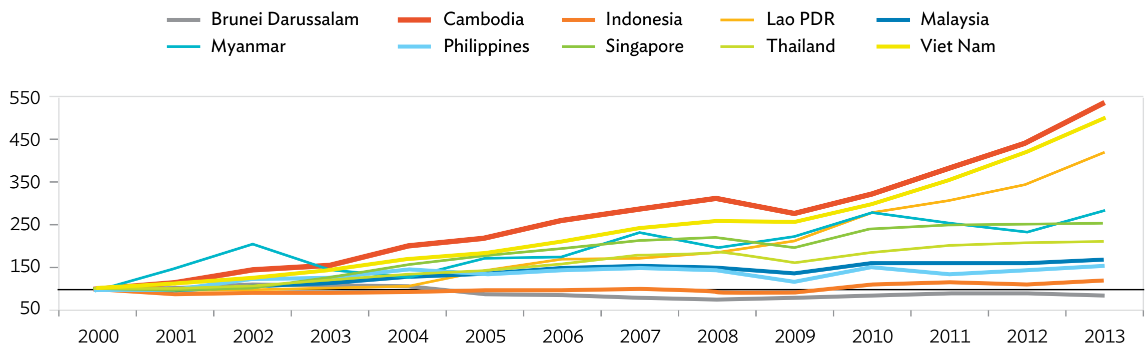
Cambodia's unit value of exports has risen much more slowly than in other ASEAN countries. The increase in volume of merchandise exports between 2000 and 2013 (Figure 1.6) was the strongest relative increase, notwithstanding the comparatively heavy adverse effects of the global financial crisis in 2008/2009. Viet Nam ran a close second, followed by the Lao PDR. Cambodia's strong performance largely stems from rapid growth in the garment manufacturing sector.

However, an examination of the long-term trend in the *value* of merchandise exports (Figure 1.7), rather than *volumes* (Figure 1.6), adds a different and important piece to the puzzle. When export value is compared, long-term growth in Cambodia is still strong, but less rapid than the Lao PDR or Viet Nam, both also fast-growing economies. Both the latter were able to increase export values more from the

7 As discussed in section 1.2, the relatively low level of measured inequality for Cambodia may, in part, reflect difficulties with the methods used to measure income distribution.

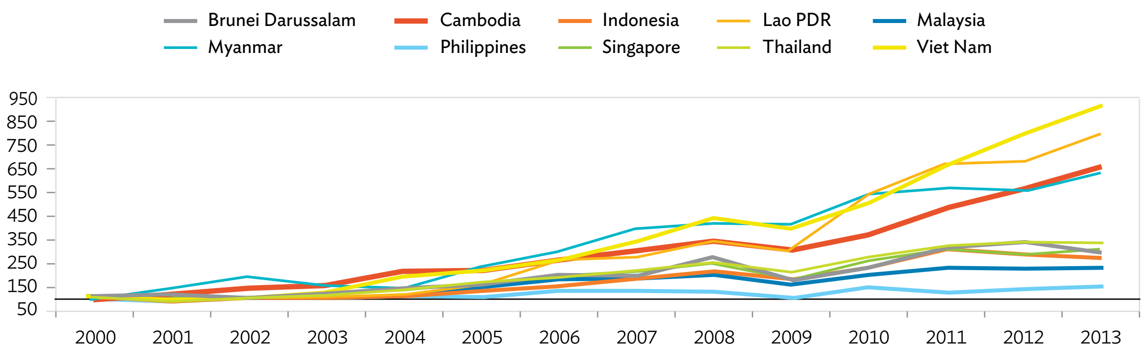
measure income distribution.

Figure 1.6: Volume of Exports Index, 2000–2013 (2000 = 100)



Lao PDR = Lao People's Democratic Republic.
Source: World Bank, World Development Indicators, accessed September 2015.

Figure 1.7: Value of Exports Index, 2000–2013 (2000 = 100)



Lao PDR = Lao People's Democratic Republic.
Source: World Bank, World Development Indicators, accessed September 2015.

base year of 2000; in Myanmar the increase in export values was similar to Cambodia's. This difference between value and volume indicates that Cambodia has been less successful in increasing the unit value of its exports compared with other rapidly growing countries in the region: instead, it has been shipping out more units of the same kinds of modestly valued products. The strong dependence on the garment sector for merchandise exports likely explains this, with production remaining focused on low-value-added, cut-make-trim apparel production.[8]

Cambodia's export structure is heavily concentrated in manufacturing and travel. In 2013, the share of manufacturing in merchandise exports stood at 92.8%, by far the highest in the region (Table 1.5). Compared with other ASEAN economies, Cambodia's merchandise exports feature a comparatively low proportion of foods, even though food exports could potentially be much more significant for the country. In commercial services exports, the travel sector dominates, accounting for more than 75% of exports. Transportation services,

[8] The cut-make-trim production that dominates the Cambodian garment industry is regarded as the lowest value-added position in apparel global value chains. For example, see Fernandez-Stark, Frederick, and Gereffi (2011).

Table 1.5: Export Structure of Merchandise and Commercial Service, 2014

Country	% of Merchandise Exports					% of Commercial Service Exports			
	Raw Materials	Food	Fuel	Manufactures	Ores / Metals	Computer	Finance	Transport	Travel
Brunei Darussalam	0.0	0.4	92.5	6.8	0.1	12.8	...	68.2	19.0
Cambodia	2.7	4.3	0.0	92.8	7.1	9.4	0.6	10.7	79.3
Indonesia	5.8	17.7	31.6	37.8	0.2	41.8	1.2	16.2	40.8
Lao PDR	0.0	0.0	0.0	0.0	0.0	6.0	6.5	9.2	78.3
Malaysia	1.7	11.1	22.0	61.8	2.9	33.5	2.1	11.5	52.9
Myanmar	0.0	0.0	0.0	0.0	0.0	47.3	0.0	10.6	42.1
Philippines	4.9	10.2	3.0	79.1	6.6	72.6	1.2	7.0	19.2
Singapore	4.4	2.6	16.7	71.3	1.2	36.8	17.5	32.0	13.7
Thailand	8.2	13.7	4.8	76.3	1.3	19.1	0.5	10.4	70.0
Viet Nam	2.4	14.4	7.3	74.7	0.7	...	...	...	...

... = data not available, 0.0 = magnitude is less than half of unit employed, Lao PDR = Lao People's Democratic Republic.
Note: For Cambodia and Viet Nam, the latest available year is 2013; the latest data on commercial exports is 2012 for Brunei Darussalam and 2013 for Indonesia, the Lao PDR, Malaysia, and Myanmar.
Source: World Bank, World Development Indicators, accessed September 2015.

at 10.7% in 2013, contributed the second-largest share. Cambodia's export structure is skewed to a few groups of commodities and services, compared with most other countries in the region. The key exports have been relatively slow to increase in value (Figure 1.7).

The picture for the business environment is mixed, but improvements are possible at relatively low cost. Increasing the value of output, whether for domestic consumption or export, and diversifying the economy require domestic development of businesses as well as the attraction of new ones from abroad. Available indicators on the ease of doing business and the effectiveness of the regulatory environment are imperfect measurements of a complex and multidimensional concept, but give some indication of where improvements could be made.

By some of these indicators, Cambodia appears much less welcoming to private business than the majority of its neighbors (Table 1.6). The World Bank's "Doing Business" indicators rank Cambodia toward the lower end of ASEAN countries, and indeed in the world. Cambodia does especially poorly in the subcategories "starting a business" and "dealing with construction permits." However, the legal environment appears to be more favorable to business.

Thus the overall picture is mixed. The regulatory environment is viewed as generally unfavorable for business and the official costs associated with exports are high. However, the formal legal environment has relatively strong guarantees of rights associated with credit arrangements, and formal tax rates for businesses are low. This suggests that streamlining the regulatory environment for private business could produce significant room for gains at relatively low cost, since conditions could be made considerably better for business without reducing tax revenue.

Table 1.6: Business Environment Indicators, 2014

Country	Cost to Export ($ per container)	Ease of Doing Business Rank (1 = business-friendly)	Legal Rights Index (0 = weak to 12 = strong)	Labor Tax (% of comm. profits)	Total Tax Rate (% of comm. profits)
Brunei Darussalam	705	101	4	7.9	15.8
Cambodia	795	135	11	0.5	21.0
Indonesia	572	114	4	11.3	31.4
Lao PDR	1,950	148	4	5.6	25.8
Malaysia	525	18	7	16.4	39.2
Myanmar	620	177	2	0.0	47.7
Philippines	755	95	3	8.0	42.5
Singapore	460	1	8	15.1	18.4
Thailand	595	26	3	4.3	26.9
Viet Nam	610	78	7	23.7	40.8

comm = commercial in the notes , Lao PDR = Lao People's Democratic Republic.
Sources: World Bank. 2014. Cambodia: Doing Business 2015. Washington, DC.; and World Bank, World Development Indicators, accessed September 2015.

2. DYNAMICS OF THE CAMBODIAN LABOR MARKET

This section offers more detailed analysis of the Cambodian labor market, focusing on potential barriers to improved employment outcomes and possible policies that could address those barriers.

Demographic trends and migration dynamics form the basis for the shape of the Cambodian labor force, and these factors are discussed in section 2.1. In section 2.2, more detailed aspects of work and the labor force, important for understanding the roots of employment outcomes, are considered. Included are analyses of formality and vulnerability of employment, labor force participation, and unemployment, with specific attention to the youth and children of Cambodia. The analysis then turns to the structure of employment and its trends, addressing formality and vulnerability of employment, with special concern given to employment in micro, small, and medium-sized enterprises (MSMEs). Human resources are critical to structural transformation and economic development, and are examined in section 2.3. The section considers the structure of education systems, including TVET; the quantity and quality of the education and training that is being provided; evidence for skills mismatch and under-education in the Cambodian labor market; as well as a brief analysis of the skills impact of migration.

2.1 Demographic Structure and Dynamics

Cambodia today is enjoying a demographic dividend with a remarkably low dependency ratio, although the window of opportunity is narrowing fast. Cambodia's demographic profile differs compared with its earlier-developing neighbors in Southeast Asia. Birth rates began to fall well before life spans increased significantly, leading to an extraordinarily large working-age population. This holds economic benefits for now as it means more workers and fewer dependents, but the largest population cohorts have already entered the labor force and subsequent cohorts will be smaller. In about 30 years, the dependency ratio will start to rise again.

Migration also plays a substantial role in Cambodia's demographic dynamics. Internal migration is very high, motivated substantially by economic factors. Though data are limited, external migration is also important to the state and future of labor markets. External migrants may well amount to more than a million people, from a population of about 15 million (World Bank 2013). Migration therefore removes a very significant fraction of the labor force from the country, though the remittances migrants send home allow many families to afford better lives. External migration makes Cambodia a less labor-abundant economy by serving as an escape valve for excess labor.

2.1.1 Population and Age Structure: Demographic Transition Well on Its Way

Slowing population growth

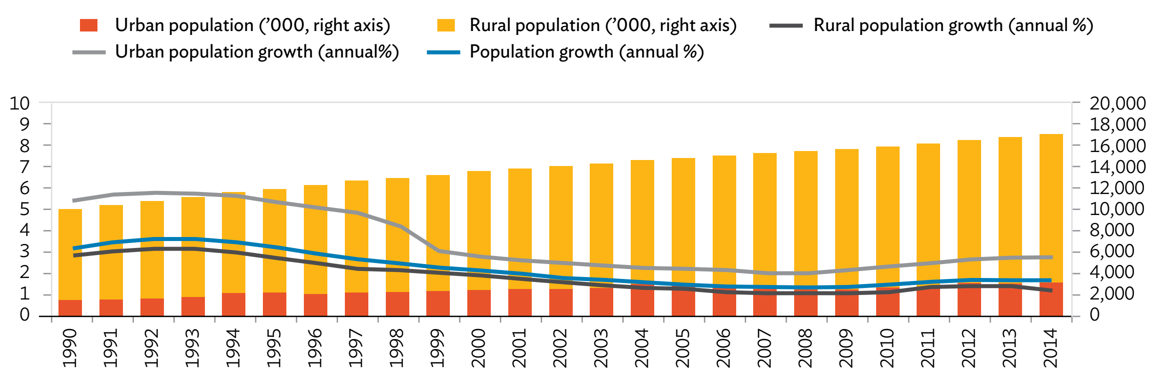
The population growth rate has dropped rapidly in Cambodia. Starting from a base of around 9.5 million people in 1990, the Cambodian population grew more than 3% per year during the first half of the 1990s, reaching 15.4 million in 2014 (Figure 2.1). At the turn of the millennium the population growth rate sank below 2% and has continued to decline, reaching about 1.4% in 2008. Since then, population growth increased slightly, although it has remained below 2%. Formal demographic projections indicate that it is likely to settle at around a lower rate of 1% during the coming decade (UNDESA 2012).

The most recent full census, in 2008, measured a population of about 13.4 million people. More recently, however, the Cambodia Inter-Censal Population Survey 2013 (NIS 2013a) estimated the 2013 population to be 14.7 million, based on a representative sample of nearly 30,000 households. In both 2008 and 2013 the population was overwhelmingly rural, at 80.5% of Cambodians in the former year and 78.6% in the latter (Table 2.1). In 2008, females outnumbered males significantly in the general population—with the gap substantially larger in cities—largely due to high male deaths during the war years. Average household size in rural and urban areas was similar in 2008 and 2013, with a difference of less than 0.3 people.[9]

The dependency ratio is in decline nationwide.[10] The overall dependency ratio fell from 86.5% in 1998 to 52.4% in 2013 and is expected to decline further until 2045, giving a demographic window of opportunity until then. The dependency ratio is much lower in urban areas, reflecting high internal migration of working-age people and a low fertility rate. However, the dependency ratio also dropped substantially in rural areas. It was 67% in 2008 in rural areas against 41% in the urban. In 2013, the figures were 56% and 42%, respectively. Total fertility has been 2.1 in urban areas since 2008, and has fallen slightly from 3.3 in 2008 to 3.1 in 2013 in rural areas (Table 2.1).

Urbanization has been increasing steadily, although the country remains largely rural. Despite lower fertility rates in cities, urban populations have increased strongly in the last several years, reaching 21% of the total population, or roughly 3.1 million

Figure 2.1: Population Growth, 1990–2014



Source: World Bank, World Development Indicators, accessed September 2015.

[9] In 2008, the average household size was 4.9 people (4.6 in 2013) in rural areas and 4.6 (4.8 in 2013) in urban.

[10] Here, the dependency ratio is defined to be the ratio of children below the age of 15 and older people above age 65 as compared with the working-age population (15–64).

Table 2.1: Socio-Demographics

Area	Population						Household Size		Dependency Ratio[a]		Sex Ratio		Total Fertility[b]	
	GPC 2008			CIPS 2013			2008	2013	2008	2013	2008	2013	2008	2013
	Total	Male	Female	Total	Male	Female	Persons per HH		Per Working Population		Males / 100 Female		Child / Female	
Urban	19.5	9.4	10.1	21.4	10.4	11.0	4.6	4.8	40.8	41.8	92.4	94.4	2.1	2.1
Rural	80.5	39.3	41.2	78.6	38.1	40.4	4.9	4.6	67.1	55.6	95.3	94.2	3.3	3.1
TOTAL	100.0	48.6	51.4	100.0	48.5	51.5	4.7	4.6	61.2	52.4	94.7	94.3	3.1	2.8

CIPS = Cambodia Inter-Censal Population Survey, GPC = General Population Census, HH = household.
[a] Overall age dependency ratio refers to the ratio of those aged 0–14 years and above 65 years to the working ages (15–64).
[b] Total fertility refers to the average number of children that would be born to a woman over her lifetime, assuming that (1) she survives until end of her fertility and (2) age-specific fertility rates remain constant.
Sources: NIS. 2008. *General Population Census 2008*. Phnom Penh: Ministry of Planning; and NIS. 2013. *Cambodia Inter-Censal Population Survey (CIPS) 2013*. Phnom Penh: Ministry of Planning.

people in 2013. The United Nations Population Division projects urban population growth of around 2.5% in the coming decade, implying that urbanization is likely to intensify (UNDESA 2011, 2012, 2013, 2014). As of 2014, the United Nations Department of Economic and Social Affairs predicts a 36% urbanization rate by 2050. Although Cambodia is the most rural nation in Southeast Asia, urbanization, through rural–urban migration, is well under way and picking up steam.

Demographic transition well under way

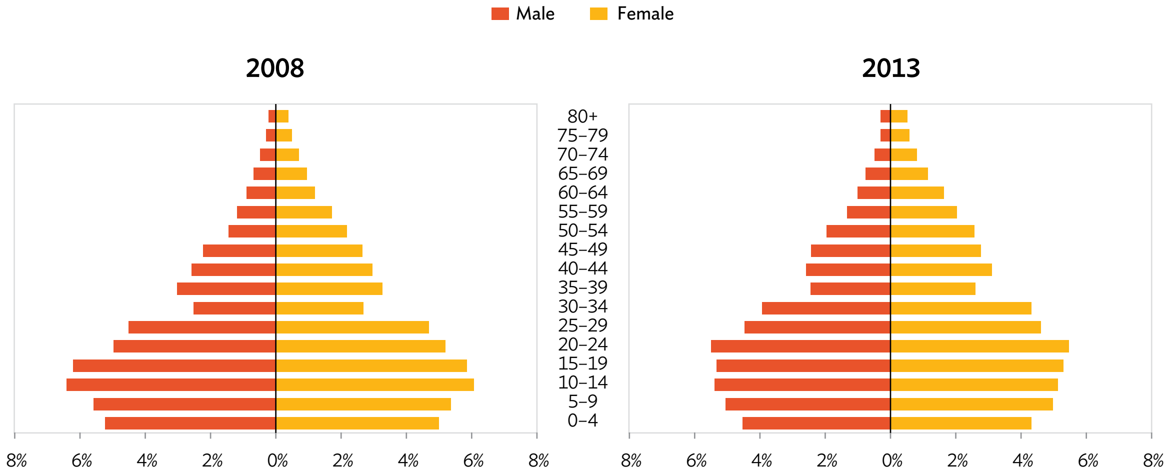
The demographic pyramid was no longer a pyramid in 2013. The age structure of the Cambodian population is presented in Figure 2.2, based on 2008 census data and the Cambodia Inter-Censal Population Survey (NIS 2013a). It shows a sharp dip in the size of the age cohorts born between 1970 and 1975, a result of low fertility and higher child mortality during the Khmer Rouge Regime (de Walque 2006). The notch in the demographic pyramid structure is somewhat sharper for males than for females. In the previous full census, in 1998, more than 54.0% of the population was aged 19 or less. However, that only 12.8% were younger than age 5 shows that fertility rates had already begun to decrease. In 2008, the younger-than-20 cohort had diminished to 45.7%, with around 10% under 5 years of age. As the bulk of the population entered working age, age-dependency ratios decreased from 86.5% in 1998 to 61.2% in 2008.

The largest age cohort is that of those aged 20–24 in 2013. The most dramatic feature of the CIPS 2013 result is that the demographic pyramid is no longer a pyramid (Figure 2.2). The largest age cohort is made up of those aged 20–24 years. Each younger cohort is successively smaller. In 2013, only 40% of the population was under 20, and the fraction under 5 years of age was only 8.8%. The dependency ratio had fallen to a remarkably low level of 52%—there are nearly twice as many Cambodians of working age than there are children and elderly people.

Cambodia began its demographic transition early. By 1998, it had already begun this process of moving from high to much lower birth rates—typical as countries develop economically—just as rapid economic growth was starting. Birth rates fell long before life expectancy increased by large amounts and while the country was still extremely poor. This pattern is unique. Historically, greater wealth is accompanied by better health, longer life spans, and rapid population growth, subsequently followed by a fall in birth rates and a decline or a stabilization in population growth.

One reason for the early start was the era of very low fertility during the Khmer Rouge regime. Families delayed having children, as is clearly seen in the size of the cohorts during and immediately after the Khmer Rouge period. Higher fertility afterward was temporary, but the fall from that high level blended

Figure 2.2: Population Structure, 2008 and 2013



Sources: NIS. 2008. General Population Census 2008. Phnom Penh: Ministry of Planning; and NIS. 2013. *Cambodia Inter-Censal Population Survey (CIPS)* 2013. Phnom Penh: Ministry of Planning..

with the beginning of a longer-term trend toward lower fertility. This created the subsequent and very rapid declines in cohort size.

These developments have had positive effects on the dependency ratio, since the working-age population will remain relatively large compared with old and young dependents for several decades. On the other hand, reduced population growth also implies a weakening of one of the main comparative advantages of the Cambodian economy—abundant labor supply. Even if a large fraction of rural inhabitants is willing to relocate in order to follow economic opportunities, the pool of surplus labor is likely to decline over the coming years. Because of the rapidity of the demographic transition, this will occur relatively soon. Addressing this structural change thus requires consideration of not only the quantity of labor supplied, but also an emphasis on the mix and quality of skills supplied by the Cambodian work force. Section 3.2 discusses the challenges these changes create, including for labor.

2.1.2 Internal and External Migration

Migration is another important force shaping labor markets, and it interacts with demographic developments. Although external and internal migration can be permanent, it is often temporary. Net external migration is the net stream of people moving into and out of Cambodia in a given time period, shaping not only the demographic structure of the country, but also the composition of its labor markets and skills supply in general.

More than one million Cambodians are currently estimated to be working abroad. The stock of immigrants living in Cambodia has been estimated at around 76,000 people, mostly from neighboring countries. Migrants are generally difficult to count, because many may be undocumented and unrecorded and official data are scarce. According to the World Bank (2013), the stock of Cambodian emigrants was about 1.12 million people, or 7.3% of the population, in 2013. In the summer of 2014, an

[11] Migration Policy Institute. www.migrationpolicy.org/programs/data-hub/international-migration-statistics

estimated 250,000 Cambodians that had been working in Thailand, both legally and illegally, returned following a bout of political instability in Thailand. Although a significant fraction of Cambodian emigrants live in industrialized countries outside of Asia, the main destination country is still neighboring Thailand (NIS 2009, 2010; Tunon and Rim 2013). The World Bank has estimated that about 750,000 Cambodian migrant workers are in Thailand. Other important destination countries within Asia include Japan, the Republic of Korea, and Malaysia.

The inward flow of remittances has been constantly increasing over the last decade. It was estimated to be around $304 million in 2014, from $121 million in 2000.

The financial support of home communities is one of the main positive aspects of migration. But migrants, especially informal migrants, can be vulnerable to exploitative working conditions and denied basic rights. To counteract this, the government could consider increasing legal support for Cambodian migrants in the main host countries such as the Republic of Korea, Malaysia, and Thailand.

The volume of internal migration is even larger, with more than two million Cambodians living away from their original homes. Based on the Cambodia Socio-Economic Survey (CSES) and CIPS 2013 data, estimates of external and internal migrants are shown in Table 2.2. It is clear that the survey data understate the volume of current external migration, but the figures for internal migration are likely to be more reliable. Based on the CSES data, 2.18 million Cambodians were living in the country but away from their original home in 2010. The CIPS 2013 finds 4.14 million such current internal migrants, suggesting that 28% of Cambodians were living away from their last residence in 2013. Some of the large difference in estimates of internal migration between 2010 and 2013 is likely accounted for by differences in the definition of an "internal migrant" and in the survey methods.[11]

Those who had completed migration can be estimated from the CSES 2009 and 2010 data. In total, around 5.1 million people in 2010 reported having lived outside of their province at some time in the past and then returned (Table 2.2). Among both past and current migrants, internal migration is by far more prevalent and large in volume.

Employment is an important consideration for both internal and external migration, albeit more so for external migration, apart from family-related reasons. Migrants who have already returned to their home provinces report a variety of reasons for migration, as shown in Table 2.3.[12] Among this group, internal migration is often motivated by relocation of the entire family (34%

Table 2.2: Internal and External Migration, 2009–2010 and 2013

	CSES								CIPS	
	Completed Migration[a]				Current Migration[b]				Current Migration[c]	
	2009		2010		2009		2010		2013	
	persons	%	persons	%	persons	%	persons	%	persons	%
External	106,466	2.2	85,029	1.6	111,617	5.7	138,370	6.0	106,042	2.5
Internal	4,686,372	97.8	5,140,527	98.4	1,854,848	94.3	2,176,941	94.0	4,135,651	97.5

CSES = Cambodia Socio-Economic Survey, CIPS = Cambodia Inter-Censal Population Survey.
[a] Refers to time periods spent away by current household members.
[b] Refers to household members currently living in another province (internal) or abroad (external).
[c] Refers to a person who has moved to the place of enumeration from another village or country that was the person's last previous residence.
Sources: NIS. Cambodia Socio-Economic Surveys 2009 and 2010. Phnom Penh: Ministry of Planning; and NIS. *Cambodia Inter-Censal Population Survey (CIPS) 2013*. Phnom Penh: Ministry of Planning.

[12] The definition of an "internal migrant" for the CSES is someone living in a different province, whereas the CIPS 2013 counts migrants as individuals with a different place of enumeration than that of their last place of residence.

[13] Note that migrants who have moved to a different province, and then returned, may be different from those who move away and then do not return. There are no comparable data to those in Table 2.3 for the latter group.

Table 2.3: Reasons for Migration, 2009–2010 and 2013

	External						Internal					
	2009		2010		2013		2009		2010		2013	
Reason for Migration[a]	persons	%	persons	%	persons	%	persons	%	persons	%	persons	%
Transfer of work place	1,922	1.8	2,398	2.8	1,813	1.7	165,691	3.5	173,942	3.4	205,542	5.0
In search of employment	14,884	14.0	16,143	19.0	12,078	11.4	477,276	10.2	532,623	10.4	660,877	16.0
Education	1,164	1.1	...	...	212	0.2	44,258	0.9	76,520	1.5	38,462	0.9
Marriage	6,835	6.4	2,209	2.6	5,557	5.2	822,299	17.5	875,443	17.0	753,516	18.2
Family moved	25,160	23.6	25,326	29.8	44,251	41.7	1,769,930	37.8	1,745,513	34.0	1,875,104	45.3
Lost land/lost home	499	0.5	...	...	859	0.8	43,220	0.9	82,920	1.6	59,967	1.5
National calamities	...	...	...	...	106	0.1	7,216	0.2	3,830	0.1	6,617	0.2
Insecurity	3,980	3.7	547	0.6	5,875	5.5	294,852	6.3	266,258	5.2	109,595	2.7
Repatriation or return after displacement	50,806	47.7	38,407	45.2	33,456	31.6	971,510	20.7	1,282,220	24.9	332,093	8.0
Orphaned	...	...	...	...	212	0.2	18,497	0.4	20,125	0.4	8,685	0.2
Visiting only	742	0.7	...	...	1,177	1.1	8,193	0.2	15,193	0.3	52,109	1.3
Other reason	475	0.4	...	...	424	0.4	63,429	1.4	65,941	1.3	33,085	0.8
Total	106,467		85,030		106,042		4,686,371		5,140,528		4,135,651	

.... = magnitude equals zero.
[a] Reasons for migration among completed migrants for 2009 and 2010; among current migrants for 2013.
Sources: NIS. Cambodia Socio-Economic Surveys 2009 and 2010. Phnom Penh: Ministry of Planning; and NIS. *Cambodia Inter-Censal Population Survey (CIPS) 2013.* Phnom Penh: Ministry of Planning.

in 2010), repatriation and return after displacement (25%), or marriage (17%). Employment appears to be a somewhat weaker driving force for internal migration, with 10% of internal migrants with completed migration spells in 2010 reporting having moved to search for employment. Note, however, that while this may seem small as a fraction of total migrants, it is still significant compared with the workforce: the implied number of migrants having moved for employment reasons exceeds half a million workers. By comparison, this figure exceeds some estimates of total employment in Cambodia's textile industry.

Among the much smaller group of external migrants with completed migration spells, repatriation has been by far the most important reason for relocation, with 45% of such migrants reporting that as the reason for their past migration in 2010 (Table 2.3). Family movements and marriage are less relevant for external migration, even though family-related reasons have become more important in 2010. Employment, on the other hand, is a relatively more important reason for external migration, at 19% of respondents, increasing from 14% in 2009.[13]

The 2012 Labor Force Survey (LFS 2012), conducted by the National Institute of Statistics with support from the ILO (ILO and NIS 2013a), provides further insight into the motivations of Cambodian migrants.[14] According to the LFS 2012, nearly twice as many men migrated, internally and externally, to search for employment as compared with women. Women, on the other hand, were more likely to migrate because of marriage.

Remittances from external migrants are larger than from internal migrants. Table 2.4 shows additional descriptive information on current migrants. Independent of the destination, there

[14] Because of the size of the CSES samples, there may be significant statistical sampling errors for statistics based on relatively small subpopulations such as this one.
[15] The 2012 LFS sampled 9,600 households across Cambodia and asked questions concerning demographics and labor force characteristics. The 2012 LFS uses the same definition of internal migration as does the CSES.

were more male migrants in 2009. CSES 2010 and the CIPS 2013 data show that more recent migrants are nearly evenly split between male and female. External migrants tend to be younger and they are more likely to come from urban households or more populous districts.[15]

Average remittances from external migrants are higher than those of internal migrants. While an average inflow from internal migrants amounted to about 180,000 riel (KR) per year in 2010, the average yearly amount transferred by external migrants is almost five times that (Table 2.4).[16]

In 2010, average remittances from external and internal migrants amounted to 20.1% and 3.9% of median disposable household income respectively. Thus, for the families of external migrants, remittances are an important part of family income, even though 31% of migrants did not send any transfers and amounts transferred varied widely across households.

Internal and external migrants have similar educational attainment. Interestingly, there is little evidence of systematic differences in educational attainment between internal and external migrants (Table 2.5). Both groups largely consist of people with 4 to 8 years of schooling (53% and 55% respectively in 2010). Contrary to what one might have expected, external migrants do not show a higher fraction of better-educated people. Comparing fields of occupation before and after migration generally confirms this result. While most migrants report having worked in subsistence farming, agriculture, forestry or fishing, mining, or construction before migration, this pattern does not change significantly following their migration. Only subsistence farming is less common after migrating, while the other occupational shares remain largely the same (CSES 2010).

Migration is an important element for the Cambodian labor supply, with its significant share driven by economic reasons. The analysis suggests several conclusions. First of all, internal migration is more common, affecting large fractions of young and old generations alike. But external migration is, nonetheless, very large. External migrants are generally younger and from more populated urban areas.

Secondly, internal migration follows a net rural-to-urban pattern. Despite much higher fertility rates in rural areas, the fraction of the population living in rural areas is actually decreasing, while there are sustained population increases in urban areas.

Thirdly, economic migration has gained in importance. Among migrants currently living outside

Table 2.4: Demographic Composition and Remittances of Current Migrants,[a] 2009–2010 and 2013

	Demographic Composition															Average Remittances[b]			
	average age			average district size			average HH size			% male			% urban			KR/year		% of disp. income[c]	
	2009	2010	2013	2009	2010	2013	2009	2010	2013	2009	2010	2013	2009	2010	2013	2009	2010	2009	2010
External	28.6	26.4	43.1	841.4	366.7	...	5.6	4.4	4.7	58.0	50.4	50.5	35.0	14.3	25.8	1,454,830	926,610	31.6	20.1
Internal	30.9	30.9	38.8	447.5	313.4	...	5.4	4.6	5.0	51.0	49.9	48.3	25.0	12.5	29.0	155,446	181,852	3.4	3.9

... = data not available, disp = disposable, HH = household, KR = Cambodia riels.

[a] Current migrants refers to household members currently living in another province (internal) or abroad (external).

[b] Average remittances are calculated in Cambodia riel per year based on the information on transfers by current migrants.

[c] As proportion of median disposable income per household per year in 2009.

Sources: NIS. Cambodia Socio-Economic Surveys 2009 and 2010. Phnom Penh: Ministry of Planning; and NIS. *Cambodia Inter-Censal Population Survey (CIPS) 2013.* Phnom Penh: Ministry of Planning.

[16] It is unclear why the migrants recorded by the CIPS data are apparently so much older than the migrants recorded in in the CSES data. For the internal migrants, it could be the difference in the definition of migrants, with more short-distance movers under the CIPS definition of internal migration.

[17] Given the difference in magnitudes between the 2009 and 2010 remittance figures, the figures should be taken as approximate. In either case, it is clear the remittances from external migrants are much higher than for internal migrants.

Table 2.5: Educational Attainments of Current Migrants, 2009–2010 and 2013

	External						Internal					
	2009		2010		2013		2009		2010		2013	
Level of Education	persons	%	persons	%	persons	%	persons	%	persons	%	persons	%
Preschool/ kindergarten	490	0.4	...	...	339	0.3	5,469	0.3	1,085	0.0	40,116	1.0
Class 1 completed	726	0.7	3,675	2.7	2,344	2.2	34,669	1.9	20,825	1.0	124,483	3.0
Class 2 completed	5,339	4.8	8,620	6.2	8,197	7.7	93,758	5.1	91,244	4.2	258,892	6.3
Class 3 completed	9,320	8.3	15,159	11.0	12,714	12.0	163,281	8.8	180,650	8.3	409,016	9.9
Class 4 completed	9,717	8.7	15,098	10.9	10,869	10.3	201,189	10.8	251,215	11.5	397,022	9.6
Class 5 completed	16,859	15.1	12,800	9.3	13,213	12.5	218,187	11.8	251,122	11.5	462,779	11.2
Class 6 completed	12,576	11.3	21,900	15.8	12,714	12.0	186,073	10.0	235,156	10.8	400,331	9.7
Class 7 completed	12,111	10.9	11,576	8.4	9,703	9.2	192,065	10.4	228,687	10.5	466,088	11.3
Class 8 completed	5,645	5.1	13,035	9.4	7,359	6.9	156,475	8.4	197,971	9.1	338,710	8.2
Class 9 completed	7,645	6.8	9,126	6.6	9,204	8.7	131,935	7.1	205,743	9.5	330,025	8.0
Class 10 completed	4,873	4.4	991	0.7	4,348	4.1	46,084	2.5	65,434	3.0	177,419	4.3
Class 11 completed	1,685	1.5	2,070	1.5	3,181	3.0	37,052	2.0	47,743	2.2	127,378	3.1
Class 12 completed	4,800	4.3	2,859	2.1	3,012	2.8	76,265	4.1	59,381	2.7	182,382	4.4
Lower education certificate (diploma)	1,291	1.2	1,642	1.2	1,506	1.4	31,131	1.7	22,583	1.0	113,317	2.7
Higher education certificate (Baccalaureate)	3,715	3.3	2,864	2.1	2,842	2.7	27,893	1.5	59,541	2.7	135,649	3.3
Technical/vocational presecondary diploma/certificate	565	0.5	...	...	170	0.2	11,340	0.6	18,941	0.9	8,685	0.2
Technical/vocational postsecondary diploma/certificate	862	0.8	...	...	170	0.2	7,896	0.4	12,183	0.6	27,295	0.7
College/university undergraduate	1,365	1.2	2,831	2.0	...	...	14,577	0.8	35,946	1.7	...	...
Bachelor's degree (BA, BSc, etc.)	767	0.7	4,123	3.0	2,174	2.1	20,104	1.1	27,751	1.3	73,201	1.8
Master's degree (MA, MSc, etc.)	274	0.2	...	...	498	0.5	3,127	0.2	4,556	0.2	14,061	0.3
Doctoral degree (PhD)	...	...	...	...	498	0.5	1,017	0.1	4,394	0.2	3,722	0.1
Others	...	...	427	0.3	498	0.5	...	...	1,155	0.1	2,895	0.1
No class completed	7,283	6.5	6,443	4.7	498	0.5	168,528	9.1	142,461	6.5	42,184	1.0
Unknown	3,711	3.3	3,130	2.3	...	...	26,733	1.4	11,173	0.5	...	...
Total	111,619		138,369		106,042		1,854,848		2,176,940		4,135,651	

.... = Magnitude equals zero.
Sources: NIS. Cambodia Socio-Economic Surveys 2009 and 2010. Phnom Penh: Ministry of Planning; and NIS. *Cambodia Inter-Censal Population Survey (CIPS) 2013.* Phnom Penh: Ministry of Planning..

of their native provinces, employment or the search for it has become an important driving force. Among internal migrants, family relocation and marriage are also highly relevant. While remittances from external migrants are larger, transfers from internal migrants are still economically significant.

Finally, both internal and external migration appears to be clustered in low-skill segments of the labor market. This result might be interpreted positively, in the sense that high-skilled workers prefer to stay, though these figures apply only to those migrants who left and then returned to Cambodia. Alternatively, this result could be seen to indicate a general shortage of high-skilled workers, thus calling not only for better skills policies, but also for better management of migrant skills, including premigration and postmigration counseling and support to return migration.

2.2 Labor Force Characteristics

To understand potential channels for increasing opportunities for decent work in Cambodia, one needs to understand the nature and structure of the labor force and the structure of current employment. Labor force participation rates and employment-to-population ratios are high, while the workforce is relatively young and comparatively gender-balanced. Despite that, detailed analysis of the youth labor markets reveals problematic levels of urban youth unemployment and also of urban youths who are neither in the labor force nor at school. On the other hand, the fraction of economically active children has continued to fall.

Currently, the vast majority of Cambodians work in informal enterprises in vulnerable employment, although this share has been falling and there has been a shift toward own-account work. They also work excessive hours. Workers have been moving from agriculture into industry and services, but productivity in industry has stagnated. Sectoral movements of labor have not led to greater employment in higher-skill occupations: indeed, there have been falls in the proportion of people working in higher-skill jobs. Most Cambodian workers are concentrated in a small number of sectors, which reflects the pattern of economic development characterized by the replication of existing low-skill production models focused on garment manufacturing and tourism. MSMEs provide large employment opportunities in Cambodia, but often as an economic last resort, as they have limited roles for women in management, limited oversight, and nearly no access to social protections.

2.2.1 Key Concepts

This subsection briefly introduces critical concepts needed for understanding labor market analysis. Typically the working-age population is defined to be either the population group aged 15 and above or those aged 15 to 64 years. The working-age population consists of the labor force and economically inactive population. The labor force is the fraction of the working-age population that is actively engaged in the labor market. It includes those who report that they are currently working or are unemployed but available for work and seeking gainful employment. The remaining fraction of the working-age population is called "inactive."[17]

The group of the employed can be further classified by status in employment. This breaks down into self-employment, consisting of employers with a hired help or own-account workers without hired help; wage employment; and unpaid family work.[18] While unpaid family workers are by definition part of the informal economy, the former two groups are engaged in both informal and formal sectors. Both of these groups contain a fraction of working poor individuals, that is, the employed living in a

[18] Subsistence farmers are included in the labor force, even if their produce is not formally marketed.
[19] See ILO (1993). An extract is available at http://laborsta.ilo.org/applv8/data/icsee.html#n2

household with income or consumption below the poverty line (ILO 2009). Working poverty can result from several causes. Income from work might simply be too low, or may result from household composition; households with a high fraction of dependent, inactive, or unemployed members will be more likely to live in poverty.

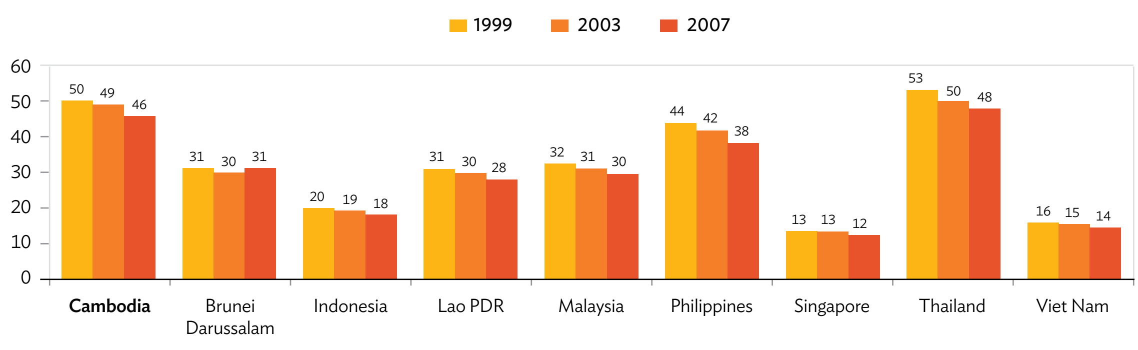
Information on employment status is used to distinguish formal and informal employment. The largest part of economic activity in Cambodia is informal. According to a joint definition from the Organisation for Economic Co-operation and Development, the International Monetary Fund, and the International Labour Organization, the non-observed economy includes underground and illegal production, informal sector production, and production by households for their own final use (OECD 2004).[19]

The latter two make up the majority of output generated by the informal economy in Cambodia. Different methodological approaches have been applied to estimate the size of informal economies across the world. While it remains difficult to pin down the absolute size in terms of gross domestic product (GDP), recent studies consistently place Cambodia in the upper third of all countries worldwide by the relative size of the informal economy (Figure 2.3) (Schneider, Buehn, and Montenegro 2010; Elgin and Oztunali 2012).

Separating formal and informal employment requires drawing further distinctions. First, even if an enterprise is engaged in informal production, it might still have formal employment relations with some portion of its employees. Conversely, formal enterprises may also employ informal workers. Figure 2.4 presents an exhaustive definition of informal and formal employment.

A comprehensive definition of informal employment thus includes employers in the informal sector, informal employees in any kind of enterprise, contributing family workers, as well as own-account workers in the informal or household-production sector. However, data limitations usually impede a complete distinction between formal and informal employment. For pragmatic purposes, one reasonable solution is to focus on *vulnerability* rather than on the full definition of informal employment. Vulnerable employment is defined to be the sum of own-account and unpaid family workers.

Figure 2.3: Size and Development of the Shadow Economy: ASEAN, 1999, 2003, 2007 (% of official GDP)



ASEAN = Association of Southeast Asian Nations, GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.
Source: Schneider, F. 2012. The Shadow Economy and Work in the Shadow: What Do We (Not) Know? *Institute for the Study of Labor (IZA) Discussion Paper Series*. No. 6423. Bonn: IZA.

[20] Underground production includes legal activities deliberately concealed to avoid tax payments or compliance with public regulations. Illegal production refers to activities that generate outputs forbidden by law or that entail unlawful production procedures.

Figure 2.4: Formal and Informal Employment by Unit of Production and Employment Status

	Employers	Employees	Own Account Workers	Contributing Family Workers
Formal sector	Formal	Formal and informal	Formal	Informal
Informal sector	Informal	Formal and informal	Informal	Informal
Households		Formal and informal	Informal	

Source: Adapted from Hussmanns, R. 2004. Measuring the Informal Economy: from Employment in the Formal Sector to Informal Employment. *ILO Working Paper Series.* No. 53. Geneva: International Labour Organization.

Using vulnerable employment as a benchmark for informal employment implies three potential sources of error relative to the definition of informal employment. First, it falsely includes own-account workers in formal sector enterprises. Second and third, it excludes informal employees as well as informal sector employers. However, employers account for only a very small fraction of the employed population in Cambodia. Also, own-account workers in the formal sector are likely to make up a minimal proportion of the total, since, as discussed below, very few microenterprises are registered. As informal employees can make up a significant share of total employment, the main difference between informal and vulnerable employment will thus be the recategorization of this group of employees.[20]

2.2.2. Labor Force Participation, Employment, and Unemployment

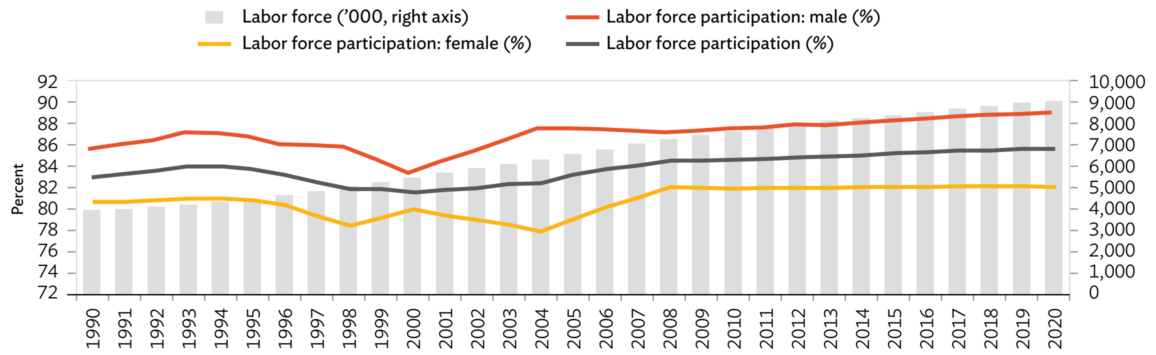
In line with demographic developments, the percentage of the population that is of working age in Cambodia has been increasing for more than a decade. This will persist during the next decade, but the rate of increase relative to the general population has slowed. Between 2000 and 2010, the percentage of the working-age population in the total increased by 10 percentage points, rising from 58% to 68% during the period. In the decade since 2010, the same proportion is estimated to increase by 4 percentage points, reaching 72% by 2020 (ILOSTAT database).

Among the working-age population, most people are economically active. Labor force participation rates, measured as the proportion of those economically active in the working-age population, remained within the interval 82%–84% in the 1990s and 2000s.[21] This is high relative to other ASEAN economies. The Lao PDR, Myanmar, and Viet Nam showed similar magnitudes in 2010, but other ASEAN economies with higher output per capita typically had lower participation rates. Throughout the period examined, male participation rates were consistently higher, by around 5–10 percentage points (Figure 2.5).

[21] Based on the LFS 2012 Report, only 12.4% of all paid employees have an employer who contributed to any pension or retirement fund for them.

[22] Note that these graphs are based on the estimates and projections by ILO (2011); the latest waves of the Cambodian Socio-Economic Survey report slightly higher participation rates, effectively reaching 87.0% in 2010 and 87.5% in 2011 (Table 2.6 and NIS 2011a).

Figure 2.5: Labor Force Size, Estimates, and Projections for Cambodia, 1990–2020



Note: Data for 1990–2012 are estimates while 2013–2020 are projections.
Source: International Labour Organization, ILOSTAT Database, accessed October 2014.

A very high proportion of the labor force is engaged in some form of employment. Based on national data sources, Table 2.6 breaks down the labor force into the employed and the unemployed population. CSES data tend to estimate higher employment-to-population ratios than the population censuses or the CIPS 2013.[22] People in rural areas are more likely to work than people in urban areas. According to the CIPS 2013, the employment-to-population ratio was 80.8% in rural areas, against 67.7% in urban areas.[23] Men were more likely to work than women throughout the period examined, due to the lower participation rate and slightly higher unemployment rate among women. However, at less than 10 percentage points according to the population censuses—the CIPS 2013 and CSES for most of the years presented—the gender gap in employment-to-population ratios is fairly small.

In unemployment, estimates also vary across different data sources (Table 2.6). CSES data generate very low unemployment rate estimates. Census data in 1998 and 2008, CIPS 2013, and LFS 2012 all point to somewhat higher unemployment rates. According to the CIPS 2013 data, the unemployment rate was 2.3%. LFS 2012 estimates an unemployment rate of 2.7%, making it approximately comparable to the CIPS 2013 figure. The censuses and CIPS 2013 indicate that unemployment is more likely to occur among women than men, while LFS 2012 reports equal unemployment rates by gender. Unemployment is also more likely to occur in urban areas than in rural areas, even though the differences are small.

The main labor market challenges lie in improving the quality of employment. Regardless of data sources, at less than 3% by the highest estimate in recent years, unemployment in itself is not one of the most important issues in Cambodian labor markets.[24] With the vast majority of the population being relatively poor, few can afford to be out of work. Much of the employment is informal, vulnerable, unstable, and poorly rewarded. Therefore, the main issues in the labor market include skills mix, working conditions, and earnings.

Employment rates vary across regions (Table 2.7). Employment-to-population ratios are much higher outside of Phnom Penh, particularly in the rural areas, where almost 9 out of 10 people, on average, worked between 2007 and 2013. Such a high ratio

[23] The employment-to-population ratio is the proportion of employed people in the working-age population. This indicator provides numbers very similar to the labor force participation rate if unemployment is low, as is the case in Cambodia.

[24] Defining working-age population as those aged 15 years and above, LFS 2012 gives a considerably lower employment-to-population ratio of 67.0%, compared with estimates from CSES or the censuses. These lower figures are more in line with the rate observed in other countries in the region. See ILO and NIS (2013a) for a more detailed comparison of the LFS 2012 and the CSES statistics on employment-to-population ratios.

[25] This is not to say that unemployment is unimportant, as there may have been periodic occurrences of problematic unemployment

Table 2.6: Employment and Unemployment in Cambodia, 1998, 2004 and 2007–2013 (thousands, %)

	CSES							GPC		CIPS
	2004	2007	2009	2010	2011	2012	2013	1998	2008	2013
Total population	12,657	13,230	13,967	13,958	14,155	14,376	14,678	11,457	13,396	14,677
Working-age population	7,589	8,232	8,865	8,853	9,038	9,167	9,604	6,540	8,882	9,628
Labor force	6,235	6,888	7,480	7,702	7,907	7,718	7,974	5,038	6,956	8,333
Employed-to-population ratio	79.8	80.3	81.5	84.1	84.9	81.3	79.9	73.0	77.0	77.8
Urban	71.8	69.4	70.4	73.1	73.5	75.3	72.9	57.0	62.9	67.7
Rural	81.4	83.1	84.5	87.0	88.0	83.1	81.9	77.0	81.0	80.8
Women	75.0	73.9	76.9	80.6	81.3	76.0	74.1	69.2	74.7	74.7
Men	85.3	87.5	86.6	87.9	88.7	87.1	86.3	77.4	79.6	81.4
Unemployment rate	1.0	0.7	0.1	0.3	0.2	0.2	0.3	5.3	1.6	2.3
Urban	2.3	2.2	0.3	0.6	0.4	0.4	0.3	11.0	4.5	4.4
Rural	0.7	0.4	0.1	0.3	0.2	0.1	0.3	4.1	1.0	1.8
Women	1.1	0.8	0.1	0.3	0.1	0.2	0.3	5.8	1.8	2.5
Men	1.0	0.7	0.2	0.4	0.3	0.1	0.3	4.6	1.5	2.1

CSES = Cambodia Socio-Economic Survey, GPC = General Population Census, CIPS = Cambodia Inter-Censal Population Survey.
Sources: International Labour Organization. 2012c. *Cambodia: Toward a National Employment Strategy for Sustained Poverty Reduction.*; NIS. Cambodia Socio-Economic Surveys 2011, 2012 and 2013. Phnom Penh: Ministry of Planning; and NIS. *Cambodia Inter-Censal Population Survey (CIPS) 2013.* Phnom Penh: Ministry of Planning.

Table 2.7: Employment and Unemployment by Gender and Region, 2007–2013 (thousands, %)

	Phnom Penh						
	2007	2008	2009	2010	2011	2012	2013
Total population	1,310	1,317	1,383	1,383	1,524	1,502	1,738
Working-age population	963	970	1,001	981	1,111	1,108	1,273
Labor force	664	671	688	693	775	850	942
Employment	67.6	68.7	68.5	70.1	69.3	76.5	73.9
Women	60.8	61.1	61.4	64.3	62.2	71.7	66.9
Men	75.5	77.3	76.9	76.4	78.8	81.9	81.6
Unemployment	1.9	0.8	0.3	0.8	0.6	0.2	0.1
Women	1.6	0.6	0.2	0.8	0.5	0.0	0.0
Men	2.1	1.0	0.3	0.7	0.7	0.4	0.1
	Other Urban						
Total population	1,356	1,375	1,428	1,438	1,458	1,808	1,695
Working-age population	833	893	956	948	952	1,193	1,057
Labor force	652	659	737	776	794	955	814
Employment	76.4	73.5	77.0	81.7	83.3	79.6	76.6
Women	70.4	64.8	72.6	78.9	79.8	74.5	72.6
Men	82.1	83.2	81.7	84.8	87.1	84.9	80.8
Unemployment	2.5	0.5	0.3	0.5	0.1	0.6	0.5
Women	3.0	0.7	0.1	0.5	0.1	0.8	0.6
Men	2.0	0.2	0.4	0.5	0.1	0.3	0.4
	Rural						
Total population	10,564	10,697	11,156	11,158	11,175	11,068	11,344
Working-age population	8,438	8,516	6,907	6,926	6,974	6,885	7,274
Labor force	5,572	5,524	6,055	6,233	6,339	5,913	6,219
Employment	86.2	84.5	87.5	89.7	90.7	86.1	85.2
Women	81.1	78.8	84.2	87.5	88.9	81.7	80.1
Men	91.9	90.9	91.2	92.2	92.7	90.8	90.8
Unemployment	0.4	0.3	0.1	0.3	0.2	0.1	0.3
Women	0.5	0.4	0.1	0.2	0.1	0.1	0.3
Men	0.3	0.2	0.1	0.4	0.2	0.0	0.3

Sources: NIS. Cambodia Socio-Economic Surveys 2004, 2007, 2008, 2009, 2010, 2011, 2012, and 2013.

suggests that the rural population has little choice but to work for survival.

Even though relatively low, the employment-to-population ratio in Phnom Penh and other urban areas has been generally rising, reaching 74% by 2013 in Phnom Penh and 77% in other urban areas. The gender gap in the employment-to-population ratio is generally larger in Phnom Penh than elsewhere.

2.2.3 Youth Employment and Children's Economic Activity

Youth employment demands special attention. In the light of the ongoing demographic developments (section 2.1), particular attention should be given to the prospects for Cambodian youth, who between 2009 and 2013 constituted approximately one-third of the population aged 15 years and above. Cambodian youth are largely in rural areas—a little under 80% of the total youth population.

The youth employment-to-population ratio is high and moves with overall employment trends. The trend in youth employment-to-population ratios since 2009, where "youth" is defined as those aged 15–24, shows a few noteworthy features (Table 2.8). First, the youth employment-to-population ratio is high and fairly close to the ratio for the whole population, lying between 70% and 80% for both young men and women in most of the years examined.[25] The ratio has declined substantially since 2011, particularly among young women, whose ratio dropped from 78% in 2011 to 68% in 2013. Notwithstanding a recent decline, high employment-to-population ratios among youth indicate that a majority is out of school and working, corresponding to the low enrollment rate in secondary education (Figure 2.12). Second, the employment-to-population ratios for young women have been generally higher than men's in Phnom Penh and in other urban areas in recent years, while in rural areas, young men are modestly more likely to work than women. Since 2011, the employment-to-population ratio has been decreasing rapidly among rural young women. If this recent trend is driven by more youth remaining in education or training, it may contribute to positive labor market developments in the future.

Table 2.8: Youth Employment-to-Population Ratio by Sex and Region, 2009–2013 (%)

	2009		2010		2011		2012		2013	
	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male
Cambodia										
Working-age population	76.9	86.6	80.6	87.9	81.3	88.7	76.0	87.1	74.1	86.3
Youth 15–24	74.2	77.5	77.5	79.0	78.0	78.3	72.4	73.8	68.1	74.5
Phnom Penh										
Working-age population	61.4	76.9	64.3	76.4	62.2	76.8	71.7	81.9	66.9	81.6
Youth 15–24	53.2	45.6	56.2	43.2	52.5	42.7	61.6	51.1	53.6	49.5
Other Urban										
Working-age population	72.6	81.7	78.9	84.8	79.8	87.1	74.5	84.9	72.6	80.8
Youth 15–24	63.5	61.5	68.6	64.5	65.7	67.5	65.0	61.8	63.7	54.4
Rural										
Working-age population	84.2	91.2	87.5	92.2	88.9	92.7	81.7	90.8	80.1	90.8
Youth 15–24	78.9	83.3	81.8	85.2	83.6	85.1	75.2	79.0	71.0	81.0

Sources: NIS. Cambodia Socio-Economic Surveys 2009, 2010, 2011, 2012, and 2013. Phnom Penh: Ministry of Planning.

[26] The only exception is the young women's ratio, which stood at a low of 68% in 2013.

Youth unemployment rates are higher than the overall unemployment rate and are especially large in urban areas. While many youths find their way into employment, they are also more likely than older cohorts to experience spells of unemployment along the way, particularly in urban areas. The differences in estimates of youth unemployment across different data sources are somewhat pronounced. CSES data lead to very low estimates of around 1% or less, while the 2008 census (Table 2.9), LFS 2012, and CIPS 2013 report higher youth unemployment rates of around 3% to 4% in recent years. Based on the data from these sources, youth unemployment rates are higher than the overall unemployment rate (Table 2.9). Urban youth appear to be the most vulnerable subgroup in terms of unemployment. Measured urban youth unemployment rates were 7.8% in 2008 (census), 6.6% in 2012 (LFS 2012), and 7.8% in 2013 (CIPS 2013). According to the LFS 2012, the highest urban youth unemployment rate occurs among those with a university degree, at 29% (ILO and NIS 2013a), followed by those with primary education, at 4%.

Taking the different data sources together, it appears that overall youth unemployment is moderate, at a little less than 4%. There is some substantial youth unemployment in urban areas, however, where the rate of unemployment has been close to 8% in recent years.

A large fraction of youth is not in employment, education, or training. The relatively high unemployment rate among youth compared with the overall labor force provides a partial indication of the difficulties young people face in the labor market. Because vulnerable youth may have weak attachment to the labor market, the proportion of young people who are currently not in employment, education, or training (NEET) is a valuable additional indicator of youth labor outcomes and is also presented in Table 2.9.

The NEET rate is substantial, making up around 8% of youth toward the end of the last decade. In 2013, CSES estimated a 6.8% NEET rate, while the CIPS 2013 finds a similar fraction of NEET youth, at 7.8%. The LFS 2012 reports a much higher share of NEET youth, at 12.7% (Table 2.10). In 2012, the NEET rate was highest among youth with primary education (42.7%), followed by those with secondary education (39.5%) (ILO and NIS 2013a). Hence, while unemployment affects youth with higher education, less-educated youth are more likely to experience greater marginalization from the labor market. Regardless of data sources, young women

Table 2.9: Youth Unemployment and Inactivity, 1998, 2004, and 2007–2013 (%)

	CSES							GPC		CIPS
	2004	2007	2009	2010	2011	2012	2013	1998	2008	2013
Youth Unemployment	1.5	1.2	0.2	0.5	0.4	0.2	0.7	12.2	3.3	3.7
Male	1.6	1.3	0.2	0.7	0.4	0.3	0.7	12.3	3.4	3.4
Female	1.3	1.1	0.2	0.4	0.3	0.2	0.7	12.0	3.3	3.3
Urban	4.2	5.0	0.3	1.0	1.0	1.3	0.4	22.4	7.8	7.8
Rural	1.0	0.5	0.2	0.5	0.2	0.0	0.7	10.2	2.2	3.0
Not in Education or Labor Force	10.4	8.6	7.2	5.8	5.3	5.6	6.8	20.1	8.5	7.7
Male	7.1	4.9	3.7	2.7	2.7	2.1	2.8	15.7	6.8	5.8
Female	13.7	12.2	10.8	9.0	7.9	9.1	10.8	24.2	10.3	9.7
Urban	11.3	13.2	10.2	7.5	7.4	5.4	5.2	24.8	12.3	10.1
Rural	10.2	7.4	6.4	5.4	4.7	5.7	7.2	18.8	7.4	7.1

CIPS = Cambodia Inter-Censal Population Survey , CSES = Cambodia Socio-Economic Survey, GPC = General Population Census.
Sources: International Labour Organization. 2012. *Decent Work Country Profile—Cambodia;* Calculations using data from NIS. Cambodia Socio-Economic Surveys 2011, 2012, and 2013; and NIS. *Cambodia Inter-Censal Population Survey (CIPS) 2013.* Phnom Penh: Ministry of Planning.

Table 2.10: NEET Youth by Completed Education, Sex, and Area, 2012 (%)

	Total	Male	Female	Urban	Rural
Youth Unemployment	3.8	3.9	3.6	6.6	3.1
None	5.5	5.7	5.1	0.0	5.8
Primary	2.7	2.8	2.7	6.1	2.5
Secondary	3.0	2.9	3.1	2.4	3.1
Vocational	2.5	2.4	2.5	0.0	3.4
University	21.1	24.8	17.2	32.5	6.9
Not in Education or Labor Force	12.7	10.3	15.2	6.9	14.4
None	15.4	15.6	15.3	5.2	16.9
Primary	42.7	40.1	44.4	39.5	43.1
Secondary	39.5	42.0	37.8	43.7	38.9
Vocational	1.2	1.0	1.2	2.9	0.9
University	1.2	1.3	1.2	8.7	0.2

NEET = not in education, employment, or training.
Source: International Labour Organization and National Institute of Statistics. 2013. *Cambodia Labour Force and Child Labour Survey 2012: Labour Force Report*. Phnom Penh: ILO.

are more likely to be out of work, education, or training, even though the magnitude of the gender gap in this indicator differs across sources.

In rural and urban areas, while the census and CIPS 2013 results indicate a higher incidence of NEET among urban youth than among rural, the LFS 2012 reports the opposite, with a rural NEET rate of 14.4% against an urban rate of 6.9%. This difference in findings may reflect the different structure of the LFS 2012, which uses information from interviews that were all conducted at the same time of the year, that is, when agricultural activity was at its lowest point (ILO and NIS 2013a). Hence, the LFS 2012 is likely capturing substantial amounts of seasonal agricultural underemployment. Thus, the number of NEET youth in Cambodia is likely significant, but, especially in rural areas, it is importantly seasonal.

Ensuring better youth employment outcomes, including the decision to stay on longer in education and aim for higher-skilled jobs at a later date, hinges importantly on schooling and economic activity at younger ages. Estimates from the CSES data show that the share of economically active children aged 5 to 17 years old was high for both genders in the 2000s, at above 30%, but began to drop dramatically in 2012 and 2013 (Table 2.11). In 2013, the share of economically active children stood at 19.3% for girls and 17.5% for boys.[26] Among these working children, around 17.5% were not attending school in 2004. While this fraction subsequently declined to 11.9% in 2010, it rebounded to 13.2% in 2011.

The economic activity rate among children has fallen rapidly in all regions. The fall has been especially notable since around 2011 (Table 2.12). By 2013, economically active children were rare in Phnom Penh and quite uncommon in other urban areas; they remain common in rural areas, but, there too, numbers were dropping rapidly. The share of economically active children in 2013 stood at around 4% in Phnom Penh, 11% in other urban areas, and at or a little above 20% in rural areas. Young girls, on average, are more likely to be economically active than young boys in all regions, even though there are episodes of higher activity rates among young boys. But the differences across gender have been mostly small.

The LFS 2012 included an additional module on child labor (ILO 2013b). This survey provides the most detailed information on child labor and the economic activity of children in Cambodia produced to date. The LFS 2012 reports a lower fraction of

[27] These figures are calculations based on CSES data. The NIS had not published such figures at the time of writing.

Table 2.11: Economically Active Children Aged 5–17, 2004 and 2007–2013 (%)

	2004	2007	2008	2009	2010	2011	2012	2013
Female	35.4	38.3	33.8	37.4	36.9	35.9	23.9	19.3
Male	35.9	37.7	36.2	38.8	36.9	36.4	23.3	17.5

Source: Calculations using data from NIS. Cambodia Socio-Economic Surveys 2012 and 2013. Phnom Penh: Ministry of Planning.

Table 2.12: Economically Active Children Aged 5–17 by Region, 2004 and 2007–2013 (%)

	Phnom Penh							
	2004	2007	2008	2009	2010	2011	2012	2013
Female	21.2	11.1	15.7	13.3	13.2	7.9	10.1	4.4
Male	12.6	12.3	8.7	8.1	6.9	8.7	11.8	3.7
	Other Urban							
Female	27.7	20.2	21.6	26.3	26.4	24.0	15.3	11.1
Male	24.8	24.2	23.2	23.1	18.4	19.3	16.0	10.8
	Rural							
Female	37.7	43.5	37.0	40.9	40.2	40.3	26.7	22.1
Male	39.3	41.5	40.2	43.3	41.7	41.2	25.5	20.0

Source: Calculations using data from NIS. Cambodia Socio-Economic Surveys 2012 and 2013. Phnom Penh: Ministry of Planning.

economically active children than the 2012 estimates from CSES data: it found that 19.1% of children aged 5–17 were working. However, the different estimates across sources is primarily a result of differences in rural areas, with relatively similar findings for urban areas, as the LFS found only 21.8% of rural children working. As noted above, the comparatively low rate of rural child work according to the LFS 2012 may be associated with the seasonal lull in agriculture.

Of the economically active children, the LFS 2012 reports that more than half of them were engaged in "child labor" according to the ILO definition. This definition makes a distinction between economically active children and child labor based on the number of hours worked, the age of the child, and the degree of hazard involved in the child's occupation.[27] As such, nearly 11% of Cambodian children in 2012 were found to be child laborers, with the fraction being slightly higher for girls than for boys. The fraction of child laborers was significantly higher in rural areas than in urban areas, with child labor rates of 12.2% and 5.6%, respectively. Of the economically active children, the survey found that approximately half worked in agriculture; of the remainder, most worked in manufacturing and retail trade.

Thus, while there is still a notable number of working children, particularly in rural areas, the proportion has been declining rapidly in the 2010s in all regions. This bodes well for employment outcomes in the medium to long term if children and youth are staying on in school or undertaking other forms of self-development.

2.2.4 The Structure of Employment

Sectoral movements of labor associated with the ongoing economic transformation

The drivers of economic growth, and the prospects for future diversification and producing higher-value-added goods and services, depend on the extent to which workers have the means and the skills to relocate from lower- to higher-productivity activities. Examination of the past trends in workers' movements and situations across sectors highlights how past GDP growth has been generated, the kind of employment that has been associated with this growth, the prospects for further increases in formal employment opportunities, and the challenges that need to be met for Cambodia's continued economic development. As garment manufacturing and tourism expand, so has formal employment, with the additional protections that brings.

[28] The ILO's report based on the 2012 Labor Force Survey (ILO and NIS 2013b) uses the following definition of child laborer: Children aged 5–11 years and engaged in any economic activity for 1 hour or more per week; children aged 12–14 years and engaged in permissible (nonhazardous) economic activity for more than 12 hours per week; children aged 12–14 years and engaged in work for fewer than 12 hours per week but working in designated hazardous industries and occupations; children aged 15–17 years and engaged in economic activity for more than 48 hours in the reference week; and children aged 15–17 years and engaged in economic activity for 48 or fewer hours in the reference week but engaged in designated hazardous industries and occupations. A detailed list of hazardous industries and occupations can be found in the ILO report.

Strong GDP growth, particularly up to the slowdown in 2008 and 2009, has been associated with a structural change away from agriculture toward industries and services. A large component of growth in the last decade has been associated with the garment manufacturing and tourism industries. The agriculture sector accounted for almost 50% of total output in the mid-1990s, but its share began to decrease sharply at the turn of the millennium, before stabilizing at slightly above 30% since 2002 (ADB 2014b).

The share of the industrial sector increased from around 14% in the mid-1990s to a little above 27% in 2006. To a significant extent, the structural transformation in the industrial sector reflects the rapid expansion of the garment manufacturing sector. The economic slowdown in 2008 and 2009 affected the industrial sector most deeply, particularly because of the reduction in international demand for Cambodia's garment products (Chandararot, Sina, and Liv 2009), leading to a decrease in the share of manufacturing to around 23%. However, by 2013, the industry share had rebounded to 25.7% of GDP, approaching its previous peak of 27.6% in 2006. The share of the services sector remained fairly stable during this period, fluctuating around 40%.

Similar structural transformation can be observed in the composition of employment by sector. The agriculture sector accounted for more than 70% up to 2001 based on data reported in the ILO's Key Indicators of the Labour Markets. Alongside the decrease of its share in total output, employment in agriculture also declined, falling below 60% by 2009 and just below 50% by 2013. As the employment share of agriculture has fallen over time, the shares of services and industry have increased. By 2013, industry accounted for 20% of employment and services for the remaining 32%.

For more recent years since 2007, according to the CSES data, the employment share in agriculture declined by almost 10 percentage points (Table 2.13). There has been a rapid movement of labor from the agriculture sector, largely to the industrial sector. At the same time, the share of agriculture in GDP in fact increased slightly from 32% to 34% between 2007 and 2013. Thus, such reallocation of labor away from agriculture, without having reduced agricultural output, could only have occurred through significant increases in labor productivity in the agriculture sector.

Decomposing the sectoral employment distribution by region shows an interesting recent trend in employment structure (Table 2.14). At 60% of rural employment in 2013, agriculture is clearly concentrated in rural areas. There is also substantial agricultural employment in urban areas outside of Phnom Penh, at least there was in 2007, and it is in other urban areas that much of the overall decline in agricultural employment in recent years has occurred. Until 2011, almost all of the decline in agricultural employment was in other urban areas.

There has been a rapid drop in the share of agricultural employment in rural areas. In 2012 and 2013, a new and possibly significant pattern, if it is maintained, can be observed. Agricultural employment has fallen in rural areas. Since rural areas account for the majority of all employment, the absolute number of people in rural areas moving

Table 2.13: Employment by Sector, 2007–2013 (%)

	2007	2008	2009	2010	2011	2012	2013
Employed population (thousands)	6,828	7,837	7,469	7,673	7,890	7,706	7,951
Agriculture	57.7	58.9	57.6	54.2	55.8	51.0	48.7
Industry	14.9	14.6	15.9	16.2	16.9	18.6	19.9
Services	27.4	26.5	26.5	29.6	27.3	30.4	31.5

Sources: NIS. Cambodia Socio-Economic Surveys 2007, 2008, 2009, 2010, 2011, 2012, and 2013. Phnom Penh: Ministry of Planning; and NIS. *Cambodia Inter-Censal Population Survey (CIPS) 2013*. Phnom Penh: Ministry of Planning.

Table 2.14: Employment by Sector and Region, 2007–2013 (%)

	2007	2008	2009	2010	2011	2012	2013
Phnom Penh							
Employed Population (thousands)	651	689	686	687	770	848	942
Agriculture	1.1	0.5	1.9	1.6	2.2	5.2	2.0
Industry	13.7	13.0	21.2	23.3	24.0	24.7	25.1
Services	85.1	86.5	76.9	74.9	73.7	70.1	72.9
Other Urban							
Employed Population (thousands)	636	708	735	772	793	950	810
Agriculture	30.3	31.7	24.0	19.7	21.0	16.0	13.4
Industry	15.1	19.1	17.8	17.8	15.4	18.9	18.8
Services	54.6	49.2	58.3	62.5	63.7	65.1	67.9
Rural							
Employed Population (thousands)	5,542	6,439	6,048	6,214	6,327	5,908	6,199
Agriculture	67.5	68.1	68.0	64.3	66.7	63.2	60.4
Industry	15.0	14.3	15.0	15.3	16.2	17.7	19.2
Services	17.5	17.6	17.0	20.5	17.1	19.1	20.4

Sources: NIS. Cambodia Socio-Economic Surveys 2007, 2008, 2009, 2010, 2011, 2012, and 2013. Phnom Penh: Ministry of Planning; and NIS. *Cambodia Inter-Censal Population Survey (CIPS) 2013*. Phnom Penh: Ministry of Planning.

out of agricultural employment is large. All regions show significant fractions of industrial employment, including rural areas with more than 19% of the rural employment in the industrial sector by 2013. Phnom Penh experienced the largest relative increase in industrial employment, offset by a decline in the service sector's share since 2008. From 2010 to 2013, the increase in industrial employment slowed in Phnom Penh, while the number of people moving into industrial employment in rural areas increased. Again, because of the much larger number of workers in rural areas, the absolute number of people moving into industrial employment in rural areas far exceeds the number moving into Phnom Penh.[28]

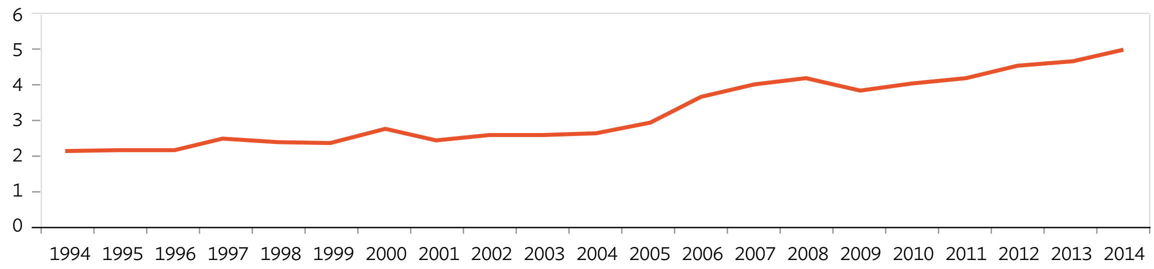
The changing sectoral composition of output and employment is reflected in the trend in labor productivity. Figure 2.6 contains data on output per worker over time. Even though the interpretation of the data on partial labor productivity, as measured by output per worker, needs some caution, it is an important indicator to examine. In the long run, labor productivity will be the most important determinant of wages.[29] As such, raising wages and structural change over the long term in Cambodia will necessarily require a focus on achieving increases in labor productivity.

Output per employed person was stagnant through the late 1990s, but has risen rapidly since then, reaching KR4.9 million in 2014 (Figure 2.6). By sector, output per agricultural worker was essentially stagnant in the late 1990s and early 2000s, staying below KR1.5 million (Figure 2.7). Recent years have shown important increases in the labor productivity of the agriculture sector, which had reached KR3.3 million by 2014. While output per worker in the service sector was already above KR4.0 million in 1998, from 2000 through 2013 it fluctuated in a rather narrow band between KR5.5 million and KR6.0 million, exhibiting no clear trend in the long run, though it went up to KR6.8 million

[29] There are some significant issues in measuring the sectors of employment in rural areas. Because of strong seasonality in agricultural production in Cambodia, the sectoral distribution between agriculture and the rest of the economy depends on the time of the year. As such, survey results will generally depend, in part, on the time of the year during which a particular survey is conducted. The CSES conducts interviews throughout the calendar year, and so limits the importance of this issue, but in particular sampling clusters, interviews are conducted in a single month. To the extent seasonality varies across regions, there may still be some mismeasurement of the sectoral distribution of employment as a result of seasonality.

[30] Technically, it is the *marginal* product of labor that is related to wages in economic theory, but average labor productivity, as measured here, is generally closely related to marginal productivity.

Figure 2.6: Output per Employed Person, 1994–2014 (KR million)

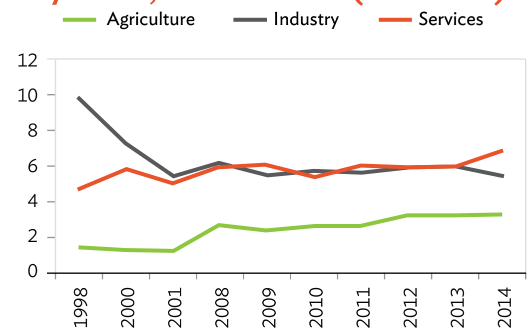


KR = Cambodia riel.
Sources: ADB, Key Indicators 2015 and ILO, Key Indicators for Labor Market 8th edition, accessed September 2015. Calculations based on GDP at constant 2000 Cambodia riel.

in 2014. Industrial sector output per worker has been similar to that in the service sector. In the late 1990s and early 2000s, labor productivity in the industrial sector was high and volatile, which may well reflect measurement issues in the underlying data. Subsequently, from 2009 through 2014, as with services, industrial productivity fluctuated mildly, but showed no significant trend. Thus labor productivity in the industrial sector has also remained stagnant in recent years.

There have been no substantial improvements in productivity in the services or industrial sectors in recent years. Rising overall labor productivity has come from improvements in the agriculture sector and from movements in labor from the relatively low-productivity agriculture sector into the relatively high-productivity nonagriculture sectors. Thus, the nonagriculture sectors are contributing to labor productivity growth, but not through increased productivity in manufacturing, or through a move to manufacturing of higher-value-added products. This is consistent with Cambodia's concentration in assembly or cut-trim-make production in the garment sector, with similar technology being used in factories over time. This is also consistent with the lack of increase in the unit value of exports over the long term (section 1.3).

Figure 2.7: Output per Employed Person by Sector, Selected Years (KR million)



Sources: ADB, Statistical Database System, accessed October 2014; World Bank, World Development Indicators, accessed March 2015; and NIS. *Cambodia Socio-Economic Survey 2008*. Phnom Penh: Ministry of Planning.

A shift from agricultural employment but toward lower-skill occupations?

The largest group of Cambodian workers, both males and females, were skilled agriculture, forestry, and fishery workers (Table 2.15).[30] However, the fraction of such broadly defined agricultural workers was decreasing for both genders, falling from nearly 60% in 2004 to around 40% in 2013. Service and sales workers make up the second-largest group of occupations, fluctuating at around 20% for women. Elementary occupations

[31] The 2012 Labor Force Survey found breakdowns for occupations that were broadly similar to the CSES 2012 survey results, but had some differences in detailed figures, in particular finding lower employment in agricultural occupations. Once again, this is most likely the result of the timing of the labor force survey. The associated ILO report (ILO and NIS 2013a) provides a detailed comparison of its results to the 2012 CSES figures (see Table 6.3, ILO and NIS 2013a).

Table 2.15: Employed Population by Sex and Main Occupation, 2004 and 2007–2013 (%)

	Cambodia: Female								Cambodia: Male							
	2004	2007	2008	2009	2010	2011	2012	2013	2004	2007	2008	2009	2010	2011	2012	2013
Skilled agricultural, forestry, and fishery workers	58.1	52.7	47.9	47.8	44.7	44.7	42.4	41.1	59.4	50.1	48.0	48.1	43.5	45.3	41.0	38.2
Service and sales workers	18.5	17.0	14.5	19.6	22.4	19.9	21.6	22.8	8.7	7.3	4.9	9.8	10.9	11.4	11.1	11.2
Elementary occupations	6.7	10.3	16.0	13.9	14.4	15.6	14.9	12.2	10.0	10.7	13.6	17.8	17.3	18.3	18.0	17.2
Craft and related workers	6.6	6.8	7.0	13.8	13.7	15.2	15.4	16.5	5.5	11.8	11.5	10.0	11.8	11.1	13.9	16.6
Plant and machine operators and assemblers	5.8	7.5	8.8	0.5	0.5	0.3	0.3	0.6	6.5	9.4	9.3	5.4	6.2	5.1	6.2	6.5
Professionals	2.7	2.5	2.6	2.0	2.0	1.8	2.3	3.0	4.9	3.5	4.0	3.1	3.5	2.5	2.8	2.9
Managers	0.5	0.5	0.3	0.2	0.2	0.2	0.4	0.6	2.1	1.2	1.3	0.8	0.9	0.9	1.0	1.2
Technicians and associate professionals	0.5	1.1	1.0	0.5	0.5	0.5	0.5	0.7	0.8	2.9	3.4	1.2	1.2	1.0	1.4	1.1
Clerical support workers	0.2	1.5	1.8	1.5	1.6	1.7	2.1	2.2	0.2	2.3	3.1	2.4	3.2	2.9	3.0	3.7
Armed forces occupations	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.0	1.6	0.9	0.9	1.2	1.5	1.5	1.6	1.4

Sources: NIS. Cambodia Socio-Economic Surveys 2004, 2007, 2008, 2009, 2010, 2011, 2012, and 2013. Phnom Penh: Ministry of Planning.

make up the second largest group of occupations for men,[31] increasing to around 18% in recent years. The decrease in the fraction of skilled technical and managerial personnel, such as machine operators and assemblers, technicians, managers, or professionals, provides a warning signal regarding the skills mix and quality of the Cambodian labor force. In contrast, low-skilled employment, for instance craft-related and elementary occupations, has been strongly increasing for both genders. As a whole, there is a move away from agricultural occupations, but with the move largely coming into craft and elementary occupations, not into more sophisticated or technically oriented roles.

Between 2004 and 2013, the reduction in technical and managerial personnel is most obvious in Phnom Penh (Table 2.16). The proportion of employed people in professional occupations, for instance, declined by about 11 percentage points for men and by about 3 percentage points for women, with professionals accounting for only about 8.5% of workers of each gender in 2013. Similarly, the fraction of plant and machine operators and assemblers declined from 11.2% to 0.4% for women, although for men, after having fallen from 15.3% in 2004, the fraction of men in this occupational group had returned to its original level by 2013. The sharp fall in the fraction of women thus categorized, starting in 2009, suggests that at least some of the change was the result of reclassification of particular jobs. While the fraction of managers has also declined considerably for both genders, the fraction employed as technicians and associate professionals declined modestly.

[32] The ISCO 08 categorization includes the following occupations in elementary occupations: cleaners and helpers; laborers in agriculture; mining, construction, and manufacturing, and transport, food preparation assistants, street and related service workers, and refuse workers.

Table 2.16: Employed Population in Phnom Penh by Sex and Main Occupation, 2004 and 2007–2013 (%)

	Phnom Penh: Female								Phnom Penh: Male							
	2004	2007	2008	2009	2010	2011	2012	2013	2004	2007	2008	2009	2010	2011	2012	2013
Service and sales workers	43.8	46.5	41.6	50.1	45.7	42.3	47.2	44.8	22.6	21.3	16.7	27.3	29.0	30.5	25.9	25.4
Elementary occupations	13.9	8.3	16.3	5.2	5.7	3.8	4.4	6.1	11.9	7.2	11.2	7.4	6.5	5.8	4.8	8.6
Professionals	12.1	13.4	13.6	6.0	6.0	8.2	5.3	8.5	19.3	14.2	14.7	8.4	8.7	7.6	6.5	8.6
Plant and machine operators and assemblers	11.2	8.6	8.8	1.2	0.3	0.2	1.0	0.4	15.3	15.6	11.8	14.2	12.3	11.8	15.3	15.3
Craft and related workers	9.5	7.6	5.3	21.9	27.3	30.4	26.6	26.1	10.6	13.0	11.3	17.1	16.7	15.1	23.1	19.7
Managers	3.9	0.9	1.1	0.9	1.1	0.4	1.6	0.7	7.6	2.5	4.0	2.2	1.8	2.5	1.2	1.3
Technicians and associate professionals	3.1	5.4	4.4	2.4	2.6	2.2	1.0	1.9	3.8	9.8	9.3	4.9	5.4	4.4	3.5	2.3
Clerical support workers	1.0	8.0	8.4	9.5	9.8	10.3	8.4	9.6	0.9	12.5	15.9	13.0	14.8	15.0	11.4	14.1
Skilled agricultural, forestry, and fishery workers	0.7	0.8	0.1	2.2	1.3	2.0	4.2	1.7	1.3	1.3	0.6	1.4	1.7	2.0	5.4	1.5
Armed forces occupations	0.5	0.4	0.3	0.6	0.2	0.4	0.1	0.1	5.9	2.7	4.2	4.0	3.1	5.2	2.9	3.2

Sources: NIS. Cambodia Socio-Economic Surveys 2004, 2007, 2008, 2009, 2010, 2011, 2012, and 2013. Phnom Penh: Ministry of Planning.

Vulnerable employment: A considerable decline, and increasingly made up of own-account workers

The prevalence of vulnerable employment, defined by status in employment, has been declining since 2004. Correspondingly, the fraction of workers who are paid employees increased by nearly 18 percentage points from 2004 to 2013 (Table 2.17). The most rapid change came in the most recent years, 2012–2013. The share of employers remained very small throughout. Much of the decline in vulnerable employment was driven by a dramatic decline in the incidence of unpaid family work. In 2004, unpaid family workers made up 36.6% of the employed population, but by 2013 it had fallen to less than 5% of the employed population. Once again, the most recent years saw some of the most rapid changes. Own-account work, on the other hand, increased significantly, from 38.5% of the employed population in 2004 to 55.1% in 2012. Thus, in 2004, the share of vulnerable employment stood at 75.1%, composed in almost equal measure of own-account workers and unpaid family workers. But by 2013, vulnerable employment had fallen to 59.4%, made up almost entirely of own-account workers. Conversely, two-fifths of workers had formal employment.

The LFS 2012 provides a somewhat different picture of employment by status than the CSES. In 2012, own-account workers were 33.6%, contributing family workers 20%, and employees 46%. This makes the share of vulnerable workers 53.6% according to LFS 2012, compared with 64.1% from the CSES 2012.

While the magnitude of change in employment status in recent years remains uncertain due to large differences in estimates across data sources, a clear shift from unpaid family work toward paid employment and own-account work is indicated. Hence, there has likely been some increase in formal employment opportunities in recent years.

Table 2.17: Employment Status, 2004 and 2007–2013 (%)

	2004	2007	2008	2009	2010	2011	2012	2013
Employed population (thousands)	6,577	7,313	7,309	7,469	7,675	7,891	7,706	7,951
Paid employee	22.9	25.8	28.4	26.9	29.8	31.4	35.8	40.6
Own account worker/self-employed	38.5	38.2	37.1	49.2	50.4	53.4	55.1	54.7
Unpaid family worker	36.6	35.9	34.3	23.5	19.4	15.1	9.0	4.7
Employer	0.1	0.1	0.1	0.3	0.2	0.0	0.0	0.0
Other/don't know	1.9	0.1	0.1	0.1	0.2	0.1	0.0	...

... = magnitude equals zero.
Sources: NIS. Cambodia Socio-Economic Surveys 2004, 2007, 2008, 2009, 2010, 2011, 2012, and 2013. Phnom Penh: Ministry of Planning.

Nonagricultural employment concentrated in a few subsectors

The vast majority of nonagricultural employment is informal. According to LFS 2012, 2.39 million Cambodians were employed in agriculture, 0.5 million in formal employment, and 4.3 million in informal employment. About 9 out of 10 positions in nonagricultural employment are informal. Of this large informally employed population, 40.8% worked in industry in 2012, with the rest in the service sector (Table 2.18). Of total informal employment, 28.2% was in manufacturing, with about half of that employment involved in manufacturing of wearing apparel, accounting for 13.8% of total informal employment. This is a large total: more than 600,000 people. The other large category of informal employment in industry was work in construction, accounting for about 11% of informal employment.[32]

Of those informally employed in the service sector, nearly half were involved in wholesale and retail trade. Transportation and storage and accommodation and food were the other two large sectors for informal employment in services, together totaling 16% of informal employment. These two sectors also accounted for most tourism employment, since tourism is not a separate category under the standard industrial classification scheme.

In urban areas, services are more important for informal employment, accounting for 77.5%. Note that most of the employment in apparel manufacturing is located in what are classified as rural areas. There are some significant differences between the industries of employment of men and women. Among industries where informal workers were concentrated, the key differences are in apparel manufacturing and in construction. Women account for a large majority of informal employment in apparel manufacturing, while very few women worked in the construction industry. Indeed, apparel manufacturing accounts for 23% of total informal nonagricultural employment for women.

Employment is also concentrated in a small number of subsectors. A large part of informal employment is found in manufacturing, retail and wholesale trade, transport, accommodation and food, and construction. Formal employment is concentrated public services.[33] Public administration and education sectors dominate formal employment.

A majority of employees work excessive hours. Cambodia's Labor Law, discussed in greater detail in section 3.6, includes regulations on hours worked for employees. In particular, Article 137 states that in all establishments of any nature, whether they provide vocational training or are of a charitable nature or of any other form, the number of hours worked by workers of either sex cannot exceed 8 hours per day or 48 hours per week. The LFS 2012 also asked detailed questions concerning working hours. Approximately half of respondents reported

[33] The large incidence of informal employment in the manufacturing sector may be due to the definition of informal employment used for the ILO and NIS (2013a). It defines wage or salaried workers with no pension or no contribution to a retirement fund as informal employees.

[34] The total number of formal sector workers is estimated to be less than 500,000. As such, the implied number of formal sector employees working in apparel manufacturing is also very low, much smaller than total employment in that sector. There are concerns, however, that the 2012 Labor Force Survey data may misclassify some registered businesses as informal, possibly because household respondents did not know the formal status of their workplace.

Table 2.18: Informal Employment by Industry, 2012 (%)

	Cambodia			Urban			Rural		
	Both	Male	Female	Both	Male	Female	Both	Male	Female
Industry	40.8	41.5	40.2	22.5	24.8	20.4	50.1	49.4	50.9
Mining and quarrying	0.6	1.1	0.2	0.2	0.5	...	0.9	1.4	0.2
Manufacturing	28.2	19.4	37.2	16.0	11.6	18.8	34.8	23.1	47.1
Wearing apparel	13.8	4.7	23.2	8.8	3.4	13.9	16.4	5.3	28.2
Electricity, gas, steam, etc.	0.4	0.8	0.1	0.2	0.4	...	0.6	0.9	0.1
Water supply, severage	0.4	0.8	0.3	0.4	0.6	0.3	0.4	0.5	0.2
Construction	11.1	19.6	2.5	6.3	11.7	1.2	13.6	23.4	3.1
Services	59.2	58.5	59.8	77.5	75.2	79.6	49.9	50.6	49.1
Wholesale and retail trade	28.1	20.5	35.8	37.3	28.5	45.5	23.5	16.7	30.7
Transportation and storage	8.8	15.8	1.6	9.2	16.6	2.2	8.6	15.5	1.2
Accomodation and food	7.4	5.3	9.5	10.0	7.1	12.7	6.1	4.5	7.9
Information and communication	0.5	0.6	0.4	1.0	1.2	0.9	0.2	0.3	0.1
Finance and Insurance	1.0	1.1	0.9	2.2	2.2	2.2	0.4	0.5	0.2
Real estate activities	0.4	0.4	0.5	1.2	1.0	1.5	0.0	0.0	...
Professional, scientific	0.4	0.6	0.1	0.2	0.2	0.1	0.5	0.9	0.0
Administrative and support	2.1	1.8	2.3	3.3	3.2	3.5	1.4	1.2	1.7
Public administration	2.3	4.1	0.5	2.8	4.7	1.0	2.1	3.9	0.2
Education	1.3	1.5	1.2	1.9	2.4	1.4	1.0	1.0	1.0
Health and social work	0.9	0.9	0.8	1.1	1.3	0.9	0.8	0.8	0.8
Arts and entertainment	1.9	2.1	1.7	2.1	2.2	1.9	1.8	2.0	1.6
Other service activities	2.6	2.7	2.6	3.2	2.7	3.6	2.4	2.7	2.0
Households as employers	1.0	0.3	1.6	1.1	0.2	2.0	0.9	0.3	1.4
International organizations	0.5	0.7	0.3	1.0	1.6	0.4	0.2	0.2	0.2

... = data not available.
Source: Calculations using data from International Labour Organization and National Institute of Statistics 2013. *Cambodia Labour Force and Child Labour Survey 2012: Labour Force Report*. Phnom Penh: ILO.

working more than 48 hours; that is, the *median* employee worked more hours than the statutory limit. Excess hours were more common in industrial employment, where 56% of workers labored longer than the statutory workweek, and especially among men in industrial occupations, where more than 60% of workers had excess hours. Excess hours were even more frequent among prime age workers, aged 25–64.

Urban MSMEs: Economic opportunities or sheer survival?

MSMEs can play an important role in economic development and are a key driver of employment generation, both in developed and developing countries. In ASEAN, small and medium-sized enterprises (SMEs) in Indonesia contribute more than 56% to the country's GDP and about 19% to its exports (Indarti and Langenberg 2004). In the five Mekong countries,[34] SMEs account for 44% to 70% of total employment (Indian Institute of Foreign Trade and Ministry of Industry, Mining, and Energy Cambodia 2009). To date, few studies have been conducted on employment by SMEs in Cambodia, even though they play an essential role in bridging the economic gap between rural and urban areas and driving the development of the rural economy (Pandya 2012). The analysis in this section combines data and information collected from the Economic Census of Cambodia in 2011 (NIS 2011b) and the Investment Climate Survey 2012 (World Bank and ADB 2014), supplemented by findings from qualitative interviews conducted on MSMEs with

[35] The five Mekong countries are Cambodia, the Lao PDR, Myanmar, Thailand, and Viet Nam.

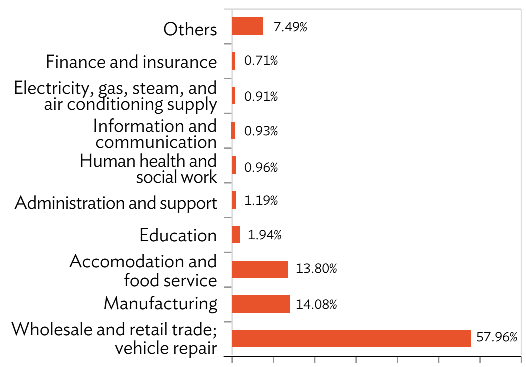
the owners or their representatives of MSMEs and experts in this field in 2012.[35]

MSMEs in Cambodia are major sources of employment. According to the 2011 Economic Census of Cambodia (EC 2011), employment in MSMEs accounts for 73% of total employment in nonagricultural establishments, whereas only 23% of total employment is associated with large establishments.[36] Of that MSME employment, microestablishments with fewer than 10 workers account for 58% of total employment. Of private MSME employment, 88% are individual proprietors.[37] Together with sole proprietors, they account for more than 96% of the total workforce employed by private MSMEs.

Accounting for 99.8% of all establishments, MSMEs constitute an overwhelming majority of business establishments according to the EC 2011.[38] Microestablishments make up the majority of establishments, and accounted for 97.7% of all establishments in 2011. However, it is the smallest of the microestablishments that dominate: 78.9% of the total number of establishments in the country engaged just one or two people.

MSMEs are concentrated in a few sectors, the majority of them involved in wholesale, retail, or repair services, which account for about 58% of all such enterprises (Figure 2.8). Manufacturing is the second most important sector, with about 14%, followed by accommodation and food service, also with about 14%. Most MSMEs in Cambodia are home-based, especially the microenterprises. Indeed, home-based MSMEs account for about 65% of the total number of establishments.

Figure 2.8: Micro, Small, and Medium-Sized Enterprises by Sector, 2011



Source: NIS. 2011. *Economic Census of Cambodia 2011.* Phnom Penh: Ministry of Planning.

Most MSMEs are informal. Fewer than 4%, as of 2011, register their businesses with the Ministry of Commerce or any of its provincial departments. Only 53% of medium-sized establishments had registered, while the vast majority of micro and small establishments had not. An increasing number of MSMEs and their workforces are registering, nevertheless.

One reason for this is a growing understanding of the importance of registering a business, according to qualitative interviews with business owners and stakeholders about MSMEs in 2012. Registering facilitates MSMEs' access to loans from banks, for example, while experts noted that a simpler process had made registration easier and more transparent, especially the government's one-window service. A few interviewees pointed out, however, that tax compliance was a barrier to registration for

[36] The interview sample for the MSME study was comprised of 20 MSMEs, of which 9 were microenterprises, 7 were small, and 4 were medium businesses. These were drawn from the tourism sector, information technology services, educational services, consumer goods retailers, wholesalers, and distributors. All selected MSMEs were located in Phnom Penh. Only their owners or owners' representatives were interviewed. Interviews were conducted in 2012. Experts from relevant government and nongovernment agencies were also interviewed. Out of the 11 experts interviewed, 4 were from government agencies, 2 from international organizations, 3 from business associations, 1 from a labor association, and 1 from a professional association working on Cambodian economic issues.

[37] For this study, microenterprises are defined as those with 1 to 9 people, small enterprises are those with 10 to 49 people, medium-sized enterprises are those with 50 to 99 people, and large enterprises those with more than 99.

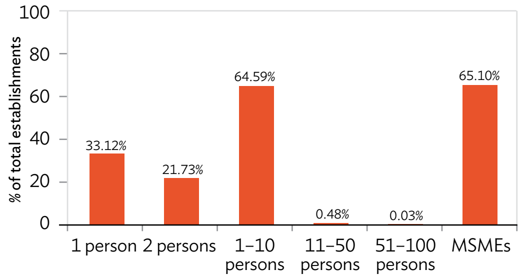
[38] Individual proprietors are those other than "sole proprietors (with registration)."

[39] The statistical unit used by the EC 2011 is the establishment, not the enterprise. Multiple establishments may be part of a single enterprise.

microenterprises because the registered businesses had to follow all compliance requirements. The monthly revenue tax of 1% of total revenues was heavily criticized as placing a very heavy burden on MSMEs.

MSMEs have a higher proportion of female workers than non-MSMEs. According to the 2011 Economic Census, more than half (54%) of the people engaged in MSMEs are female. Indeed, women manage the majority of MSMEs, at 65% of total establishments in 2011 (Figure 2.9), nearly all in microestablishments. But women head very few small or medium-sized establishments.

Figure 2.9: Number of Micro, Small, and Medium-Sized Enterprises Managed by Women, 2011



Source: NIS. 2011. *Economic Census of Cambodia 2011*. Phnom Penh: Ministry of Planning.

Work in MSMEs is perceived as a way for women to earn a living for their families. Many respondents in the qualitative survey believed that women were risk averse and that the main aim of working in MSMEs was to earn a supplementary income rather than to build a more substantial enterprise. Limited business vision has been reported as one of the main reasons for the lack of broader business goals. Additionally, women are less likely than men to be in regular employment in MSMEs, which could be attributed to low education and the family obligations associated with women. According to the respondents, better-educated women preferred regular jobs in large enterprises such as banks, while less-educated women found jobs in MSMEs, especially in microenterprises.

There are 861,000 nonregular employees in the MSME sector,[39] accounting for well over 70% of overall MSME employment. This includes self-employed or sole proprietors, unpaid family members, and others (Table 2.19). Around 94% of all nonregular employees are engaged by MSMEs, most of whom work in microestablishments. Regular employees accounted for only 14% of total employees in microenterprises, indicating that most MSME employees are nonregular. The larger the scale of an MSME, the higher the share of regular employees: 88% for small establishments and 94% for medium-sized establishments. Workforces in bigger establishments therefore consist mainly of regular employees.

Women are concentrated in micro-establishments—the majority of which are unregistered—in nonregular employment, and underrepresented in formal, registered MSMEs. More men than women work as regular employees in MSMEs. According to NIS (2011b), women account for well over 62% of nonregular employees in microenterprises. However, in small and medium establishments, this proportion is a little below 40%. As such, women are overrepresented in vulnerable, nonregular employment in microestablishments.

Among the registered (formal) MSMEs surveyed by the Cambodia Investment Climate Survey 2012 (World Bank and ADB 2014),[40] women accounted for about 40% of total employment and were fewer

[40] For present purposes, "nonregular employees" refers to a combination of three types of workers: self-employed/proprietors, unpaid family members, and other employees. "Other employees" or just "others" refer to the "temporarily employed": employees other than "regular employees." Thus, nonregular employees correspond to vulnerable employment plus the "other employees" category.

[41] This study, commissioned by the World Bank and the Asian Development Bank, was carried out from November 2011 to January 2012. The survey included 823 firms from five main economic sectors: manufacturing, trading, tourism, agroprocessing, and other services. The Investment Climate Survey data is restricted to registered SMEs.

Table 2.19: Type of Employment by Size of Establishment, 2011

Type	Total	Self-Employed/ Proprietor	Unpaid Family Members	Regular Employees	Other Employees
Micro	975,980	480,719	340,573	141,183	13,505
Small	191,792	5,151	4,575	168,617	13,449
Medium	53,879	247	129	50,588	2,915
Large	451,739	176	39	395,392	56,132
Total	1,673,390	486,293	345,316	755,780	86,001

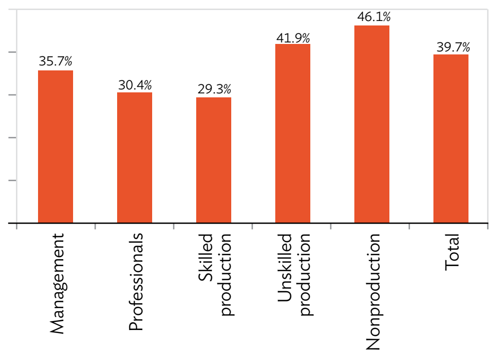
Source: NIS. 2011. *Economic Census of Cambodia 2011*. Phnom Penh: Ministry of Planning.

than men in every category of jobs (Figure 2.10). Women are particularly underrepresented among skilled, professional, and managerial workers.

MSMEs are the major source of employment opportunities amid a lack of better alternatives. In the qualitative survey of MSMEs, many respondents perceived them as the major contributor to employment opportunities, partially reflecting their sheer number. Respondents cited the ease of entry and exit, small start-up and operating capital requirements, and low labor skill requirements as the main reason for this, including for rural employment. Microenterprises—especially one- to two-person enterprises—are viewed as a source of employment and income for those who cannot find other employment. Respondents also pointed to signs of growing entrepreneurship in MSMEs. On the downside, they also mentioned a high death rate among microenterprises, especially those composed of only one or two people.

Even though most MSMEs are viewed as irregular and a transitory means of survival among the poor, others may actively pursue viable business opportunities to generate a sustainable livelihood. Whether such businesses are motivated by opportunity or necessity, they are seen as sources of supplementary income that support hundreds of thousands of the poor in Cambodia. Moreover, interviewees felt that entrepreneurship was required in either case, suggesting that businesses motivated by opportunities might also have the potential to grow and contribute further to employment generation.

Figure 2.10: Female Full-Time Employees and Job Type in Formal Micro, Small, and Medium-Sized Enterprises, 2012

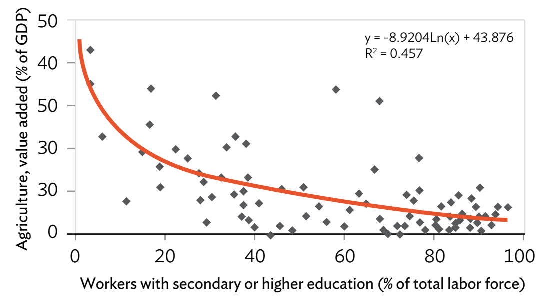


Source: World Bank and ADB. 2014. Cambodia Investment Climate Report 2014. Phnom Penh.

The quality of employment MSMEs provide remains poor, with legal protections generally lacking. While their contribution to employment opportunities is positive, employment quality still needs to be improved, as jobs in MSMEs are perceived to be less secure, poorly remunerated, with little opportunity for self-improvement compared with large enterprises. Most MSMEs are unregistered and the survey results suggest that these establishments do not provide workers with appropriate legal protection. According to the ICS 2012, well over 60% of the microenterprises surveyed did not provide their employees with opportunities to develop or try out new approaches for, or ideas about, products or services. Large enterprises may be more likely to provide training and opportunities for self-development.

The majority of experts interviewed felt that workers' bargaining power on wages or salary benefits was limited. And some experts expressed concern over the lack of proper skills and commitment in MSMEs. There was a perceived mismatch between what MSME employees had learned in formal education and the skills their jobs required, especially technical and soft skills such as communication and attitudes. Recent surveys reported that 73% of employers find that university graduates do not have the right skills for the jobs available (World Bank 2012a), and that more than 20% of all firms in Cambodia identified the lack of skilled and trained workers as a major business constraint (World Bank and ADB 2014).

Figure 2.11: Education and Structural Transformation of Economies



GDP = gross domestic product.
Source: Chatani, K. 2012. Human Capital and Economic Development. In H. Hill, M. Khan, and J. Zhuang, eds. *Diagnosing the Indonesian Economy: Toward Inclusive and Green Growth.* London: Anthem Press.

2.3 Human Resource Base

Cambodia needs to enrich its human resource base if it wants to move beyond its currently narrowly based and largely agrarian economy to support economic diversification and industrial sophistication. The country lags behind other ASEAN economies on literacy and education indicators (section 1.3). Human capital development is indispensable for the development of industry and the service sectors, and for gradually shifting workers from low-productivity segments of the economy to higher-value-adding ones, a point underscored by the experiences of other countries (UNDP 2011; World Bank 2010, 2012b).

Figure 2.11 shows the relationship between the stock of educated workers and the share of agricultural value added in GDP, a measure of structural transformation for the 77 economies for which data are available. The figure reveals that the more educated workers an economy has, the less it tends to rely on the agriculture sector in generating value added, although the issue of causality is complex for this sort of relation.[41]

Cambodia faces large skills gaps arising from a combination of schooling and learning gaps. Cambodia's human resource base remains largely low skilled. Both quantity and quality of education need to improve to address the current and future skills gap (Madhur 2014). Many students drop out of school after primary education for financial reasons and because of historically low economic returns to education. Skills shortages are compounded by weak technical and vocational education and training (TVET) in the country. Therefore, as will be discussed in much greater detail in section 3.2, the current level of human capital development may be a constraint to sustainable and inclusive growth and employment creation.

2.3.1 Education System and Institutional Framework

Cambodia's capacity and effectiveness in developing its human resource base depends in part on the institutional framework that is in place and on the systems of education and skills development. In considering the status of education institutions and systems in Cambodia, it is important to recall that these systems and institutions are still, in some sense, recovering from the ravages of the Khmer Rouge regime (1975–1979)

[42] Reflecting full appreciation of the role of human capital in economic development and transformation by the government, Cambodia's Rectangular Strategy for Growth, Employment, Equity and Efficiency Phase II and Phase III emphasize skills formation in terms of policy goals.

and the subsequent political instability, although great progress has been made since then. The entire Cambodian school system was essentially destroyed during the Khmer Rouge period. Only basic primary schools, with a main focus on agricultural skills, were open, and no secondary schools were in operation (see de Walque 2006, for example). Many teachers died, and, in general, men with higher education were more likely to have been killed during this period. By the end of it, very few upper secondary teachers were left, and people with any education at all were being encouraged to teach, as part of an attempt to rebuild the education system. Few countries have ever faced such a challenge of rebuilding an education system that had been intentionally destroyed.

The Constitution of 1993, as amended in 1999, guarantees citizens' rights to quality education for at least 9 years, and the Education Law of 2007 guarantees those 9 years of education free of charge. The Education Law also specifies the structure of the education system in the country. The general education system comprises preschool (3 years, approximate ages 3–5), primary school (6 years, ages 6–11), lower secondary school (3 years, ages 12–14), upper secondary school (3 years, ages 15–17), and tertiary education (4–7 years). Once students have completed compulsory education up to lower secondary school, they can continue their education and choose either the general education path, which can lead to tertiary education through upper secondary school, or the TVET path, in which they receive specialized training for different certificate, diploma, and degree programs. The Ministry of Education, Youth and Sport (MOEYS) is responsible for general education and the Ministry of Labour and Vocational Training (MOLVT) governs TVET. Naturally, nonformal education also contributes to the training of citizens, in addition to public education.

Within the realm of TVET, the National Training Board (NTB) plays a key role in guiding skills development in Cambodia. The NTB was established in 2005 to orient TVET to meet the skills needs of the economy and ensure that better policy and program coordination in skills development among concerned institutions. Among its roles is the formulation of national training plans for TVET and the development of a demand-driven, high-quality TVET system. The NTB has the National Employment Agency as a special operating agency under its direction. The NTB has several tripartite committees relevant to skills formation, including labor market information and curriculum committees. One of the National Employment Agency's roles is bridging education and industry by providing employment placement services.

A notable challenge affecting human capital development stems from underresourced institutions. For instance, provision of adequate teacher training and basic school supplies suffers from shortages in funding (UNDP 2011). At the macro level, Cambodia's public expenditure on education as a share of GDP falls below those of other ASEAN countries (Table 2.20). In 2012, the education expenditure share exceeded 3.0% of GDP. This remains far below 4.9% of GDP in Thailand. In Viet Nam, public spending on education was as high as 6.3% of GDP in 2010. The Lao PDR made similar educational expenditures to Cambodia.

Cambodia allocated 13.1% of the government budget to education in 2010 (the share allocated in the 2015 budget was 17.1%), the lowest share of government spending among the four countries. Thailand allocated 31.5% in 2012. In 2015, the budgeted amount

Table 2.20: Public Expenditure on Education, Selected Countries, Latest Year

	Cambodia 2010	Lao PDR 2014	Thailand 2012	Viet Nam 2010
% of GDP	2.6	2.8	4.9	6.3
% of total government expenditure	13.1	15.4	20.7	21.4

GDP = gross domestic product, Lao PDR = Lao People's Democratic Republic.
Note: Latest data on public expenditure on education (% of GDP) for Lao PDR is 2010.
Source: UNESCO, Institute for Statistics Data Centre, accessed September 2015.

for TVET was 0.7% of government expenditure and 0.1% of GDP, suggesting a relatively low level of funding for TVET institutions as well.

A remaining institutional challenge in building a strong human capital base is to enhance coordination, quality control, and skills recognition. It is reported that 11 government ministries and agencies are involved in higher education, generating coordination problems (UNDP 2011). Similarly, a variety of institutions provide TVET and nonformal training and they are not necessarily registered with the MOLVT, making it difficult to coordinate and control the quality of skills training (World Bank 2010). The institutions providing training include line ministries, formal, and informal enterprises (for instance via apprenticeship) and nongovernment organizations.

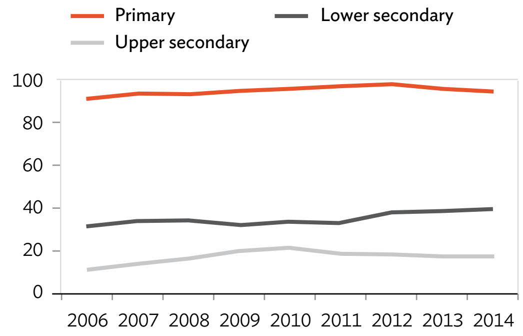
2.3.2 Education: Quantity and Quality

General education: Significant increase in educational attainment but quality needs further improvement

Cambodia has successfully, and substantially, increased school enrollment rates. Over the last decade the level of educational attainment of the population has improved significantly, as attested by a steady increase in the enrollment rates at all levels of education, especially at the primary level (Figure 2.12). The younger generations increasingly benefit from at least basic education; however, Cambodia holds a large backlog of generations that were not in a position to benefit from education.

There has been a slowdown in reducing illiteracy rates in recent years, particularly among women. Literacy rates for Cambodia lag behind other ASEAN member states, even with a remarkable decline in the illiteracy rate from 37.2% in 1998 to 21.6% in 2008 (see section 1.3). The decline in illiteracy has slowed since that time and the illiteracy rate is now 20.3%, as measured by the CIPS 2013. Though illiteracy dropped more sharply among women (44.6% to 26.9%) than men (29% to 16%) between 1998 and 2008, the substantial gender gap in illiteracy rates hints at unequal access to education between boys and girls. According to CIPS 2013, the illiteracy rates are now 13.6% for men and 26.4% for women. These figures appear to indicate a somewhat alarming trend of a slowdown in reducing illiteracy, particularly for women. The net result is that there are now nearly twice as many illiterate women in Cambodia as there are illiterate men. Unsurprisingly, the rural illiteracy rate in 2013 (21.3%) was higher than the urban rate (15.9%); and more than 30% of rural women were illiterate.

Figure 2.12: Net Enrollment Rates, 2006 to 2014 (%)



Source: Ministry of Education, Youth and Sport, Education Statistics and Indicators, various years, accessed March 2015.

Though the situation has improved, large numbers of children still drop out of school after primary education. Primary education is now approaching universality, with a net enrollment rate of 97%, having risen significantly from a rate of 70% at the beginning of the century.[42] Net enrollment rates have also increased rapidly for secondary school. In 2001, the net enrollment rates for lower and upper secondary school were just 9% and 5% respectively—very few Cambodian children were receiving anything more

43 The more recent figure is based on published MOEYS figures, while the earlier figure is based on calculations from the CSES. The 2013 figure includes only enrollment at public schools, so that the total net enrollment rate is likely very close to 100%.

than a primary education, based on CSES data. There has been substantial improvement in net enrollment rates, which are, as of 2013, 39% for lower secondary school and 17% for upper secondary school. The drop from 96% for primary school to only 39% for lower secondary school is especially striking: most young people still drop out of school before completing lower secondary school.

High dropout rates associated with the transition between primary and secondary education in part stem from Cambodia's pattern of economic growth and the low economic returns to secondary education that have prevailed in the past (Table 2.21). In the last 2 decades, development has been narrowly based on a few sectors, notably apparel manufacturing and tourism, which have primarily demanded low-skilled workers. Better-paying jobs that require more education and more specialized skills have been relatively scarce. Average wages by education have followed this skewed structure of skills demand in the labor market (Figure 2.13). As of 2007, there were only marginal differences in monthly earnings of workers with primary, lower secondary, and upper secondary education. This provided little economic incentive for poor people to pursue education after primary school.

Wage premiums for postprimary education have increased substantially in recent years. Detailed figures are included in Figure 2.13. According to LFS 2012, employees with lower secondary education were estimated to earn 28% more than those with primary education. The benefits were somewhat more modest for the self-employed. Further, the premium for upper secondary education relative to primary education was 63% for employees, so that there is also now significant economic benefit to upper secondary education as well. These figures indicate a large and fundamental change in the wage structure, and one that should be important for the schooling decisions of children and families. It is not clear, however, that knowledge of this change in the economic rewards arising from education is yet widely distributed.

There are important regional differences in the access to lower and upper secondary education, but little or no gender gap. Children in urban areas are more likely to attend lower secondary school than those in rural areas (60% versus 50% gross enrollment rates in 2013) and more than twice as likely to attend upper secondary school (44% versus 21%). Secondary schools are sparsely distributed in rural areas, and the distance to and the cost of accessing the nearby secondary school in rural areas appear to be among the factors behind the regional disparity in the access to secondary education. There may also be differences in the effective returns to education between rural and urban areas that may lead to demand-driven differences in attendance rates.

There is very little gender difference in enrollment rates, as measured by the CIPS 2013. Indeed in the 5–11 age range, the net enrollment rate is actually

Table 2.21: Dropout and Transition Rates in Various Levels, 2009–2014 (%)

	Cambodia					
	2009	2010	2011	2012	2013	2014
Dropout Rates						
Primary (Grades 1–6)	8.3	8.7	8.3	3.7	10.5	8.3
Lower secondary (Grades 7–10)	18.8	19.6	21.7	20.0	21.2	21.0
Upper secondary (Grades 11–12)	11.3	11.8	13.7	10.1	14.0	27.5
Transition Rates						
Primary to lower secondary	80.1	80.2	79.3	78.9	76.8	78.7
Lower secondary to upper secondary	72.8	71.6	69.8	74.0	70.2	71.1

Source: Ministry of Education, Youth and Sport, Education Statistics and Indicators 2009–2015, accessed September 2015.

Figure 2.13: Average Earnings by Sex and Education Level for Youth ($ per month in 2012)

Note: Youth are people aged 15–24.
Source: Calculations using data from International Labour Organization and National Institute of Statistics. 2013. *Cambodia Labour Force and Child Labour Survey 2012: Labour Force Report*. Phnom Penh: ILO.

slightly higher for girls than it is for boys. This is a result of a concerted policy effort to have more female teachers in the classroom acting as role models—by 2013–2014 the proportion of female teachers at the primary level had reached 50%.

Lack of adequate funding and an insufficient number of teachers are among the challenges in providing high-quality education. There is much room left for improvement in the educational infrastructure, especially in rural areas, and a lack of sufficient funds has apparently limited the provision of quality education. It appears that the historically modest public investment in education in Cambodia has led to shortages of well-trained teachers and to overcrowding in classrooms. The large class sizes are easy to observe: on average there are 46.9 students per teacher in Cambodia at the primary education level (Table 2.22). This high pupil–teacher ratio stands out in the region. Cambodian teachers teach nearly three times as many students as do their counterparts in Thailand. Although average class sizes in Viet Nam are somewhat larger than in Thailand, the typical classroom still has fewer than 20 students. For lower secondary education, the pupil–teacher ratio is much lower, at 20.1, a figure that is comparable to those of neighboring countries. Recall, though, that there are many fewer students at the lower secondary level than at the primary level, because of the high student dropout rate. If, for instance, the enrollment rate at the upper secondary level were to double, which it could easily do, even with a substantial maintained dropout rate, there would be enormous pressure on class sizes, unless a very large number of new teachers were to be added.

Table 2.22: Pupil-to-Teacher Ratio, Selected Countries, Latest Year

	Cambodia 2013	Lao PDR 2013	Thailand 2012	Viet Nam 2013
Pupil–teacher ratio (primary education)	46.9	25.6	16.3	18.9
Pupil–teacher ratio (lower secondary education)	20.1	17.4	20.9	15.4

Lao PDR = Lao People's Democratic Republic.
Source: UNESCO, Institute for Statistics Data Centre, accessed September 2015.

Technical and vocational education and training: Challenges of coordination and information

Many organizations are involved in TVET, leading to challenges with information sharing and coordination. Due to a lack of complete statistical information, a reliable and comprehensive assessment of Cambodia's TVET system cannot be performed. Although the MOLVT is in charge of formal and nonformal TVET, many TVET providers are unregistered with the MOLVT and the true picture of technical and vocational training in Cambodia is not known. In fact, 38 public TVET institutions and 214 TVET training providers registered with the MOLVT in 2011. Of these 72 were run by nongovernment organizations (NGOs) and 142 were private training providers (World Bank 2010).

Training programs delivered outside of the MOLVT system by many other providers, including community learning centers, NGOs, women's development centers, private providers, and small businesses offering informal apprenticeships. There are 22 provincial training centers, offering agriculture and other basic vocational skills, and 157 community learning centers, which come under the MOEYS. Further, line ministries, in particular the MOEYS, and the ministries of Women's Affairs, Health, Agriculture, and others provide training programs based on their own standards. In addition, private entities provide skills training for tuition.

Enterprise-based training, including apprenticeship programs, exist, but there are no systematic data capturing these training opportunities. There does appear to be evidence that relatively few companies are providing substantial training.

As a formal mechanism of quality assurance and skills, the Cambodia Qualification Framework (CQF) has been established, although its implementation and effectiveness for improved quality in TVET provision remain to be seen.

There are eight levels of TVET provision (Sub-Decree on CQF 2012):

- Certificate levels (CQF levels 1, 2, 3, and 4): Short courses from a few weeks to less than a year (equivalent to CQF level 1) are provided at provincial or vocational training centers, or in local communities. This vocational certificate level (CQF level 1) can lead to technical and vocational certificate level (CQF levels 2–4). One- to three-year certificate courses (equivalent to CQF levels 2–4) are provided for those who have completed grade 9 at provincial and regional training centers. Learners begin at technical and vocational certificate level 1 (equivalent to CQF 2) normally would complete basic education, including 1 year of full-time studies (theory and practice). The certificate level courses are provided in provincial and regional training centers and polytechnic institutes.
- Higher diploma of technology level (CQF level 5): Learners who begin at higher diploma level should complete grade 12 of general education, including 2 years of full-time studies (theory and practice). The higher diploma level courses are provided in provincial and regional training centers and polytechnic institutes.
- Bachelor of technology level (CQF level 6): Post-grade 12 education plus experience (or higher diploma) leading to a bachelor's degree in engineering, technology, or business administration. It is 4 years of full-time study (theory and practice). The bachelor of technology courses are provided in regional training centers and polytechnic institutes.
- Master of technology level (CQF level 7): Postgraduate education plus experience leading to a master's degree in engineering, technology or business administration. It is 2 years of full-time studies (theory and practice). Master's level courses are provided in polytechnic institutes.

- Doctoral of technology level (CQF level 8): Post-master's education plus experience leading to a doctoral degree in engineering, technology, or business administration. This requires at least 3 years of study (theory and practice). Currently, no polytechnic institute provides a doctoral degree in technology level under MOLVT yet.

The quality of TVET varies. There are few statistics concerning the TVET system, whether on costs, financing, or as noted above, even the identities of providers. There is, however, data on enrollment by qualifications level in public institutions that are under the MOLVT. In 2013–2014, the enrollment for these formal TVET programs was modest: there were 10,952 (19% female) students at the bachelor's level, 3,026 (11.8% female) students at the diploma level, and 587 (23% female) at the certificate level (MOLVT 2015).

Upgrading teachers on updated technology and industry skills can lead to improved quality and relevance of TVET. At the same time, Cambodia's National Technical Training Institute under the MOLVT can retrain existing teachers to oversee instructors with industry skills and training in instructional techniques. Such measures will ensure that teachers are trained with updated teaching and learning methodologies and techniques; improve the teacher allocation system; and enable teachers to be managed in such a way that their work assignments will allow for improvements in the quality and relevance of TVET products and services.

2.3.3 Educational Attainment of Workers: Large Improvements, but Gender Gap and Skill Shortages Remain a Challenge

Workers' educational attainments have been improving, with steady increases in enrollment rates. However, attainments remain modest, particularly among workers in the rural areas and among women. In Table 2.23, it can be seen that the majority of the employed, as of 2012, had primary education or less. One-eighth of the employed population has no education. While 35.5% of workers have completed secondary education, those who have completed vocational education or university remain a modest proportion of the employed, representing 3.3% and 3.8% of the total employed population, respectively.

Gender and geographic gaps

Female workers have disproportionally lower education levels than male workers. In fact, 64.3% of female workers have not completed education beyond the primary level, while the share for their male counterparts stands at 51.2%. About one-third of employed women had completed secondary education and beyond, while almost half of the male employed population had done so. The shares of female workers with vocational education or a university degree are also substantially lower than their male counterparts.

Table 2.23: Employed Population Aged 15 and above by Education Level, Sex, and Area, 2011–2012 (%)

	Cambodia			Urban			Rural		
Education Level	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
None	12.5	10.0	15.3	5.8	4.3	7.4	14.7	11.8	17.9
Primary	44.9	41.2	49.0	31.8	25.5	38.8	49.2	46.4	52.4
Secondary	35.5	39.8	30.8	44.1	46.3	41.6	32.7	37.6	27.2
Vocational	3.3	4.3	2.3	6.9	9.2	4.4	2.2	2.7	1.6
University	3.8	4.7	2.6	11.4	14.8	7.8	1.2	1.5	0.9

Sources: ILO and NIS. Cambodia Labour Force and Child Labour Surveys 2011 and 2012: Labour Force Report. Phnom Penh: ILO.

In addition to the gender dimension, there are large differentials in educational attainment by geographic location. Since education institutions and job opportunities are more concentrated in urban areas, it is not surprising that workers in urban areas have notably higher levels of education than those in rural areas.

The education level of the *unemployed* presents a slightly different picture. The data in Table 2.24 indicate that there is a larger share of the unemployed with a university degree, than there is among the employed. In urban areas, more than a third of the unemployed have obtained a university degree. This suggests that even with a university degree Cambodian youth may struggle to find a suitable job, which implies gaps between education and the skills demanded in the labor market. Since wealth and education are correlated, it may also simply be that more highly educated young people are able to engage in extended job searches because their families have the resources to support such searches. Even with the foregoing discussion, just as among the employed, the overall majority of the unemployed have no more than primary education.

Shortages of educated and skilled workers

Many workers are undereducated for their jobs. Despite progress in school enrollment in recent years, the supply of educated and skilled workers falls short of labor-market demand. Young workers today receive more years of education than workers of previous generations; however, in more than 4 out of 10 cases, their education levels still fall short of the levels required by their job, according to a school-to-work transition survey (Kanol, Khemarin, and Elder 2013). Frequent hard-to-fill job vacancies also indicate a skills mismatch. In addition, according to the survey's results, a majority of employers note a lack of skills among youth. The shortage of a sufficiently skilled workforce may affect labor productivity and Cambodia's international competitiveness.

One way of gauging a skills mismatch is to analyze the gap between the educational attainment of workers and the required levels of education for the jobs they hold (ILO 2012d). Using the standardized occupational groups and required education level, Kanol, Khemarin, and Elder (2013) analyzed the qualification mismatch of Cambodian workers aged 15–29. In their study, workers are labeled "overeducated" if they attained an education beyond the level required for the job. Similarly, "undereducated" workers did not complete the required level of education.

Of young workers, 42.5% were undereducated. In particular, more than half of professionals, technicians, and associate professionals lacked the necessary level of education (Table 2.25).[43]

Table 2.24: Distribution of the Unemployed Aged 15 and Above by Education Level, Sex, and Area, 2011–2012 (%)

	Cambodia			Urban			Rural		
Education Level	Both sexes	Male	Female	Both sexes	Male	Female	Both sexes	Male	Female
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
None	15.6	12.7	18.8	3.0	5.3	0.0	20.4	15.9	25.1
Primary	37.9	35.2	40.9	16.9	7.8	29.3	45.9	47.1	44.8
Secondary	34.6	38.0	30.8	44.7	49.8	37.8	30.8	32.9	28.6
Vocational	0.7	0.7	0.6	0.3	0.0	0.6	0.8	1.0	0.6
University	11.2	13.4	8.8	35.1	37.1	32.3	2.1	3.2	1.0

Sources: ILO and NIS. Cambodia Labour Force and Child Labour Surveys 2011 and 2012: Labour Force Report. Phnom Penh: ILO.

[44] Any skill classification scheme based on highly aggregated job types will contain errors concerning specific jobs (that is, within a broad category of employment there will be jobs with lower or higher skill needs). In other words, even if skills were perfectly allocated, there would be a finding that some workers were mismatched. That said, the level of measured skill mismatch is still extremely high.

Table 2.25: Shares of Overeducated and Undereducated Young Workers by Major Occupational Category (%)

Major Occupational Categories (ISCO-08)	Overeducated	Undereducated
1: Managers	0.0	36.5
2: Professionals	0.0	55.9
3: Technicians and associate professionals	0.0	50.7
4: Clerical support workers	26.7	16.4
5: Service and sales workers	3.2	31.9
6: Skilled agricultural and fishery workers	0.2	52.4
7: Craft and related trades workers	1.1	52.3
8: Plant and machine operators and assemblers	0.0	54.4
9: Elementary occupations	14.2	15.1
Share in total nonstudent youth employment	3.2	42.5

Source: Adapted from Kanol, H, K. Khemarin, and S. Elder. 2013. Labour Market Transitions of Young Women and Men in Cambodia. *Work4Youth Publication Series.* No. 3. Table 37. Geneva: International Labour Organization.

While the shortage of educated workers is severe, some educated workers opt for or can only find clerical support jobs that do not require the level of education they have attained. The survey found that 54.3% of young workers have obtained education that matches the level required for their jobs.

Skills mismatch is also evident from the high number of hard-to-fill vacancies. The National Employment Agency surveyed more than 500 establishments in six sectors (food and beverage; garment, apparel, and footwear; rubber and plastic; construction; financial services and insurance; and accommodation). The results showed 72.6% of respondents had hard-to-fill vacancies. Vacancies that were difficult to fill include skilled agricultural workers, machine operators, managers, and craft workers. Of the companies with hard-to-fill vacancies, a third attributed unfilled vacancies to a lack of the required skills among applicants. As a result, 65.1% of companies with hard-to-fill vacancies stated they had delayed development of new products or services, and 43.4% of them had missed business opportunities.

A subjective but nevertheless more direct observation of the skills mismatch is provided by employers. According to a survey by the ILO and the Cambodian Federation of Employers and Business Association in 2008 (ILO and CAMFEBA 2008), 89% of respondents expressed dissatisfaction with the skills possessed by the nation's youth.[44] Over three-quarters of respondents noted that youths lack some skills required for their jobs, if not all skills. Still, only 13% of employers stated that the skills gap among young workers was very severe. Analytical and decision-making skills were often cited as lacking among professional staff, and work attitude was the most frequently cited issue for employers surveyed about their unskilled workers.

Companies appear to cope with the skill shortages in part by providing training and/or maintaining relationships with specific universities or institutes from which they recruit skilled workers. According to a recent survey, almost all large employers are investing in some form of training for their employees, with the majority largely provided through in-house facilities (BDLink and HRInc Cambodia 2012). In the garment and footwear manufacturing sector, 39% of employers offer office task administration and new technology training to their employees, while 69% provide training in supervision and environmental protection in the tourism sector (BDLink and HRInc Cambodia 2012). One issue that arises with company-provided training is the high turnover of workers, which reduces employers' incentives to invest in training. Another coping strategy appears to be to build a relationship with specific universities or institutes to recruit workers with the necessary

[45] The survey sampled 220 enterprises, representing employers in Cambodia in terms of ownership, origin (foreign or national), size, and sector composition. Thus the coverage of this survey is substantially more limited than that of the later National Employment Agency study.

skills. However, the same survey results suggest that employers have very limited links with the TVET sector, although over 65% of them have expressed willingness to engage with TVET institutions.

2.3.4 Migration and Skills: Dominance of Low-Skill Migration

Generally speaking, migration affects the human resource base of a country in two ways: brain-drain and human capital enrichment. A country may lose talent to other countries when skilled workers leave or gain them when skilled workers come from abroad. A country may gain talent when migrant workers return home and are reintegrated into the labor market after being trained and gaining work experience in other countries. The number of Cambodians seeking employment opportunities abroad has been increasing and is now very large. However, limited availability of data makes it difficult to reliably assess the impact of labor migration on Cambodia's human resource base. This is particularly so because the vast majority of migrant workers are unregistered, thus their jobs abroad and skills profiles are not known. In addition, information on the educational profile of registered migrant workers is not systematically collected in Cambodia (Tunon and Rim 2013).

Some information on returned migrants is presented in section 2.1.2. While these data are necessarily backward looking (examining the previous generation of migrants), they nevertheless provide the only systematic look at the educational profile of Cambodia's migrants. The data indicate that the country's external migrants are little different from internal migrants in terms of educational achievement.

The data also provide evidence that the types of jobs that migrants find abroad are similar in type to the jobs that they would have at home. For example, many Cambodian migrants work in relatively low-skill construction jobs in Thailand. As such, it does not appear that outward migration is having an important influence on the overall availability of skills in Cambodia. Unfortunately, there is no systematic data on the educational attainment of inward migrants, but anecdotal evidence suggests that some companies with production facilities in Cambodia are extensively using foreign workers to fill skilled positions in Cambodia, whether from the home country or from other countries in the region.

At the same time, there is a lack of systematic and inclusive skills recognition through transparent mechanisms for the assessment of structured workplace training and experience for return migrant workers. There are no commonly agreed frameworks or standards to facilitate recognition between Cambodia and receiving countries. The major challenge in reforming qualifications is therefore to develop a system that is more inclusive, flexible, accessible, and transparent, yet does not undermine quality and credibility.

3. CONSTRAINTS AND CHALLENGES FOR PRODUCTIVE EMPLOYMENT

This section assesses the main constraints to productive employment and sustained inclusive growth in Cambodia. Section 3.1 highlights the importance of ample fiscal space and domestic investment to build strong foundations for growth. Section 3.2 looks at skills demand and supply, and discusses the difficulties that will be faced in closing skills gaps. Section 3.3 discusses particular issues related to rural development and agricultural production, emphasizing the centrality of agricultural policy to employment outcomes in Cambodia given the sector's limited surplus labor. Section 3.4 examines the informal economy, particularly micro, small, and medium-sized enterprises (MSMEs) and the problems and constraints that they face. Because the informal sector is so large, this issue is especially important. Section 3.5 analyzes Cambodia's social protection schemes, their planned expansion, and limitations; and section 3.6 examines industrial relations in Cambodia.

3.1 Fiscal Space and Investment Needs to Support Future Growth and Structural Change

Increasing investment will be critical for the country to achieve sustained growth. The current investment-to-GDP ratio of just over 20% is inadequate for the sort of transformative growth that more mature East Asian economies experienced during their high-growth periods in the 1980s and 1990s prior to the Asian financial crisis, when they had investment-to-GDP ratios of 30% to 35%. Cambodia's investment ratio is also low compared with ASEAN's more advanced economies, and is heavily dependent on foreign direct investment (FDI). Domestic capital formation as a proportion of GDP in advanced ASEAN economies, such as Malaysia, Singapore, Thailand, and Viet Nam, has been well above 20% since 1995. Viet Nam's gross domestic capital formation as a proportion of GDP rose steadily from 25% in 1995 to just under 40% by 2010. More recently, the People's Republic of China registered an investment-to-GDP-ratio of 43% on average during 2000–2013.

With capital deepening, the incremental capital–output ratio may rise, suggesting the need for much higher investment to maintain or increase Cambodia's current GDP growth rate of 7%. This will require a strategy to substantially increase the investment-to-GDP ratio, which would necessarily involve a key role for public investment in overcoming the obstacles that are impeding private sector investments and providing public assets that are complementary to private factors of production.

Low domestic investment will constrain output growth and, even more so, income. One of the critical challenges to moving the economy to a higher growth path lies not only in investment levels, but also in the structure of investments. Domestic investment has remained rather stagnant over much of the past decade; it was 11.2% in 2006, rising only to 13.5% by 2012 (Table 3.1). The lack of domestic investment calls for stepped-up measures

Table 3.1: Structure of Investment in Cambodia, 2006–2012 (% of GDP)

	2006	2007	2008	2009	2010	2011	2012
Total investment	22.7	26.6	24.6	25.7	28.5	26.1	24.3
Public investment	5.9	6.2	6.5	9.1	10.3	9.3	7.6
Domestic financed	0.8	0.7	1.0	1.8	2.5	2.2	2.2
Foreign financed	5.1	5.5	5.5	7.3	7.9	7.2	5.4
Private investment	16.9	20.4	18.1	16.6	18.2	16.8	16.7
Domestic financed	10.4	10.4	10.4	11.6	11.6	11.6	11.3
Foreign financed	6.5	10.0	7.7	5.0	6.5	5.2	5.3
Total domestic financed	11.2	11.1	11.4	13.4	14.1	13.7	13.5
Total foreign financed	11.6	15.5	13.2	12.3	14.4	12.4	10.7

GDP = gross domestic product.
Source: Ministry of Economics and Finance (MEF). www.mef.gov.kh/documents/mustsee/cambodia_macroeconomic_framework_2000-2011.pdf

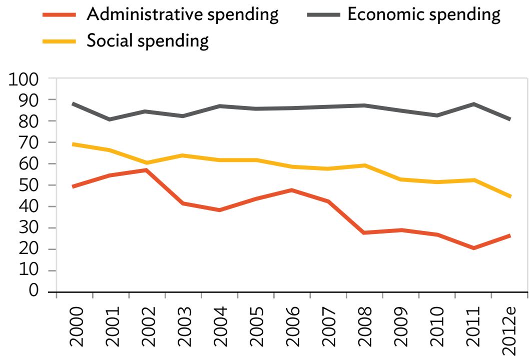
to provide impetus to private investment, not only for FDI, but also for *domestic* entrepreneurs. If the private sector is to remain the agent of growth and job creation, there needs to be, in addition to attracting FDI, specific measures to boost domestic investment. Domestic entrepreneurship can be nurtured and boosted through appropriate incentives and support, as well as through access to credit and other facilities. While FDI has been a boon to Cambodia, encouraging and mobilizing domestic savings would make investment and economic growth more sustainable and resilient to external shocks. Moreover, the returns to domestic investment will likely remain inside the country, whereas some of the gains from FDI will go to the source country.

Another challenge in generating more productive employment opportunities is that of structural transformation and productivity growth in the currently dominant sectors. For now, the economy is still largely agricultural, and the share of manufacturing, though expanding, is still relatively modest compared with its ASEAN neighbors. Moreover, within the manufacturing sector itself, the garments sector is overwhelmingly dominant, with around 65% of manufacturing value-added in 2011.

Public investment and spending in economic and social sectors is of paramount importance. Public spending to support economic development in priority sectors can induce structural change by crowding in private investment. These priority sectors should include employment-intensive ones, while social spending and public policies can help ensure that the Cambodian people are equipped with the skills and information to access employment opportunities. Moreover, the development of a social protection and safety net program, discussed in section 3.5, is not only a key element in building inclusive growth, but may also help to facilitate movement of workers out of subsistence activities, resulting in structural change in the labor market. Development of the social sectors may also play a significant role in supporting aggregate demand, especially in an economy with a very large proportion of low-income workers.

Limited fiscal space and continued reliance on donor assistance for public spending are hurdles on Cambodia's path to inclusive, productive, and job-rich growth. The government needs to invest (and allocate expenditure) in strategic areas to move the country into the next phase of its development. This should be accompanied by greater generation of and access to productive employment opportunities. Here, more strategic public interventions are called for. They include investment in infrastructure, measures to support development and productivity improvements in priority sectors, skills development, labor market institutions and services, social protection, and health care, to name a few areas.

Figure 3.1: Share of Foreign Resources in Public Spending, 2000-2012 (%)



e = estimate.
Sources: Council for the Development of Cambodia. 2011. *The Cambodia Effectiveness Report 2011*. November. Phnom Penh; and Ministry of Economics and Finance (MEF). www.mef.gov.kh/documents/mustsee/cambodia_macroeconomic_framework_2000-2011.pdf

Despite multiple challenges confronting the economy, creating fiscal space will remain one of the government's top priorities in the coming years (Muqtada and Ung 2013). Currently, public expenditure and allocations to both the economic and social sectors are highly dependent on donor assistance. See Figure 3.1 for the scale of foreign resources in different types of government spending.

The government has been responding to ease some of these constraints. The Rectangular Strategy Phase III reiterates its commitment to maintain macroeconomic stability, while increasing efforts to enhance the fiscal space. In 2015, the Industrial Development Policy, which gives guidance on priority sectors for development, was adopted.

3.2 Skills Demand and Supply

Economic diversification will be essential for sustained growth, and it will require more and better skills. So far, economic growth in Cambodia has been largely based on four sectors: garments, tourism, construction, and agriculture. Attaining sustainable growth, however, will require further economic diversification and intensification of existing activities that will necessarily rely on an expansion of the current skills supply (ADB 2014a).

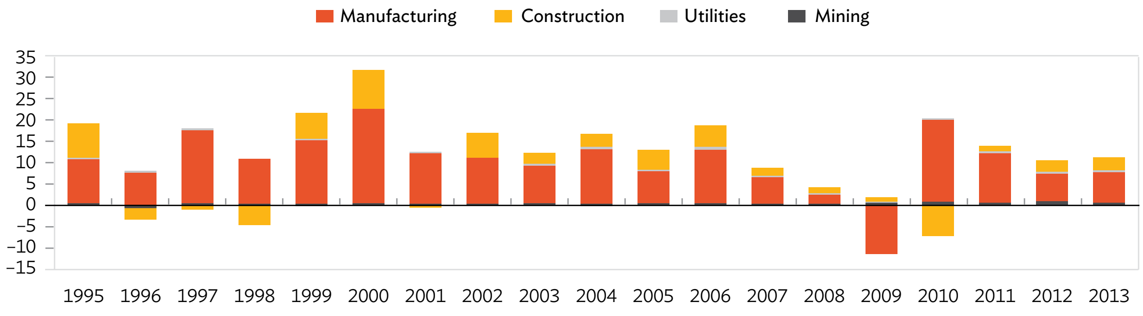
Manufacturing has been the main driving force behind industrial growth in Cambodia over the last 20 years, though construction was also a significant driver (Figure 3.2). But manufacturing is highly focused on the garment sector. The production of garments, textiles, and footwear is by far the largest component of manufacturing and their shares of sector output, taken together, rose from 15% in 1995 to 75% in 2010. Cambodia's export sector is also highly dependent on garment manufacturing: clothing exports in 2012 amounted to some 80% of total export commodity value (ADB 2014a).

Receipts from international tourism have increased at a tremendous pace since 2000 (Figure 3.3). In recent years, receipts from international tourism totaled 15%–17% of GDP, and though tourism continues to grow rapidly, its share of total output appears to have become quite stable.

Labor for the garment sector may soon be in short supply if demand patterns do not change. Cambodia needs to diversify its economy to sustain high growth. The typical employment pattern in garment manufacturing adds another layer to the urgency of getting this process under way. Based on Labor Force Survey (LFS) estimates, more than 600,000 people worked in the sector in 2012, and more than 80% of these were women.[46] This amounts to 8% of Cambodia's total employed labor force and 13% of the female employed labor force in that year. Most of these women are young, and if the industry continues to rely on employing them then it will likely soon run out of these workers. Cambodia does not have a huge excess of agricultural labor that can easily be released to the manufacturing sector (which will be discussed in section 3.3). A pattern of simply replicating existing types of cut-sew-trim

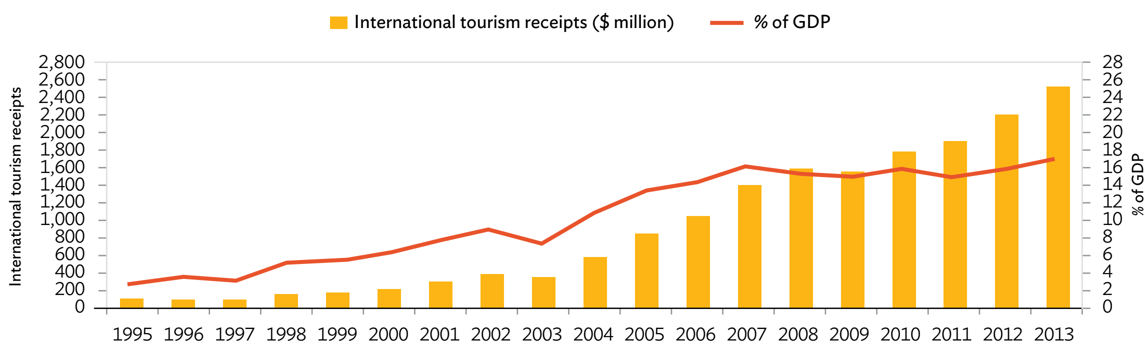
[46] This estimated number of garment manufacturing workers significantly exceeds the figures that are typically reported by industry sources. It is difficult to find complete descriptions of how these estimates are produced, but they appear to be based on reports from factory owners.

Figure 3.2: Industry Subsector Shares of Total Industry Output, 1995–2013 (%)



Source: Calculations using data from ADB Statistical Database System, accessed October 2014.

Figure 3.3: Tourism Industry, 1995–2013



GDP = gross domestic product.
Source: Calculations using data from Ministry of Tourism. 2014. *Tourism Statistics Report February 2014.* www.tourismcambodia.org/ images/mot/statistic_reports/tourism_statistics_feb_2014.pdf; and World Bank, World Development Indicators, accessed October 2014.

garment factories using low-cost, young female workers will not be able to contribute significantly to economic growth in the long term, and perhaps not in the medium term either.

There is little doubt that skill shortages are a significant constraint to meeting Cambodia's aspirations for sustained rapid growth and a diversified and higher-value-adding economy. At the moment, Cambodia's labor force has relatively low skills and low educational attainment, and skill shortages are already apparent (Khieng, Madhur, and Rethy 2015). Although the level of education of the workforce has improved, reflecting the government's commitment to education and rebuilding the education system, a significant proportion of workers have not attained the level of education required for many intermediate and higher-skilled jobs that Cambodia hopes to create. The country also needs to upgrade the skills of its existing workforce to meet the demand for more skilled labor, as its economy develops and its industrial sector becomes more skill-intensive.

As described in section 2.3, at least three factors influence the extent to which young generations become educated and trained, as well as the type of education and training they receive. The first relates to institutional deficiencies, including an insufficient number of schools with adequate resources and qualified teachers, at affordable cost. The second constraint relates to the household decision-making process: in the short run, a household facing economic hardship may decide to take some children out school so they can contribute immediately to household income. In the short to medium run, if a household believes that investing in their children's education will not pay off because prospects in the labor market seem limited, it may make sense to them to take their children out of school. The lack, in earlier years, of a wage premium for secondary education, compared with primary education, may have discouraged households to invest in the further education of their young. And third, children themselves may decide that staying in school is of little importance to their future, because they lack the interest or orientation to continue in the education system.

For training and job-related skills acquisition, similar constraints apply. Acquiring job-related skills may happen more efficiently at the workplace; however, a precondition for effective on-the-job training is that workers have a sufficient set of basic skills to be employed in the first instance, and then to be able to absorb further training.

To meet the serious challenges of Cambodia's skill constraints, policy support and interventions should be multifaceted, including rural development and poverty reduction programs; extending the social protection floor; institutional development in education and training systems; investment in labor market information, analysis, and dissemination; and labor market services to coordinate among education and training institutions, job seekers, and employers (Kanol, Khemarin, and Elder 2013).

3.2.1 Equipping the Workforce with Skills: Why Is It Difficult?

A key challenge is to retain children in the education system beyond primary school—and for further levels of education to provide students with vocational and life skills that enhance their employability. Remarkable progress has been made in enrollment and completion of primary schooling, but many children drop out of school before completing lower secondary school. Household poverty is an important reason why the young drop out of school.

Early childhood development has been recognized as another important factor that affects education outcomes. Children are less likely to attend and complete school if they come from households without enough food (World Bank 2012b). Internationally, empirical evidence shows that effective early childhood development programs establish the foundation for lifelong learning and have a very high payoff. In this regard, acute malnutrition diminishes Cambodia's skills and human development potential. In 2010, the share of children aged under 5 who were stunted, wasted, or underweight remained high at 40%, 11%, and 28%, respectively.

Many children leave school early for economic reasons. In 2009, based on World Bank analysis of CSES data, nonattendance in schools among children aged 6 to 11 was mainly explained by (i) being perceived as too young—even after reaching the official age of attendance (54%); (ii) being uninterested in attending (17%); (iii) poverty, household chores, and income generation (13%); and (iv) lack of schools, teachers, and supplies (9%). Reasons for being uninterested or perceived as too young for school may reflect early childhood development problems, and may also result from malnutrition, most obviously from stunting leading children to appear younger than they are. Poverty and the need to earn a living has also been reported as one of the main reasons for not attending lower secondary education by more than two-thirds of young people (World Bank 2012b) Indeed, nonattendance in secondary education is dominated by economic motives in Cambodia.

Those who stay on to secondary education may be faced with unavailability of schools at an acceptable distance from their homes and

lack of information for the economic returns on investing in secondary education and TVET. On the latter, analysis and information is still sparse. For example, in 2009, fewer than 2% of youth aged 20–24 received a TVET certificate (World Bank 2012b). The lack of close-by TVET schools may be one reason for low attendance and graduation rates. Yet, the economic return on TVET is relatively high and, in relation to postsecondary TVET, is similar to tertiary education (World Bank 2012b). A regular consultation mechanism with employers should be in place so that the competencies and qualifications they require are well integrated in the skills standards implemented by the TVET providers.

Only a minority of Cambodians, though increasing in number, make it to postsecondary education. Over the 6 years to 2011, total enrollment in higher education increased from around 93,000 to more than 245,000, with female students accounting for 38%. However, one concern with higher education is the high concentration of students in a small number of disciplines: during 2010–2011, economics and business administration accounted for more than 50% of enrollment, while the percentages in engineering, medicine, and sciences were each below 4% (ILO 2013c). While education is a matter of choice for individuals, such a skewed distribution of educational output can perhaps be explained by lack of information and analysis on the lifetime returns to different disciplines in the labor market, prospects for future job opportunities, and the skills and competencies that formal sector employers look for in young job seekers. Underlying reasons may also relate to institutional supply-side constraints and distortions, in that higher education institutions have limited incentives and capacity to offer courses in areas such as engineering and sciences that will be important for Cambodia's ability to upgrade its agriculture and industrial base (World Bank 2012b).

Upgrading the skills of the workforce is a priority in harnessing Cambodia's demographic dividend (see section 2.1). The demographic transition is well under way, but the current workforce has very low educational attainment overall, while the largest cohort of university-age youths is already at university or in the labor market. Developing human capital will be particularly important in the coming decade. Although enrollment and graduation rates have increased greatly over the last 10 years, they are still moderate compared with other countries in the region. Coming generations will have greater levels of education, but they will, on average, be smaller in number than their more poorly educated predecessors. As fewer young people will be joining a workforce marked by a larger group of older workers, who have not acquired the same skills, it will be difficult to raise the average educational attainment of the total workforce without extraordinary effort to continuously upgrade the skills of the current workforce.

The quality of teachers in the school system is also an important challenge. Due to the acute shortage of teachers during and following the Khmer Rouge period, when the school system entered its rebuilding phase in the 1980s, almost anyone with some education was encouraged to become a teacher, simply to get the schools operating again. The extreme shortage of teachers made training a large group of new teachers difficult since there was hardly anyone to train them.[47] An unavoidable consequence of this rebuilding process was a large cohort of mostly older teachers who were themselves poorly educated and poorly trained. Overall, however, tremendous strides have been made in improving teacher education. The percentage of primary school teachers who were themselves only educated to primary level is now only 3%, based on 2014 figures (MOEYS 2014). That said, 35% of primary school teachers have only a lower secondary school education and only a tiny fraction have anything beyond an upper secondary education.

The only way to rapidly raise teacher quality will be to improve the quality of teachers who are

[47] Over time, the education requirements for new teachers were raised, as it became possible to do so.

already working. Improving teacher quality through generational takeover, via new entries of better-trained teachers and retirement of older cohorts of teachers, will take a long time. And a slowdown of growth in the number of teachers coming into the system further slows quality improvements. For example, latest figures show there are 84,281 teachers in the public school system in primary and secondary education, lower than the 82,820 in 2009–2010 (MOEYS 2010). In 4 years, the number of teachers across all grades increased by only 1.8%. Over the same period, the number of primary school teachers actually fell, despite the very high student–teacher ratio in primary schools. Indeed, staffing in primary schools has been falling since 2005–2006.

Corruption in the school system has also led to problems in the quality of education. Some dimensions of this problem are acknowledged by the MOEYS and attempts are being made to address it. The scale of corruption was made clear in 2014's upper secondary school graduation exams, which need to be passed to enter university. Various sources have reported that different forms of cheating were common in these exams in other years. In 2014, the MOEYS announced that rules against cheating would be strictly enforced and asked for assistance from Cambodia's Anti-Corruption Unit. The 2014 exam results suggest that efforts to stop cheating were very successful, but it also showed that the cheating problem in earlier years was widespread: only 26% of students passed the exam in 2014, compared with 87% in the previous year. President Hun Sen subsequently announced that failing students would be able to re-sit the exams, but many students chose not to, and of those who did the pass rate was even lower. Previous attempts to reduce corruption in school exams were short-lived, suggesting the problem is difficult to address.[48]

3.2.2 Making Productive Use of Skills: Some Constraints

A gap in mid-level management skills reduces knowledge spillovers and may hamper economic diversification. An important constraint on labor market development is that a significant share of mid-level skilled workers and managers are currently being imported to help run the largest formal sector industries, notably, garments, construction, and hotel and tourism. Developing appropriate skills domestically—or given the apparent oversupply of management graduates, better allocation and use of existing management skills—is called for. Improving the access of workers to mid-level managers could generate greater motivation, effort, and attachment to firms. But a mismatch could also occur between individuals aspiring to follow a certain career path (for example, to be a factory manager) versus formal employment opportunities available in the country.

At the same time, opportunities to retrain and reintegrate with education streams appear to be limited. Since high dropout rates from education are likely to continue for some time, a "continuous learning" framework is needed for adults already in the labor market. Here, the current education and training framework may be inhibiting opportunities for those who have left school to return to the system later (ADB 2013). Furthermore, some overlap in responsibilities between the MOEYS and the MOLVT in the secondary education path can make it harder to ensure that those who want to return to education are able to do so.

A well-functioning TVET system based on the new Cambodia Qualification Framework has not yet been implemented. It will require the operationalization of regulatory frameworks for

[48] In some schools, teachers collect small unofficial fees from students simply to teach them (NEP 2011). The practice is illegal but there are anecdotal reports suggesting it persists. Teacher organizations argue that low salaries make it necessary for some members to charge these fees simply to be able to feed their families. There are also reports that corruption is widespread in universities, which would be consistent with the findings from employer surveys that university graduates are often poorly prepared for employment.

accrediting institutions based on promulgated national skills standards as well as assessment and certification. Different delivery modalities can be opened up through (i) skills acquisition from training through public and private institutions, (ii) skills acquisition from structured workplace training, (iii) skills recognition through direct assessment from prior learning, and (iv) skills recognition from assessed informal training from NGOs and community-based agencies (ILO and CIDA 2014).

3.3 Agricultural Productivity and Rural Development

Agriculture accounts for the majority of all employment in Cambodia and, for the foreseeable future, will directly provide livelihoods for a large part of the population. Improved agricultural productivity will not only contribute to increases in farm incomes, but also facilitate economic transition by allowing the release of labor into new and more productive economic sectors. One important aspect of increasing productivity in agriculture will be to move agricultural workers from subsistence to commercial agriculture (Chandarot and Liv 2013).

Cambodia's rural economy is characterized by relative land abundance and labor scarcity. About 80% of the population lives in rural areas. Chandarot and Liv (2013) point out, however, that the ratio of agricultural workers to hectares of arable land is very low. As a consequence, labor supply from rural areas is likely to be limited and shortages might arise as labor demand increases in nonagriculture sectors. At the same time, the legal framework for transfers of tenure or property rights remains ineffective and subsistence farming is widespread, partly due to its social security function.

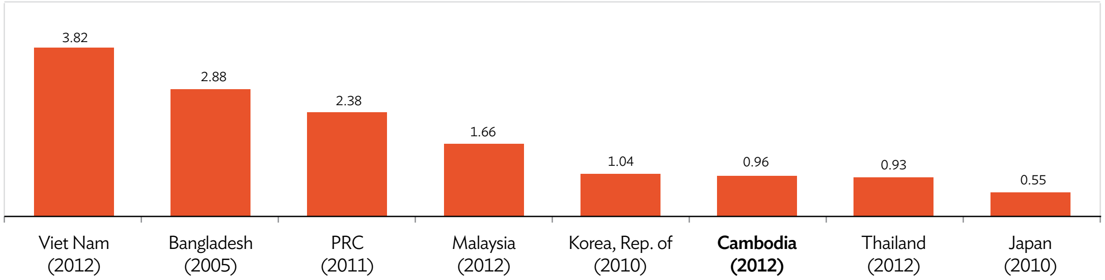
With low land and labor productivity in rural areas, and hence low agricultural income, the prospects are currently limited for those in the rural population to improve their livelihoods. Cambodia's agriculture sector is close to having the minimum labor requirement for output generation using the traditional technology that prevails. Without improving land productivity, and hence incomes from agriculture, further poverty reduction in rural areas will be unlikely. Subsistence farming prevails in the absence of effective social security systems in rural communities. As long as the prospects for income security in nonagriculture sectors remain fairly low and uncertain, agricultural labor will not easily move to the modern industrial and services sectors.

3.3.1 Agriculture Sector Performance: Why Does Subsistence Agriculture Persist and Why Is It a Constraint to Inclusive Growth?

Cambodia does not have much excess agricultural labor. According to preliminary results from the 2013 agricultural census, the percentage of agricultural land used in measured holdings relative to the total combined arable and permanent crop land areas in the country was only 68% (NIS 2013c). This suggests that a very large amount of land can still be brought into agricultural production. Furthermore, growth in land input continues to outpace the rate of rural population growth, indicating an abundance of land and scarcity of labor. Total employment per hectare of cultivated land in Cambodia was only around 0.96 people in 2012, significantly lower than other rice-producing developing countries such as Bangladesh, the People's Republic of China, and Viet Nam (Figure 3.4) and coming close to the levels in Asian countries with extensive agricultural mechanization, such as the Republic of Korea and Thailand. Thus, without significant improvements in production technology, there is little margin to release more workers to other sectors. Otherwise, agricultural output, which has been providing the means of subsistence to rural households, may be compromised.

Interviews with farmers conducted by Chandarot and Liv (2013) suggest the estimated labor requirement for rice farming is two or three workers

Figure 3.4: Agricultural Workers per Hectare of Cultivated Land by Country



PRC = People's Republic of China.
Sources: World Bank, World Development Indicators, accessed October 2015; and International Labour Organization, *Key Indicators of the Labour Market,* 8th edition, accessed October 2015.

per hectare, indicating a labor shortage of one person per hectare during the peak, wet season. Anecdotally, farmers commonly complain that it is difficult to find extra workers during peak farming seasons.

Another indication that agricultural labor is not in abundant supply is the common practice of migrant workers returning to help on the farm during peak seasons. The decision to send a family member into paid employment may be a temporary household coping strategy to overcome cash shortages during the slack period, which usually runs from January to April. However, since rice farming is their lifeline, rural people tend not to stray too far from their farms, or at least not for too long. The phenomenon of seasonal migration has been confirmed in interviews with agro-industrial plantation workers (Chandarot and Liv 2013).

Rain-fed rice agriculture has contributed to seasonality of labor demand. The strong seasonality of labor demand in agriculture in Cambodia is driven by production patterns. Rice farming dominates, accounting for 57% of crop output over 2006–2010 (ADB 2014). Furthermore, most of that is rain-fed: only 32% of agricultural holdings used irrigation as of the 2013 (NIS 2013c). The combination of a focus on rice production, limited use of irrigation, limited use of mechanization, and the strong seasonality of rainfall in major agricultural areas leads to the high degree of seasonality in agricultural labor demand.

The seasonal pattern of migrant workers is not unique to the agriculture sector, but extends to all sectors that draw labor from rural areas, including garments and construction. Indeed, the Garment Manufacturers Association of Cambodia (GMAC) reports that the industry sees up to 20% of its workforce head home to farms during the peak agricultural season (Weinland and Vann 2012). Nor is this practice solely a rural–urban phenomenon. During focus group discussions with rural enterprises, Chandarot and Liv (2013) noted that participants complained about the challenges in finding enough workers during farming seasons. Despite the relative scarcity of agricultural labor, the agricultural workforce is not necessarily engaged in income- and output-enhancing jobs; the time-related underemployment rate in the rural areas rose from 44% in 2004 to 54% in 2009 (ILO 2012a).[49]

Lack of productive employment opportunities in rural areas is also indicated by the persistence of low land and labor productivity in agriculture. Although there has been moderate growth in agricultural productivity in recent years, land productivity remains low in Cambodia. From 2006

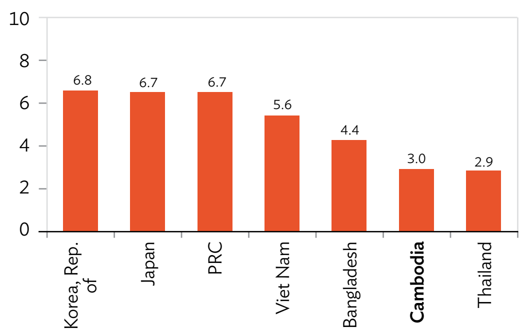
[49] This reflects underemployment in the individual's main employment, which is the relevant category here.

to 2012, the average annual growth of real value added per person employed in agriculture was 3.1%.[50] Moreover, in part due to the continued increase in land supply, productivity per hectare of land remains low in terms of yield and value (see Figure 3.5).[51]

The value of agricultural produce is relatively low in Cambodia. This may be attributed to the predominant practice of mono-crop cultivation (rice) and the cultivation of low-value strains. In 2010, farmers in Cambodia received $222 per ton for rice paddy, much lower than returns to farmers in Viet Nam ($290), the People's Republic of China ($297), Thailand ($366), and India ($386) (Chandarot and Liv 2013).

Job opportunities and incomes in the nonagriculture sector in rural areas are growing but remain insecure. Rural areas saw minimal growth in employment in agriculture during 2007–2013, while employment in services and industry expanded substantially (see section 2.2.4). In the same period, industrial sector employment grew at an average rate of more 6% per year, although its share of total employment remains fairly low at 19%. The main industrial jobs in rural enterprises are in grain mills, sugar production, garments and footwear manufacturing, textile weaving, structural metal products, and distilling and blending of spirits. Service sector employment also increased fairly rapidly in rural areas, with an average annual increase of 5.5% during 2007–2013.

Figure 3.5: Land Productivity of Rice by Country, 2013 (tons per hectare)



PRC = People's Republic of China.
Source: Food and Agriculture Organization of the United Nations Statistics Divison (FAOSTAT), accessed October 2015. http://faostat3.fao.org/download/Q/QC/E

The importance of nonagricultural employment for rural households is also captured by the distribution of household income by source. The main source of income for rural households is self-employment (68% of income), mostly from agricultural activities (34% of income), but also from nonagricultural activities (27%). The salary component of rural household income has significantly increased over time, from 7% in 1994 to 30% in 2009, reflecting increased paid employment opportunities in rural areas (Table 3.2).

The increased ability of household members to engage in nonagricultural activities, whether in urban or rural areas, should contribute toward improving household incomes and welfare in rural areas. Nevertheless, non-subsistence activities carry substantial risks. Weathering them without the safety net of subsistence farming may prove difficult, and this highlights the importance of income support and social protection systems in rural areas. Social protection issues are discussed in section 3.5.

[50] This is a calculation from figures in the World Bank World Development Indicators.

[51] Note that land productivity expressed in tons of rice is low in Thailand because the most produced strain of rice there is jasmine rice, which has a significantly lower yield than other varieties, but often fetches more than double the price (*The Nation*. www.nationmultimedia.com/opinion/Rice-strain-is-cause-of-comparatively-low-producti-30070831.html).

Table 3.2: Average Monthly Income of Rural Households by Source, 1994 and 2009

Sources of Income	1994 Riels (thousands)	1994 US$	1994 % share	2009 Riels (thousands)	2009 US$	2009 % share
Primary Income	128	32	98	550	134	98
Salary	9	2	7	167	41	30
Self-employment	120	30	91	382	93	68
Income from agriculture	57	14	44	189	46	34
Income from nonagriculture	53	13	41	152	37	27
Income own house	8	2	6	41	10	7
Other	1	...	1	0	0	0
Property income	n/a	n/a	n/a	2	0	0
Transfers received	3	01	2	13	3	2
Total Income	131	33	100	563	137	100
Transfers paid/negative income	n/a	n/a	n/a	10	2	2
Disposable income	131	33	100	554	135	98

... = data not available.
Sources: NIS. 2009. *Cambodia Socio-Economic Survey 2009*. Phnom Penh: Ministry of Planning; and NIS. 2011. *Statistical Yearbook of Cambodia*. Phnom Penh: Ministry of Planning.

3.3.2 Improving Agricultural Productivity: How Will It Contribute to Inclusive Growth with Jobs?

Productivity in the agriculture sector has improved but remains low. If future economic growth is to be poverty-reducing, inclusive, and dynamic in transforming the economy toward higher-value-added production, agricultural productivity needs to increase substantially more and in a land- or capital-intensive manner. Agricultural outputs and rural household incomes will be compromised, and therefore subsistence farming will continue, unless the necessary infrastructure—such as irrigation, better seeds and production techniques, marketing, and access to finance—is put in place.

An increase in productive employment in rural areas will require substantial increases in agricultural productivity. While economic activity and employment are shifting to urban areas and the nonagriculture sector, the speed at which this is happening has been modest for a fast-growing economy. The bulk of the population and economic activities remain in rural areas and the agriculture sector, so it follows that increasing agricultural productivity and generating more productive jobs in rural areas would be effective for further poverty reduction.

As seen in the East Asian experiences of economic development, generating agricultural surpluses in terms of output, financial capital (savings), and labor is a precondition for broad-based inclusive growth (ILO 2012c). If structural transformation is to occur, agricultural development needs to be accompanied by high and sustained investment in other areas (as discussed in section 2.2.4), including in economic and social infrastructure investment, financial capital mobilization and enhanced access to finance, and a labor mobility policy to support and protect workers. Higher productivity growth rates in other sectors could then pull in agricultural workers, thus ensuring improved livelihoods for workers and households engaged in both agricultural and nonagricultural activities.

The government has indeed focused on rural and agricultural development in the past decade or so and is working toward a consolidated industrial policy. Its policy framework for agricultural development centers on the Agriculture Development Plan (2009–2003), measures to develop irrigation systems and management, the 2010-launched Promotion of Paddy Production and Rice Export Policy, and, more recently, policies on economic land concessions (ILO 2013a). Whether these pay off will depend on the effective implementation of their specific measures to meet policy goals, and the appropriate design of these measures to generate widespread benefits.

3.4 The Informal Economy

The Cambodian economy is largely informal. MSMEs—and especially microenterprises—play a vital role in providing job opportunities and supplementary income to laborers, women, and other vulnerable groups. However, the activities they engage in are often limited, nonregular, and informal, with low earnings, no access to social protection or job (and income) security, and are often performed in poor working conditions. Thus, the growth of MSMEs and employment in this sector do not necessarily reflect a successful development strategy. This section highlights the constraints faced by MSMEs as a result of their informality.[52]

Many factors are responsible for the presence of MSMEs in the informal economy.[53] These include lack of employment opportunities in the formal sector (or limited access to opportunities because of a lack of necessary qualifications), as well as the laws, regulations, and practices governing business registration.

Limited availability of formal sector jobs and the absence of unemployment insurance benefits put strong pressure on workers to accept whatever jobs are available. Many people in the formal economy, including tens of thousands of civil servants, also work in the informal economy to supplement insufficient income; for example, as taxi drivers outside working hours.

Formalizing economic activities offers advantages not only for the government, but also for private sector agents. Employees benefit from social security entitlements and legal protection, and employers, too, can benefit from formalization when it facilitates firm growth and integration into higher-value production chains.

There are administrative barriers to formalization. Business registration is governed by the Law on Commercial Rules and Registration. The majority of MSMEs are not registered because only taxable businesses with an annual profit of more than $1,500 are required to register. Indeed, even among MSMEs that fall into this category, the $1,500 threshold is not applied in practice as no audit requirements are in place to expose those with sales above this amount. MSMEs that register are mostly those that plan to carry out import or export activities, or that need to register to do business with large or foreign enterprises.

The benefits of formalization and the administrative requirements for it are poorly known. In terms of procedures, there are no official fees for obtaining a license, except at the Ministry of Commerce, which charges $177. The facilitation fee for small business registration at the ministry reportedly ranges from $250 to $300, in addition to official fees. Laws and regulations on licensing are not adequately publicized, and business applicants have a limited understanding of how licensing and approval can be granted. Own-account workers who operate microenterprises are not always familiar with such regulations. And in general, unfamiliarity with requirements for licensing a business is a substantial barrier to formalizing economic activities.

For the most part, as noted, only businesses that intend to export or import are willing to pay the fees and encourage the scrutiny that results from formal registration, such as visits by ministry personnel who reportedly may seek unofficial fee payments, as well as the requirements for expensive external audits. Fees can be high and applicants rely heavily on facilitators to assist them throughout the registration process, which adds costs even though

[52] Some MSMEs operate without permits. Unlicensed MSMEs, while able to avoid taxation, reportedly often must pay small unofficial fees to the local authorities. There is, therefore, a gray area between the informal and formal sectors where businesses are locally licensed and recognized but not formally registered.

[53] Much of the information for this discussion is drawn from a qualitative survey conducted in Phnom Penh in 2012, covering 20 MSMEs and experts from government and nongovernment agencies (ADB 2013).

it may save time. Some businesses report that they prefer to maintain a low profile for fear of having to pay kickbacks to corrupt officials, based on views expressed in a qualitative survey of MSMEs (ADB 2013).

By keeping a low profile, informal business activities are largely not covered by formal arrangements, either in law or in practice. The workers in "gray market" enterprises are not shielded by employment-related laws or collective bargaining agreements. They also do not benefit from entitlements such as work injury insurance coverage. According to some experts, most MSME workers have no bargaining power with their employers; for example, in benefit and wage negotiations or over better working conditions (ADB 2013).

Even among formal workers, the extent to which they are effectively covered by the legal and policy framework depends on the size of the establishments to which they belong. Labor inspection, for example, is not implemented effectively and occurs indiscriminately across businesses of varying sizes. Specifically, noncompliance with labor regulations is more likely to affect low-wage and low-skill workers for the following reasons:

- Larger firms are more likely to be inspected than smaller firms.
- Exporting firms, members of a business association, firms that have a larger share of high-skilled and unionized workers, and those that operate in sectors of activity with higher compliance are more likely to be inspected, although these firms, too, tend to be large.
- Inspections are less likely to occur among firms with a larger share of low-skilled workers, and those that operate in industries with more tax evasion.

Based on the qualitative survey of MSMEs (ADB 2013) and the assessment in section 2.2.4, the following constraints to MSME growth and development are identified:

Lack of capital limits MSMEs, particularly microenterprises. MSMEs typically start their businesses with a limited amount of capital from their own savings or borrowed from friends or relatives. Gaining access to capital to operate and expand businesses is frequently a problem. Microenterprises in particular find this difficult due to high interest rates and collateral requirements, as well as requirements to be registered and produce financial statements (the latter is an inherent problem for the informal sector). This is of course not limited to Cambodia. Difficulties in accessing capital for small enterprises are a perceived feature of many financial systems, including in Europe, the United States, and other developed economies.[54]

There is limited availability of market information for MSMEs. The dissemination of market information in Cambodia is still generally narrow, resulting in poor links between firms and their markets. Information on customers' demand criteria and pricing, for example, is not widespread. Insufficient market information is regarded as a primary obstacle to the growth of microenterprises. Most start their businesses unaware of what the market demand is and what business they should engage in. The lack of market information also hinders SMEs from exporting their products, since they frequently do not understand demand and the criteria for exports to target markets, according to some interviewees in the qualitative survey. Additionally, MSMEs in the manufacturing sector still face tough competition from informally imported products that sell at a lower price.

MSMEs face shortages of skilled workers. Finding skilled workers appears to be especially difficult for MSMEs. Almost all of the experts interviewed in the qualitative survey pointed to the lack of business skills and financial literacy in MSMEs, especially microenterprises, as *the* major constraint to running and expanding their businesses (ADB 2013). One respondent noted that most talented business graduates prefer to work in larger companies rather than in MSMEs, limiting one possible source

[54] See, for example, Steen (2013).

of business skills for small and medium-sized enterprises. The lack of workers with specialized technical knowledge is another major constraint. This particularly applies to MSMEs in manufacturing, such as of food products, requiring knowledge of operating and maintaining production machinery. But it also applies to firms in other sectors lacking human resources in information technology, research and development, and so on. Experts frequently pointed out the poor links between education and the labor market, citing students' lack of willingness to pursue technical degrees.

Well-targeted government support may help viable and competitive MSMEs. As well as general business constraints, most of those interviewed cited lack of government support as an obstacle to the progress of the MSME sector (ADB 2013). In particular, smaller enterprises are not given any kind of consultation on how to carry out and expand their businesses. The government provides some training in starting a business and technical skills through the MOLVT. But there is no follow-up training and some MSMEs, especially microenterprises, then collapse.

Effective legislative and policy coordination can increase effectiveness of policy making in connection with MSMEs. Lack of effective coordination among the different actors tasked with carrying out enterprise development and employment policies is inhibiting the development of the informal sector. As in many other less-developed countries, Cambodia's public organizations responsible for the development and implementation of policies and regulatory frameworks often have limited resources and low capacity, and are sometimes ill-prepared to take on new tasks and responsibilities. There is little expert human capital, although that situation is improving in almost all public institutions, and most of the work in initiating, preparing, developing, and implementing policy programs and regulations involves inputs from development partners and donors.

Stronger government support for business associations can enhance entrepreneurship and information flows in MSMEs. Experts from the nongovernment sector interviewed in the qualitative survey cited lack of support to business associations as a constraint to MSME growth (ADB 2013). Business associations can play an important role in the development of the private sector in general and MSMEs in particular. They can promote capacity building, channel market information, and arbitrate in solving problems that hamper business. However, business associations in Cambodia face several obstacles preventing them from fulfilling these roles, primarily lack of financial and technical support. According to a member of one business association, staff capacity in these organizations is low and they have no clear plan for staff development due to lack of support.

As noted, most MSMEs operate in the informal economy. One option for policy makers is to design and implement programs to bring informal businesses into the mainstream, drawing the unemployed into jobs and transforming precarious survivalist activities in the informal sector into sustainable and viable activities so that these enterprises are covered by the legal and institutional framework. This is currently not the case, and given the capacity constraints and coordination challenges faced by the government, designing an adequate legal and institutional framework to support the informal economy remains a challenge.

Workers employed in informal agriculture and MSME employees make up a huge portion of the country's workforce. As such, it is important to create an enabling environment that allows informal MSMEs and their employees to work without having to face additional challenges posed by legislation. Legislative and policy coordination challenges have to be overcome in order to provide support to the livelihoods of workers in the informal economy and to increase formal employment opportunities.

3.5 Social Protection

Improving social protection in Cambodia is essential to make economic growth more inclusive. Since the vulnerability of households is often related to underemployment, a viable strategy to reduce it is to improve opportunities for productive employment so that household incomes are sufficiently high that they can effectively self-insure. But despite sustained high growth, many Cambodians remain vulnerable to socioeconomic shocks, and the needed structural transformation may be impeded unless a large majority of the population in the rural areas perceive greater security from nonrural or nonagricultural employment. Economic policies for sustained high growth and structural transformation should be complemented by specific social protection measures targeted toward the most vulnerable households. Various policy instruments can be used to achieve this, including conditional and nonconditional cash transfers, public works initiatives, and specific social insurance schemes.

The general idea of social protection for everyone is enshrined in the Constitution of Cambodia. Article 36 of the Constitution declares that "Every Khmer citizen shall have the right to obtain social security and other social benefits as determined by law." Further, Article 72 reads, "The health of the people shall be guaranteed. (...) Poor citizens shall receive free medical consultation in public hospitals, infirmaries and maternities."

The government has stated goals to extend the coverage of social protection and to establish a social protection floor, that is, nationally defined sets of basic social security guarantees that enable and empower all members of a society to access a minimum of goods and services at all times. The National Social Protection Strategy for the Poor and Vulnerable was announced in 2011 by the Prime Minister, and was followed by a broader policy program in 2013, the Rectangular Strategy Phase III, which emphasizes the effective and coordinated implementation of the National Social Protection Strategy.

Cambodia's social protection policy has evolved significantly in recent years. In 2002, Parliament adopted the Social Security Law, which covers all workers defined by the provisions of the Labor Law, state and public workers not governed by the Common Statute for Civil Servants or by the Diplomatic Statute, trainees and apprentices, the self-employed, and seasonal and occasional workers. This Social Security Law mandates the introduction of a contributory social insurance system providing benefits in case of employment injury, retirement, invalidity, death, and other circumstances. In 2007, the Prime Minister signed a further sub-decree establishing the National Social Security Fund (NSSF), which began operating in the following year (ILO 2012d). The employment injury insurance component of the NSSF was launched in 2008 and now covers nearly 900,000 workers. The second component, social health insurance, was announced by the government in 2014, with a similar scope of coverage.

Health security policy has moved forward on other fronts as well. In 2003, the government adopted the Master Plan for the Development of Social Health Insurance, marking an initial step toward developing a unified social health protection system. Subsequently, a series of national policies and guidelines were developed to expand various forms of social health protection in a coordinated way. The Health Financing Strategic Framework (2008–2015) brings together various existing forms of health financing into a unified framework (ILO 2013b). The ultimate goal is universal health coverage.

3.5.1 Income Security: Existing Social Protection Schemes

Extension of social protection coverage to the informal economy remains a challenge. The NSSF is mandated to administer social security provisions for private sector workers. According to the Social Security Law, the fund covers all people defined by the provisions of the Labor Law. Its coverage has initially been restricted to enterprises with at least eight employees—and the Labor Law is ambiguous on the scope of the scheme's application to enterprises with fewer than this number. However, coverage for smaller enterprises is planned. By the end of 2010, the NSSF registered more than 1,500 enterprises and reported a total of 522,685 insured workers, or about 7.5% of the total employed at the time (ILO 2013b). The NSSF currently reports having registered nearly 7,000 enterprises, with a total coverage of nearly 900,000 insured workers. A large majority of those registered under the scheme are women, reflecting the dominance of the garment manufacturing industry in the formal sector and the predominance of women among workers in that industry. As of 2010, 78% of insured workers were employed in the garment and footwear industries. Also reflecting the composition of the workforce in these industries, covered workers are largely young, with most aged under 30 (ILO 2013b). The NSSF's protective measures—and indeed most of the protective measures of the Labor Law—have not generally been extended to the informal economy (see section 3.4).

Existing employment injury benefits cover workplace accidents and work-related diseases, including road accidents while commuting. They also cover medical and nursing care, a temporary disability allowance providing income replacement, and a permanent disability allowance, as well as death and survivor benefits. Payments for medical care for the treatment of work-related accidents currently make up the large majority of benefit expenditures. As these benefits are quite recent, expenditure for long-term benefits will increase as the pool of pensions in overall plan payments expands. The program is financed through employer contributions at 0.8% of insurable wages of workers. In 2009, the government reduced the contribution rate for garment-related industries to 0.5% via subsidies to help mitigate the effects of the global financial crisis on the sector. In general, such manipulations of the scheme should be kept to a minimum. Isolating social protection programs from other goals of the government can provide a sounder fiscal basis for such programs, allowing greater security for those who are covered. Explicit subsidies not contingent on social protection policies would provide greater transparency to the policies involved and help protect social insurance programs.

The incidence rate of occupational accidents in Cambodia appears low by international standards. This could be due to underreporting by employers. Although reporting work-related accidents to the MOLVT is mandatory, employers may not always do so, especially for minor accidents. The Labor Law requires on-site infirmaries staffed with a nurse or doctor for all factories employing 100 workers or more.

The NSSF currently provides only employment injury benefits, but other benefits, including health insurance, pensions, and more, are planned. And, as noted, the government announced in 2014 the health insurance plan would start operations, beginning with the collection of premiums. The payment of claims, however, is not yet under way.

Another major social protection scheme in place is the provision of social security for civil servants and their families. In 2008, the National Social Security Fund for Civil Servants was established by royal decree. It was established with the goals of centralizing the administration and disbursement of social security benefits for civil servants and creating an autonomous and contributory social security fund for them. The aim was to increase efficiency, improve service standards, and strengthen the governance financial sustainability of the pension system for civil servants. Before this, benefits for civil servants were administered by the Ministry of Social Affairs, Veterans, and Youth Rehabilitation and entirely financed from the national budget (ILO 2012d). The new body for administering the fund began operations in 2009 under the governance of a board of directors that included, among others, the minister of economics and finance and the minister of social affairs, veterans, and youth rehabilitation.

As of 2012, based on official data, the National Social Security Fund for Civil Servants covered some 175,000 civil servants, including about 60,000 women. Family dependents of civil servants and public sector pensioners can also be beneficiaries in the event of the death of the civil servant or pensioner. The total number of family dependents who could potentially benefit is estimated at 465,000. The benefits conferred are significant for those covered under scheme. These include a sickness cash benefit that provides full salary including allowances for up to 3 months of illness and 90% of salary thereafter up to a maximum of 12 months, and complete coverage for employment-related injuries. Maternity benefits include 90 days of fully paid leave and a cash allowance. Retirement benefits reach a maximum of 80% of the final salary and invalid benefits. In the event of the death of working or retired civil servants, there is a considerable cash payment (up to 6 months of salary for an active civil servant) and a small survivor pension for dependents. The new financing system is not yet in operation and details on employee contributions do not appear to have been finalized. It is therefore too early to evaluate the financial sustainability of the system.

An initial costing analysis of social health insurance for civil servants and civil service pensioners was performed in 2010 and 2011 (ILO 2012e). As a result of other priorities at the National Social Security Fund for Civil Servants and limited capacity, the introduction of social health insurance has been postponed and yet to be implemented. The estimated total coverage for social health insurance, including pensioners and dependents (spouse and children) is estimated at 675,000 people, or about 5% of the population. The introduction of social health insurance would provide protection for civil servants against the risk of catastrophic health costs, and this would be especially important for public sector pensioners, who are likely to face financial hardship when they need high-cost medical care.

Separate from the social security provisions for civil servants is the National Fund for Veterans, which covers social security benefits for war veterans, the Royal Cambodian Armed Forces, and the National Police Force. The fund was established in 2010 and began operations late in the same year. It is constituted as a legally and financially autonomous body governed by a board of directors, which includes a representative each of war veterans and the Council of Ministers, and representatives of different line ministries, including the Ministry of Social Affairs, Veterans and Youth Rehabilitation; the MOLVT; the Ministry of Defense; and the Ministry of Economy and Finance (ILO 2013b). The fund is not yet fully operational but is expanding regionally.

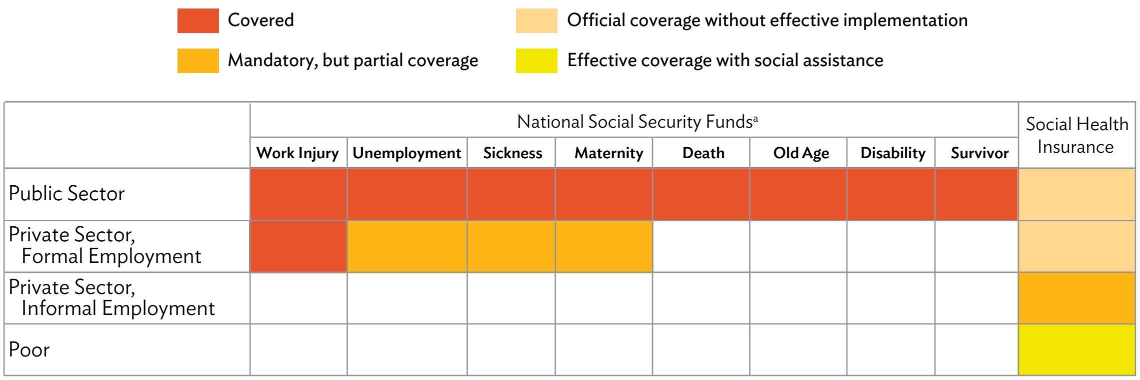
The fund was established to centralize the administration of social security benefits for veterans, the army, and the police, and to increase efficiency, improve service standards, and strengthen governance. Another objective is to establish a contributory and financially sustainable funding mechanism. The benefits are broadly similar to those provided to civil servants under the National Social Security Fund for Civil Servants, and cover sickness, employment-related injury, maternity, retirement, death, and survivors' benefits. Data on the National Fund for Veterans' total potential coverage is not available, but is surely significant given the current and historical size of the armed forces. As is the case with the National Social Security Fund for Civil Servants, the new financing mechanism for the National Fund for Veterans has not yet been put into place.

3.5.2 Health Care

The coverage and the quality of health care services need to improve. Figure 3.6 summarizes the coverage for income security and health care. Note that the health care coverage for the public sector and for private enterprises has been announced but, as noted, has not yet been implemented.

After the civil war, the Ministry of Health made significant efforts to improve the quality of health care services. Since 1995, the reform process has involved staff training, infrastructure development, and the provision of drugs. A plan was constructed

Figure 3.6: Summary of Social Protection Coverage in Cambodia



[a] Consists of National Social Security Fund and National Social Security Fund for Civil Servants.

under which district-level referral hospitals and health centers were reconstructed. Under that structure, each operational district would have health centers providing first-line health services to an assigned population of 10,000 and a referral hospital to provide more specialized health services to a population of 100,000–200,000.

The Master Plan for Social Health Insurance was promulgated in 2005, as a first move toward a unified health protection system. The plan has four parts: (i) compulsory insurance for the private sector and civil servants, as discussed earlier; (ii) voluntary insurance through community-based health insurance (CBHI) for informal-sector households who can afford small premiums; (iii) social assistance through health equity funds (HEFs) and government funds for the poorest; and (iv) private insurance for higher-wealth groups.

HEFs and CBHI existed in Cambodia before the promulgation of the master plan. Health equity funds—which originated in the early 2000s—are autonomous, locally based schemes that reimburse health care facilities for the cost of user fees that would otherwise need to be paid by poor individuals identified by the ID-Poor system. They also subsidize the poor for costs of transport and food needed to make a trip to the health care facilities. HEFs are currently the most widespread and effective form of social health protection, alongside the fee exemption scheme (ILO 2013b). They take several different forms in Cambodia but most are generally under guidelines provided by the Ministry of Health, with donor support via local and international NGOs. There is also some government funding, usually third-party schemes buying health services from district health facilities and national hospitals on behalf of the poor (Annear 2010). The Ministry of Health also funds fee exemptions for the poor in a number of districts and hospitals. Over 50 HEFs now operate in Cambodia's 77 districts, covering more than half the poor population (ILO 2013b).[55]

HEFs have been successful in Cambodia, but depend heavily on external support. Cambodia was an early adopter of the HEF concept and, because of that, they have been the subject of in-depth analysis. One literature review in 2010 found 92 studies of Cambodian HEFs (Annear 2010). That review concluded that HEFs in Cambodia have accurately and cost-effectively targeted the poor, with coverage that is extensive but not complete. The review found they have provided access to

[55] USAID estimates that currently 21% of the Cambodian population has access to the assistance provided by HEFs (USAID 2014).

public health facilities for the poor and increased utilization of public health services, especially by the poor. While HEFs have been highly successful in Cambodia, they nonetheless serve as a stopgap approach to providing medical services to the poor because of their heavy dependence on international financing and management.

HEFs coexist alongside community-based health insurance (CBHI) schemes. These are voluntary health insurance schemes that target near-poor households, with modest monthly charges. CBHI currently includes 18 schemes in 10 provinces and Phnom Penh municipality. Benefits vary across the programs, but generally cover user fees, transportation costs, and a funeral grant. In most cases payments into the schemes by users cover direct costs for the benefits, while administrative costs are covered by external donor funding. As in the case of HEFs, CBHI programs are run by local and international NGOs. In 2010, about 170,000 people were enrolled in CBHI schemes.

There is also a national program of user fee exemptions. Groups such as the poor, widows, divorced women, monks, and the military are eligible to use health services free of charge at some government-run health facilities. The program has not been utilized to its full potential and not all eligible beneficiaries have received exemptions. Adequate pay for doctors and other staff members at health facilities will be important to help avoid undue additional charges to users.

Despite a significant range of programs to assist with health care provision, costs are still a significant barrier to adequate health care for much of the population. Per capita health expenditure was estimated at $61 in 2010, of which about $30 was out-of-pocket expenditures. More than half of this is spent in private medical centers (ILO 2013b). As such, the Cambodian health system, while operating well in some respects, has both relatively high user costs and significant dependence on foreign management and resources.

3.6 Industrial Relations: A Work in Progress

Effective industrial relations systems balance and stabilize power relationships between labor and management, and can increase productive employment and enhance returns to labor in the form of higher wages and improved working conditions. A mature industrial relations framework will provide predictability to businesses operating in Cambodia and essential minimum employment standards for workers. Significant developments have been achieved in Cambodia's industrial relations over the last decade, but further progress is needed, especially on social dialogue, collective bargaining, and compliance with labor rights and obligations. These will support a sustainable and stable industrial relations environment across national, sector, and enterprise levels; provide opportunities for the growth of industry and investment; and establish appropriate minimum wages and employment conditions vital to productive employment. A stable industrial relations environment will help to make Cambodia attractive for foreign direct investment.

3.6.1 Regulatory Framework

The basic elements for durable and robust industrial relations in Cambodia are already in the country's existing regulatory framework. The labor-related laws express a commitment to fundamental international labor norms and provide for minimum standards as well as mechanisms to achieve collective bargaining. This framework, which also includes regulations and institutional actors, forms the foundation for a not yet fully realized, but nevertheless maturing, industrial relations system.

The conclusion of the United Nations Transitional Administration for Cambodia in 1993 marked the adoption of a new constitution committing Cambodia to the principles of human rights and the rule of law. The Constitution is the fundamental source of legal labor rights and recognizes human rights as they are enshrined in international treaties, conventions, and other instruments. The Constitution includes provision for specific rights relevant to industrial relations, including the right to (i) participate in the political, economic, social, and cultural life of the nation; (ii) equal pay for equal work; (iii) form trade unions and participate as members; (iv) strike and conduct peaceful demonstrations; and (v) create associations and political parties.[56] To date, Cambodia has ratified 13 ILO conventions, including 8 ILO core conventions (Table 3.3).

The widespread prevalence of informality limits the reach of the Labor Law. The primary legislation governing employment and industrial relations is the 1997 Labor Law. This is a modern comprehensive code and applies to workers in formal employment, as defined by the existence of an employment contract. Public sector workers, the judiciary, police, army, maritime transportation workers, and household workers are not covered by the law. The limiting requirement of a formal employment relationship significantly restricts its application to workers in the informal economy, and, as already discussed, not all workers employed in the formal sector have formal employment as defined by the Labor Law. The majority of Cambodian workers are in the informal economy and here the governance of work generally falls outside the jurisdiction of the Labor Law. And as such, it applies to only a minority of workers.

The Labor Law provides for a range of minimum entitlements, including working hours, overtime and leave, regulation of temporary and permanent contracts, maternity rights, occupational health and safety, and payment of wages. Given that collective bargaining is still not widespread, these basic entitlements provide crucial protections to workers without being overly prescriptive. But there will still be many substantial issues for negotiation through collective bargaining in the future.

Freedom of association is a central component of the Labor Law. The right to form and join democratic trade unions and employer organizations is recognized, and the rights and responsibilities of these bodies are set out under the law. Discrimination against union involvement is prohibited and provision is made for negotiating and the reaching binding collective bargaining agreements.

Much progress has been made in labor administration, but there is still some way to go. The MOLVT is responsible for labor administration

Table 3.3: International Labour Organization Conventions Ratified by Cambodia

Convention	Date Ratified
Night Work (Women) Convention, 1919 (No. 4)	24 February 1969
Night Work of Young Persons (Industry) Convention, 1919 (No. 6)	24 February 1969
White Lead (Painting) Convention, 1921 (No. 13)	24 February 1969
Forced Labour Convention, 1930 (No. 29)[a]	24 February 1969
Employment Policy Convention, 1964 (No. 122)	28 September 1971
Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)[a]	23 August 1999
Right to Organise and Collective Bargaining Convention, 1949 (No. 98)[a]	23 August 1999
Equal Remuneration Convention, 1951 (No. 100)[a]	23 August 1999
Discrimination (Employment and Occupation) Convention, 1958 (No. 111)[a]	23 August 1999
Minimum Age Convention, 1973 (No. 138)[a]	23 August 1999
Labour Administration Convention, 1978 (No. 150)	23 August 1999
Abolition of Forced Labour Convention, 1957 (No. 105)[a]	23 August 1999
Worst Forms of Child Labour Convention, 1999 (No. 182)[a]	14 March 2006

[a] International Labour Organization (ILO) Core Convention.
Source: ILO NORMLEX, accessed November 2014.

[56] The Constitution also specifies the abolition of all forms of discrimination against women, including dismissal for reasons of pregnancy.

and for setting national industrial relations and employment policy. The Labor Law empowers the ministry to develop policies and issue implementing regulations to carry out its duties; for example, setting minimum wages, establishing safety standards, and setting out procedures to determine the scope of trade union representative powers. The ministry was tasked as the lead institution to develop the National Employment Policy 2015–2025. The policy aims to increase decent employment opportunities, increase labor productivity, promote skills and human development, and enhance labor market governance in the country. The ministry also sets the minimum wage based on the recommendation of a tripartite Labor Advisory Committee (LAC) composed of representatives from government, trade unions, and employer organizations. Although the LAC has a broad mandate to study and give advice on a broad range of labor matters, it has, in practice, primarily engaged in negotiations on setting minimum wages in the garment, textile, and footwear industry.

Another important actor involved in the regulatory framework, although not directly under the purview of the MOLVT, is the 8th Working Group of the Government–Private Sector Forum. The forum was established in 1999 by the Prime Minister as a mechanism for dialogue between government and the private sector on a range of matters including taxation, agriculture, and tourism. The working group was set up in 2006 and coordinates on a range of national labor market policy matters such as vocational training policy and the regulation of overseas labor sending agencies. Issues that cannot be resolved within the working group can be referred to the Prime Minister for resolution.

The MOLVT also oversees the framework for labor dispute prevention and resolution as set forth in the Labor Law. The law provides for voluntary and mandatory processes to resolve labor disputes between employers and workers. These mandatory processes include conciliation, arbitration by the Arbitration Council, and, as a last resort, judicial determination by the courts. The Arbitration Council was established in 2003 as Cambodia's independent national labor arbitration institution and is mandated to resolve collective disputes between employers and workers.

The Labor Law also sets out the role of the MOLVT's labor inspectorate, which has the stated task of ensuring worker and employer compliance with labor regulations, providing technical advice to employers and workers on ways in which to observe the law, and an initial dispute conciliation role. In practice, however, despite the power to enforce the law, most labor inspection interventions focus on prevention. Furthermore, due to lack of resources, capacity, and other constraints, compliance monitoring functions in the garment, textile, and footwear sector have also been carried out by the ILO through Better Factories Cambodia.[57]

While the Labor Law provided a framework on which industrial relations can mature, and in turn lead to increased stability, equity, and democracy, the practical operation of the jurisdiction is in the early stages of development. Capacity issues and lack of compliance with the rights and obligations set out in the law itself continue to impact the ability of both workers and employers to operate effectively in the industrial relations landscape.

3.6.2 Representative Bodies

The 1990s saw the emergence of trade unions and employer organizations in Cambodia. The enactment of the 1993 Constitution and, particularly, the 1997 Labor Law established the legal context for their rapid development and expansion.

Unionism in post-war Cambodia emerged with the ascent of the garment, textile, and footwear

[57] Better Factories Cambodia was established in 2001 by the ILO in connection with the landmark US–Cambodia Textile and Apparel Trade Agreement in January 1999. The agreement included provisions to create appropriate incentives for labor rights compliance in the Cambodian garment, textile, and footwear industry by linking increasing quotas for the US market with improvements in labor standards. Better Factories Cambodia has continued to monitor compliance in garment factories since the expiration of the agreement.

industry. But a lack of organizing experience and capacity, allegations of corruption and extortion, and competition among unions contributed to a disruptive industrial relations environment. This was mirrored on the employers' side by a similar lack of industrial relations capacity, claims of poor human resources practices, Labor Law violations, and attempts to interfere with trade unions (van Noord, Hwang, and Bugeja 2011). Moreover, unionism in Cambodia has been met at times with intimidation and violence.[58] Although there has been significant progress in relations between and among representative bodies of employers and workers, including improved social dialogue and better capacity to resolve labor disputes, many challenges remain in the country's still nascent industrial relations environment.

Established in 1996 and registered in 1999, the GMAC is Cambodia's oldest and most important representative body of employers despite representing only a single sector (albeit the largest formal sector and biggest employer group). The GMAC has over 300 member firms and advises on import/export facilitation, tax, labor law and other regulations, and dispute resolution. The Cambodian Federation of Employers and Business Associations, established in 2000, is an umbrella employer organization representing over 1,500 enterprises, both unionized and nonunionized, comprising business associations, individual companies, and nonprofit organizations.

Cambodia's trade union movement has been linked from its inception to political parties and the state. Unions are generally considered to be either politically aligned with the governing Cambodia People's Party, with which the majority of unions are affiliated; aligned with the opposition Cambodia National Rescue Party; or politically independent. Structurally, unions are largely organized within a three-tier hierarchy: enterprise-level unions, union federations, and union confederations, with an additional alliance that includes three confederations. It is not uncommon for multiple, competing unions to be organized within a single enterprise. As of 2013, 2,891 local unions were registered, according to the MOLVT. As of August 2014, 94 union federations and 10 union confederations were organized (Reeve and Chenda 2015).

Unions have proliferated in recent years. A precise determination of the growth and extent of unionization in Cambodia is hampered by a lack of official statistics or a comprehensive public national database. Nonetheless, while workers are organized in multiple sectors across the country, including the private and public sectors and the formal and informal economy, unions are overwhelmingly concentrated in the garment, textile, and footwear industry. Their number has rocketed. According to the US Department of State, there were 77 local trade unions and four trade union federations in 1999, representing less than 1% of the total workforce and 5%–10% of the estimated 100,000 to 200,000 workers in the garment, textile, and footwear industry (USDOS 1999). At the end of 2010, there were more than 1,944 local unions, 44 federations, and eight confederations. Unions represented about 5% of the total workforce (estimated at 8.8 million workers), or 60% of the 363,200 workers employed in the garment and footwear industry, according to the US Department of State estimates (Table 3.4). This number would be substantially lower if the estimate of industry workers were based on the LFS 2012.

Unions remain concentrated in the garment and footwear industry, but are spreading into the broader economy. In terms of sector distribution, worker organizations (unions and associations) can be found in the garment, textile, and footwear industry; agriculture; rubber; tobacco; construction; tourism, including hotels, casinos, and airports; civil service, including teachers; beer promotion; and *tuk-tuk* transport. As already noted, there is an overwhelming concentration of unions in the garment, textile, and footwear industry, where women make up 85%–90% of the workforce and

[58] This was evidenced by the killings of union leaders in 2004 and 2007, prosecutions in connection with strikes, and the violent crackdown against unionists in January 2014, when military police fired into a crowd of demonstrators, killing five, with dozens injured.

Table 3.4: Unionization Rates, 2000–2010 (%)

Year	Unionization overall	Unionization in garment, textile, and footwear sector
2000	less than 1	5–10
2001	less than 1	25–30
2002	less than 1	25–30
2003	less than 1	25–30
2004	less than 1	50–60
2005	less than 1	40–50
2006	less than 1	40–50
2007	less than 1	45–50
2008	less than 3	70–75
2009	less than 3.5	70–80
2010	approximately 5	60

Source: USDOS. Human Rights Reports. www.state.gov/j/drl/rls/hrrpt

the bulk of union membership (Nuon, Seranno, and Xhafa 2012). Yet despite this, women are disproportionately underrepresented in union leadership positions (ILO 2012f). To the extent existing laws provide union leaders special procedural protections from dismissal, such protection is disproportionately afforded to men.

The rapid expansion and politicization of trade unions in the garment, textile, and footwear industry poses a challenge for industrial relations in that sector. As mentioned, it is not uncommon for a single garment factory to have multiple unions, leading to competition for members that can become intense and sometimes violent. Competing rival unions also weaken the labor movement itself, as they often lack the unity and common voice required for organizing on issues affecting their common interests. The MOLVT has proposed enacting a new trade union law to address the issue of union multiplicity.[59]

Employment contracts and the minimum wage have become contentious issues. Two areas that garment, textile, and footwear industry trade unions have rallied around are employment contracts and wages. The use of renewable, short-term, temporary employment contracts, referred to in Cambodia as fixed-duration contracts, is generally accepted as being widespread in the garment, textile, and footwear industry. Employers assert their right to use fixed-duration contracts to ensure a perceived flexible and cost-efficient workforce necessary to attract foreign direct investment to Cambodia. Unions argue that this type of contract results in the loss of entitlements and employment insecurity, with associated impacts on the ability of unions to establish, organize, and negotiate. Unions contend that their local leaders are particularly vulnerable to nonrenewal of fixed-duration contracts. In November 2012, seven union federations signed a "unity agreement" pledging to address common issues, including the use of these contracts. Large-scale strikes in 2010 and 2013 over national minimum wages in the garment, textile, and footwear industry were joined by multiple union federations and confederations.[60] Negotiations between representative bodies of employers and workers that led to the recent decision setting the minimum wage for 2015 saw unions across the political spectrum exhibiting an unprecedented degree of unity on this issue.

3.6.3 Collective Bargaining and Social Dialogue: The Regulatory Framework Is in Place, but Needs to Be Translated into Effective Practices

The right to collective bargaining is one of the fundamental international standards enshrined in Cambodian law and is a key mechanism for ensuring workplace rights and representation, improving working conditions, and securing industrial stability through improved labor dispute resolution. Collective bargaining is a vital tool for effective, efficient, and fair labor market governance and can provide a normative source of entitlements and obligations by establishing mutually acceptable rules (Hayter 2011). This is especially important in the Cambodian context, where legal enforcement options are limited.

[59] Some stakeholders have called for a more transparent and consultative approach to the drafting process. Substantive concerns have also been raised about the potential restrictions of freedom of association and other rights.

[60] Divisions remained between unions aligned with the Cambodia People's Party and those not aligned with it during these disputes, however.

A legal and regulatory framework is in place for collective bargaining, but that is not enough to guarantee effective collective bargaining. Collective bargaining is defined by the Labor Law and the ILO conventions to which Cambodia is party. Cambodian law generally provides an appropriate regulatory framework for collective bargaining, based on recognition of the rights to freedom of association and the provision of a platform of minimum standards and mechanisms to resolve labor disputes. Nevertheless, in addition to the regulatory aspects, effective collective bargaining requires strong, independent, and representative worker and employer organizations; adequate knowledge of industrial norms, practices, and issues; access to and effective participation in institutions and processes for social dialogue; and the effective enforcement of laws and regulations through labor inspection and the judicial system (ILO 2007). It is primarily these nonregulatory issues that impede the development of a mature collective bargaining environment in Cambodia.

The multiplicity of unions in individual establishments has impeded the effectiveness of collective bargaining. All unions in Cambodia have the right to bargain collectively, and the Labor Law and associated regulations oblige employers to do so. Collective bargaining agreements (CBAs) reached with a union registered as having "most representative status" are applied to all employees. For a union to gain such a status it must represent a majority of workers in a bargaining unit (generally an enterprise, but this could also be occupation, location, or industry). Unions without most representative status (minority unions) have the right to represent only their members. Under Cambodian regulations, if no single union within an enterprise holds most representative status, then multiple unions may join together. In practice, however, politicization and competition among unions, particularly apparent in the garment sector, have inhibited such coordinated efforts.

The MOLVT has been issuing most representative status certifications since 2002. As of 2009, 202 certificates had been issued, representing a small number of registered enterprise-level unions, though not all of them may currently be active (Nuon and Serrano 2010). The large number of enterprise-level unions and the proportionately low number holding most representative status certifications continue to inhibit effective collective bargaining.

Minimum standards of bargaining are mandated by regulation and include the key responsibilities of each party in the bargaining process and mandatory participation in the Labor Law's dispute resolution processes if a negotiated outcome cannot be achieved and before any industrial action (strike or lockout) may be taken. This provides a road map for parties in bargaining and, if understood and followed, provides the mechanisms for orderly and responsive negotiations.

Importantly, CBAs cannot undermine the minimum entitlements set out in the Labor Law and they expressly override any less favorable conditions in individual employment contracts. The MOLVT, after consultation with the LAC, may extend all or some of the terms of CBAs to other employers and workers in the same occupation or industry. The ministry has so far not done this.

Collective bargaining agreements remain uncommon and may not always indicate effective bargaining. The numbers of registered CBAs remain low. From around 2003 onward, CBAs in the hotel/tourism and garment, textile, and footwear sectors began being registered, and collective bargaining is now well established in a limited number of luxury international hotels and the two major airports (ILO 2012g). By 2004, 19 CBAs were registered, increasing to 59 in 2006 and 131 by 2009. Some believe this sharp increase is related to employers reacting to a regulation change and seeking to legally maintain the status quo by CBA provision, rather than to a change in the effectiveness of collective bargaining per se (ILO 2012a). Outcomes from conciliated disputes are registered as CBAs, which contributes to the number of narrow, rather than comprehensive, CBAs.

In a 2010 MOLVT report, 217 CBAs were registered in Cambodia, consisting of 193 CBAs from the garment, textile, and footwear sector, 2 from the banking sector, 16 from the hotel sector, and 6 from other sectors in the formal economy (ILO 2010). While it is difficult to develop traditional forms of collective bargaining in the informal sector, the relevant principles of freedom of association and the right to collective bargaining can still apply to the informal sector if some challenges are addressed, such as how to define the bargaining relationships (ILO 2007).

Most CBAs to date are single-issue agreements, negotiated on an ad hoc basis, or agreements resulting from conciliation conducted by the MOLVT. The dearth of comprehensive CBAs create uncertainty in industrial relations and misunderstanding over terms of contracts between workers and employers who may find themselves in repeated disputes instead of seeking to settle an employment package with a guaranteed "no further claims" clause. Ad hoc and routine reviews of the quality and content of registered CBAs are made difficult by the lack of a comprehensive, accurate public database of CBAs. But the small number of CBAs that do include broader issues have addressed bonuses, working hours and overtime, maternity leave, occupational health and safety, canteens, and the status of employment contracts (fixed duration or permanent) (Yoon 2009).

The limited capacity of both worker and employer parties is widely acknowledged as constraining collective bargaining in Cambodia. Enterprise-level unions lack adequate human and financial resources; and weaknesses in employers' understanding of and compliance with the Labor Law—for example, their limited understanding of the productive role of collective bargaining in mature industrial relations—inhibit the full operation of the law (ILO 2012g).

***Progress is being made in industrial relations in the garment* sector.** The Memorandum of Understanding on Improving Industrial Relations in the Garment Industry, signed in 2010 between trade unions and employers in the garment, textile, and footwear industry, was an important development in Cambodian industrial relations for the use of dialogue to reach an agreement. This memorandum of understanding (MOU), negotiated with the assistance of the International Trade Union Confederation, the International Organisation of Employers, and the ILO, contained commitments to jointly advance "harmonious industrial relations in Cambodia."

The MOU was reached between GMAC and six trade union federations and confederations, and committed all parties to certain principles, including CBAs, recognition of the legal role of the most representative status unions in bargaining, and binding arbitration in rights disputes. Encouragingly, the MOU was renewed in 2012 with two additional trade union signatories and, as of writing, the parties have agreed in principle to extend it and negotiate a renewal. These events, and the role unions have played in discussions on an anticipated new trade union law, are evidence of the more active role of unions in social dialogue.

Collective bargaining remains in its infancy in Cambodia. Yet despite the regulatory framework and the MOLVT's long-standing commitment to the central role of collective bargaining in the labor relations system, the effectiveness of collective bargaining has been limited to date, for four main reasons. First, breaches in freedom-of-association provisions as well as inter-union competition limit the ability of trade unions to effectively organize and represent workers in the pursuit of collective bargaining aims. Second, a lack of capacity on the parts of both workers and employers inhibits the development of collective bargaining. Third, the relatively small number of workers in formal employment relationships severely restricts the scope of collective bargaining. And fourth, the need for trade unions to focus on seeking employers' compliance with minimum standards detracts from their ability to negotiate for improved conditions.

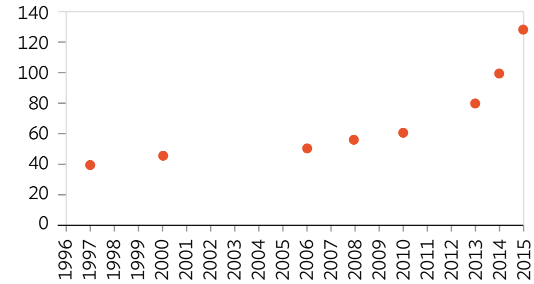
3.6.4 Wage Setting: The Need to Go Beyond a Minimum

Minimum-wage setting has been a focus of Cambodian industrial relations since 2000. It has been a primary focus for industrial relations stakeholders in the garment, textile, and footwear industry since that time and continues to provide a clear picture of the strengths and weaknesses of the labor relations system. The wage-setting process has seen some development of social dialogue on the one hand and significantly damaging industrial action and reprisals on the other.

The Labor Law provides for setting a minimum wage by the MOLVT, after receipt of recommendations from the LAC, which "must ensure every worker of a decent standard of living compatible with human dignity." In reaching a determination, the ministry and the LAC are intended to consider and balance the needs of workers and economic factors, such as productivity and job growth. There are no mandated time frames in the Labor Law for when a minimum wage should be set or reviewed. While the provision for a minimum wage applies to all sectors covered by the Labor Law, the MOLVT to date has only fixed a minimum wage rate for workers employed in the garment, textile, and footwear industry. Furthermore, although the minimum wage is the legislated least amount of remuneration an employer is allowed to legally pay workers, few enterprises provide more than this fixed rate as the base salary for garment workers. In effect, the national minimum wage rate is the actual paid wage rate in the garment industry.

A minimum wage in Cambodia's garment industry was first set by the MOLVT at $40 per month in 1997 (just before the promulgation of the Labor Law), and then again in 2000 at $45 per month. In the last 15 years this minimum wage has been reset on six occasions.[61] The evolution of the minimum wage over time is presented in Figure 3.7.

Figure 3.7: Monthly Minimum Wages, 1996–2015 ($)



Source: International Labour Organization, ILOSTAT Database, accessed October 2015.

In 2013 and 2014, demands for increased wages across a range of industries resulted in widespread strikes. These were organized by teachers, civil servants, gas station workers, brewery workers, garbage collectors, and staff at the Extraordinary Chambers in the Courts of Cambodia (the UN-backed Khmer Rouge tribunal), as well as garment, textile, and footwear workers. The demands have resulted in improved wage rates on an enterprise or occupational basis in some cases, and the establishment of a $128 monthly minimum wage in the garment, textile, and footwear industry as of 1 January 2015.

Part of the reason for the contentiousness of the minimum-wage-setting process has been the lack of transparency in the process. When the MOLVT announced the 2015 minimum wage rate of $128 per month , exclusive of other benefits, in November 2014, some trade unions initially rejected the increase because it was deemed too low. The January 2014 wage increase was also rejected by some trade unions in the garment, textile, and footwear industry for the same reason and this resulted in strike action, violent reprisals, and ultimately a ban on public demonstrations in Phnom Penh. This is illustrative of the need to improve social dialogue and transparency in wage setting. Trade unions previously expressed the view that the LAC, while tripartite in law, has not been so in practice; that the process lacked transparency; that there has been no publicly disclosed reasoning or justification for

[61] These were in 2006, 2008, 2010, 2013, 2014, and 2015.

the scale of proposed increases; and that minimum wage rates have failed to meet the minimum cost of living requirements (Nuon and Serrano 2010).

The MOLVT has indicated that it intends to further improve transparency through regulation on the minimum-wage-setting process. Although the MOLVT established a working group comprised of nine representatives each from trade unions, garment enterprises, and government to assist the LAC in recommending a minimum wage for 2015, these views continue to be expressed and highlight the weaknesses and sources of instability in Cambodia's labor relations system.

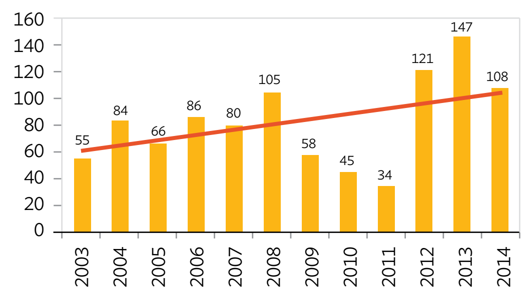
The involvement of trade unions, employers, and government can promote the development of collective bargaining and reinforce social dialogue (ILO 2009). Indeed, the Cambodian process is evidence of relatively sophisticated coordination between trade unions in relation to their bargaining policies (Yoon 2009). Conversely, excessive attention to the national and sectoral minimum-wage-fixing process may unintentionally result in a weakening of trade union representation and collective bargaining at the workplace and a consequent lack of development of enterprise-level wage structures, thereby leaving the minimum wage to become the only enforceable wage across the industry (Lee 2007). The focus of Cambodia's union movement in the garment, textile, and footwear industry on minimum wage setting rather than collective bargaining illustrates the need for further industrial relations development.

3.6.5 Labor Dispute Resolution

Cambodia's labor dispute resolution system has a core framework in place, but the parts are not yet working together effectively. A country's labor dispute resolution system is a critical part of its industrial relations environment, encompassing the policies, rules, processes, mechanisms, and actors involved at enterprise, sector, and national levels in the prevention and settlement of disputes between employers and workers. On paper, Cambodia has a comprehensive formal labor dispute resolution system that includes national strategies on dispute prevention and resolution, labor dispute resolution-specific rights and procedures set by the Labor Law, and related regulations. The MOLVT is responsible for overseeing the labor dispute resolution framework, which includes the Arbitration Council, courts, and plans for a labor court, as well as numerous other entities involved in labor dispute resolution in the country. In practice, however, employers and workers primarily trust in and rely on Cambodia's Arbitration Council for the effective legal resolution of labor disputes (van Noord, Hwang, and Bugeja 2011).

There have been large swings in the frequency of industrial actions in the garment sector. While labor disputes are not uncommon in Cambodia, recent years have witnessed volatility in the number of disputes and industrial actions in the garment, textile, and footwear industry. Strikes in the garment sector increased from 2003 to 2008, then decreased from 2009 to 2011; strikes abruptly changed course and rose from 31 in 2011 to 121 in 2012, and then to 147 in 2013; in 2014, recorded strikes dropped to 108 (GMAC 2015). These changes in the levels of industrial action in the garment sector can be seen in Figure 3.8.

Figure 3.8: Strikes in the Cambodian Garment Sector, 2003–2014



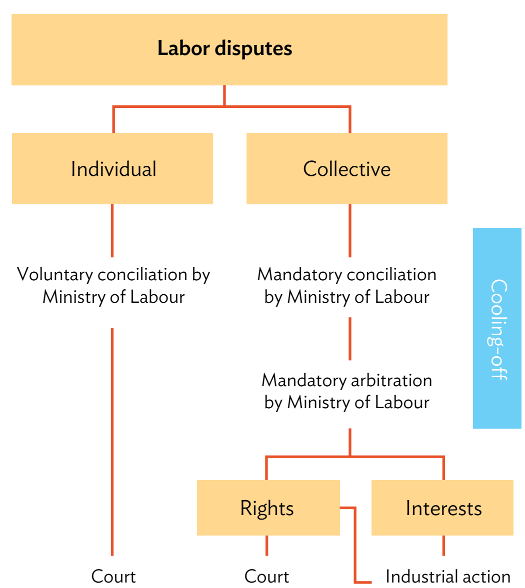
Source: Garment Manufacturers Association in Cambodia. 2015. Strike Report. http://gmac-cambodia.org/strike.

Statistics on strikes in other sectors are lacking, but in recent years construction workers, teachers, and miners have also joined strikes for higher minimum wages. At the end of 2013 and the beginning of 2014, national strikes to raise the minimum wage in the garment sector coalesced into strikes and demonstrations from other sectors, including civil servants and informal sector workers.

Strikes in Cambodia are partly the result of rapid economic transformation, but also structural problems with dispute resolution. Many countries experience an increase in disputes between labor and management as they undergo economic transition. In Cambodia, a number of factors have influenced the level of disputes. These include an underresourced and inadequate labor administration system, especially in inspection and conciliation; a challenging governance environment and the failure of most state-sanctioned institutions (including the courts but excepting the Arbitration Council) to gain the public's trust; and unfair labor practices, extortion and bribery, and distrust between employers and workers and between their organizations. As discussed, the proliferation of unions is an issue in Cambodia, leading to labor disputes as unions compete for members by escalating demands against employers. At the same time, strikes can also be seen as representative of the unmet demand by workers for employers to respect their rights and improve employment terms and conditions. Industrial action also indicates broad support among workers backing union demands. That the practice of industrial relations in Cambodia is still relatively new is an important consideration and should not be underestimated. All the parties involved still have little grasp of collective bargaining, open social dialogue, and the tripartism of government, employers, and unions working together. The lack of experience in dispute prevention and resolution, and the limited capacity of both employers and workers to engage in dispute prevention and resolution, underlie much of the labor disputes in the country.

When labor disputes arise and cannot be resolved directly by the employers and the workers, the law provides a process for resolution. The law distinguishes between individual labor disputes and collective labor disputes, and the procedures to be applied to a dispute depend on whether it is individual or collective. Once a collective dispute arises that cannot be resolved at the workplace between employer and workers, a cooling-off period is instituted during which parties are required to undergo conciliation and arbitration before they may engage in industrial action (strike or lockout). In practice, almost all labor disputes resulting in strikes failed to follow the required procedure, formally making them illegal. A combination of illegal strikes and the presence of multiple enterprise-level unions are the primary industrial relations complaint from investors and employers (CAMFEBA 2014). The labor dispute resolution process is illustrated in Figure 3.9.

Figure 3.9: Cambodia's Labor Dispute Resolution Process



Source: Arbitration Council. 2014. *Annual Report 2013*. Phnom Penh.

Conciliation is conducted by the MOLVT and, if successful, results in binding agreements. According to the MOLVT (2014), among the 859 collective labor dispute cases received by its conciliators in Phnom Penh during 2009–2013, it conciliated 288 cases, equivalent to a 33.5% conciliation rate. If conciliation is unsuccessful or leaves issues unresolved, the case is forwarded to the Arbitration Council.

The Arbitration Council has become an important element of dispute resolution. In 2004, the first full year of the council's operations, the MOLVT forwarded 114 cases for arbitration. This had risen to 285 by 2013 and 361 by 2014, a sharp increase (AC 2014). While the Arbitration Council's mandate to resolve labor disputes extends across the country and all employment sectors covered by the Labor Law, approximately 90% of all cases received by the council arise from the garment, textile, and footwear industry, where unions have been the most active.

The council is empowered to resolve collective disputes through mediated agreements or, failing that, formal arbitration and the issuance of decisions based on the application of law and equity, in the form of written, reasoned arbitral awards. Beyond providing the parties with a decision on their dispute, awards further the development of industrial relations and legal jurisprudence in Cambodia. Employers' associations and unions regularly reference awards in consultations with their members on labor law and industrial relations matters, and each case is an exercise in social dialogue and tripartism.

Though arbitration is mandatory for the resolution of collective labor disputes under the law, the Arbitration Council's awards are generally nonbinding: parties have the right to file an objection to an award. And a timely objection means the award is unenforceable and triggers the parties' right to take industrial action in the form of a strike or lockout or, in the case of a rights dispute, proceed to the courts.

Among the terms of the MOU signed by GMAC and several of the largest garment sector union federations and confederations on Promoting Industrial Relations in the Garment Industry,[62] parties agreed to submit their disputes regarding existing rights to binding arbitration by the Arbitration Council. As a result, according to council records, the rate of binding arbitral awards has increased markedly.

While an increase in binding arbitration is a positive development, legal compliance remains erratic. This issue is complicated by workers' often limited knowledge of their legal entitlements, which can result on the one hand in unfounded disputes and on the other in acceptance of conditions that do not meet the minimum standards set by law (CCHR 2014). Claims regarding excessive overtime; health and safety issues; wages of casual and probationary employees; and contract misuse and provisions relating to freedom of association are among the areas where compliance remains an issue at some enterprises (USDOS 2013; ILO and IFC 2014).

The Arbitration Council is a key institution in Cambodian industrial relations and, given the reputation it has acquired for probity and competence, one of the few governance institutions with the capacity and acceptance by both employers and workers to assist in the resolution of disputes (Adler and Hwang 2012). There are limits, however, to what it alone can accomplish. Although the arbitration process is free of charge for parties under the law, the Arbitration Council has not yet been allotted a budget from the government. The council has applied for an allocation from the 2015 national budget, but, in the meantime, it will continue to rely primarily on external international donor funds for operational support, as it has since its founding.

The uncertainty over the Arbitration Council's financial sustainability raises consequent risks for the provision of labor arbitration services in Cambodia. Moreover, the development of a sound,

[62] The MOU is currently under discussion for renewal.

more mature industrial relations system requires significant investment and resources in the whole system for labor dispute resolution. The MOLVT has reported some success in conciliating labor disputes (both collective and individual), but gaining the trust of workers and employers in the conciliation process remains a challenge (CAMFEBA 2014). Greater responsibility is required from workers and employers at the enterprise level for improving dispute prevention and resolution (Heron and van Noord 2004). Disputes that might otherwise have been prevented or resolved at the workplace have ended up in prolonged work stoppages and industrial action. Moreover, to the extent such disputes arise in an employment situation, there is often a concomitant reduction of trust and deterioration of the relationship between management and workers. Developing capacity for dispute prevention and resolution at the workplace, and improving capacity for social dialogue and collective bargaining, will increase the ability to resolve disputes earlier and more efficiently and will be important elements for the maturing of the industrial relations environment.

4. POLICY RECOMMENDATIONS

The National Employment Policy (NEP), which was promulgated by the government on 22 October 2015, aims to generate full, productive, and decent employment; strengthen skills and human resource development; and improve labor market institutions and governance. Employment and labor market outcomes are the combined result of many factors, including economic and structural policies. And one of the key functions of the NEP is to address and coordinate demand and supply side issues of the labor market and promote efficient and effective mobilization of workers toward productive jobs through proactive policy coordination and interventions. This section discusses policy recommendations to address the important constraints to improving employment outcomes in such contexts. Section 4.1 briefly discusses strategies for long-run growth and economic and export diversification. Section 4.2 makes detailed recommendations on education, training, and methods for potentially addressing skill mismatches now and in the future. Section 4.3 discusses strategies for rural development, given the centrality of agriculture and rural areas to any discussion of employment. Section 4.4 examines strategies for encouraging growth and formalization in the informal sector. Potential policies for expanding social protection are examined in section 4.5, and section 4.6 briefly discusses recommendations to improve industrial relations in Cambodia.

4.1 Promote Economic Diversification and Growth

Improving employment outcomes in Cambodia will require continued strong economic growth and, in particular, growth in labor productivity. In turn, creating such strong growth will require a stable macroeconomic environment, diversification of the economy, improved regional integration, policies to encourage private sector development, and improvements to infrastructure and other publicly provided inputs.

Economic diversification will be critical. Other studies have identified diversification as key to future development in Cambodia.[63] Diversification of export markets, and indeed of exports, would help to increase the security of employment and income. The Export Market Access Fund implemented by the Ministry of Commerce, which provides grants and technical advice to assist Cambodian companies in developing new export products and markets, is a good initial step, but efforts in this direction could be increased. Diversification of production will require targeted sectoral strategies, which are being developed. The most natural candidates for diversification include light industry and agro-processing. Agroprocessing, in particular, should open more regional export opportunities.

[63] This issue is discussed in detail in ADB (2014a).

Greater regional integration will provide more opportunities for growth and for diversification of export markets. The high official costs of exporting imply that the Cambodian economy is not yet able to reap the full benefits of regional trade links and value chains. To tap further into this potential it will be important to facilitate trade and deepen cooperation within ASEAN. Completing all preparations for the ASEAN Economic Community will be an important step forward in this regard. Improving transport links within the region should also allow for increased regional integration. Simplification of the regulatory regime and tariff structures will also encourage trade and help Cambodian industries to diversify their export markets; the following summarizes the main issues in this regard.

4.1.1 Improve the Business-Enabling Environment

Streamlining the legal system would make conducting business substantially easier and encourage growth, economic diversification, and foreign direct investment. The business community generally views the regulatory environment in Cambodia as unfavorable, although property rights have a strong legal basis, at least as expressed in the legal code. Simplifying regulation for business and improving the legal system could create a friendlier environment for business without reducing tax revenue, as formal business taxes are already relatively low. While legal rights are strong, the court system is cumbersome: on average a case takes 483 days to resolve, with typical costs exceeding the claim value (World Bank 2014). And the lack of transparency of legal processes can create doubts about the independence of the system and cause parties to seek alternative methods of resolving disputes, which may not be especially effective or efficient.

Procedures for opening a new business, regulations surrounding business insolvency, and the system for obtaining construction permits are areas in which improvements could be made. Similarly, although much progress has been made in recent years, the data discussed in section 1.3 indicate that Cambodia has relatively high official costs associated with exports. Anything that can be done to reduce such costs and simplify export procedures will be of help.

Increasing the transparency of government and regulatory operations will also help to encourage private business by creating a simpler and more predictable business environment, and it is also likely to increase compliance. One simple step would be to encourage more ministries to follow the practice in some government agencies of publishing their schedule of fees for permits, licenses, and regulation. Another would be to strengthen the drive to establish national awareness of transparency and accountability issues.

4.1.2 Improve Infrastructure

All other factors of production that work alongside labor and make labor more productive need to improve for better economic performance and employment outcomes. One of the critical factors is infrastructure. It will be particularly important to complete the expansion of electricity generation to reduce expensive energy imports. Also key will be strengthening rural electricity enterprises and expanding the network of paved rural roads, as well as improvements to water supply and sanitation in rural areas.

The creation of a national electrical grid will be a necessary step in improving and expanding electricity supply, along with improvements in generation, transmission, and distribution. The Rural Electrification Fund could be designated as the central coordinating agency for pooling funds from development partners for rural electrification. Sufficient government support should be provided for creation of the grid and expansion of generation and transmission capacity.

The Ministry of Public Works and Transport will need sufficient funds for road development projects. A good target would be an increase in road density and the share of paved roads, from the current 23% to a share of 40% by 2025. Completion of the rehabilitation of the railways will allow a greater share of bulk goods to be transported by rail and reduce heavy wear on roads, while ensuring rail connectivity with ports in Cambodia and Thailand will aid export industries and improve regional integration.

4.2 Address the Skills Mismatch

More can and needs to be done to ensure that all young people are able to complete basic education and that adequate vocational qualifications can be provided. The Cambodian education system reveals substantial weaknesses, accompanied by a mismatch between the skills present in the workforce and the skills demanded by current employers and required by the demands of future economic diversification. Institutionally, Cambodia has made considerable progress in providing education and training to its younger generations. However, further improvements can be made in a number of areas, including the general public education system, the technical and vocational education and training (TVET) system, the provision of job market information, and cooperation and information sharing with private employers.

Lack of information concerning the economic returns to education is a problem that can be addressed relatively cheaply, through outreach in the schools as well as via the National Employment Agency. In terms of the information needed to further develop education and training systems to meet the needs of a changing economy, the establishment of the National Employment Agency has been a step in the right direction. It will still require some years of expansion and development to have adequate outreach, but such capacity is being gradually developed.

Breaking the cycle of poverty and limited schooling will require concerted efforts to increase economic opportunities for vulnerable populations and extend access to education for their children. At the household and individual levels, the link between household poverty and the failure to complete education through lower secondary school needs to be broken. That level of basic education will be needed for the younger generation to be able to fully participate in the evolving structure of the economy, and in particular for children from vulnerable populations to be able to reap the benefits of inclusive growth. Concerted efforts need to be made to extend access to education, including lower secondary education, as well as to expand the social protection floor and enhance the productivity and incomes of small-scale farmers to reduce the economic need for children to enter the workforce before completing basic education.

Targeted school subsidies and scholarship programs can help. One simple step to improve educational outcomes is to provide adequate resources to expand school midday meal programs in poor areas; this will improve nutrition and provide an incentive for parents to send their children to school. The government also offers a secondary school scholarship program, which aims to support children from poor families to stay in school.

Education quality concerns should also be addressed. This will require opportunities for additional training of currently employed teachers and an extension of the MOEYS program to strengthen governance at the subnational national, especially in the school system, as well as increasing resources available for the education sector.

To enhance growth and productive employment it is necessary to ensure that the skills supplied by the Cambodian workforce match skills demanded by the private and public sectors. On the one hand, emphasis should be given to the design of the education system, making sure that relevant skills can actually be acquired. On the other hand, informational constraints on the labor market should be addressed to facilitate the matching process. A coordinated approach, including not only private and public education institutions, but also private enterprise and the demand side more generally, is essential to provide productive employment for the younger generations about to enter the labor market.

Better coordination is needed for the TVET system to supply a sufficient number of skilled workers for changing market demand. A significant challenge in steering skills development stems from the fact that many training activities are planned and conducted outside the regulation and monitoring of the Ministry of Labor and Vocational Training (MOLVT). It will be necessary to strengthen the National Training Board's (NTB) policy and coordinating roles, coupled with strengthening the MOLVT's role in managing the national implementation of the NTB strategy.

Currently, most training opportunities are provided by the private sector and nongovernment organizations (NGOs), formally and informally. The NTB's membership reflects the government's commitment to a partnership with those involved in the skills development process. By engaging labor and enterprises with government and private training providers as members, a stable mechanism is created to allow for a long-term plan to match skills with employment (ILO and CIDA 2014). A formal and coherent scheme of skills recognition is necessary to guide the provision of TVET and monitor the quality of training and education.

4.2.1 Improve the School System

More financial and human resources are needed to improve Cambodian school systems. Class sizes should be decreased to a maximum of 30 in primary schools and 25 in secondary schools. Additional teachers will be required to meet these targets, especially in primary schools where the overcrowding problem is most acute, although successively smaller cohorts of students will alleviate the need somewhat. This may require raising salaries of primary school teachers to bring them closer to those of secondary school teachers, providing additional incentives to retain teachers in more remote areas, and expanding programs to recruit and train qualified teachers who are themselves from such remote areas.

Increasing the skills of teachers is essential for improving educational quality. An important step in improving the quality of education would be to reduce the share of secondary school teachers who have not completed upper secondary education from the current 14% down to 10% by 2017 and to zero by 2022. This will require providing appropriate in-service and distance learning opportunities for teachers to upgrade their qualifications. Providing such opportunities will be important for primary school teachers as well, because of the history of hiring relatively poorly educated teachers in the past. That history makes providing continuing education for teachers a critical priority in improving the quality of education. Additional preservice instruction for new teachers will help to improve the quality of education as large numbers of teachers are added to the system. Implementation of the newly approved MOEYS Teacher Policy Action Plan will help tremendously to address the issues facing teachers and the quality of education.

It is also important to review curricula and teaching methods. As well as upgrading the skills of teaching staff, it will be important to review curricula and pedagogical methods to ensure that education and skills provided in secondary schools meet the needs of the job market and provide appropriate qualification for entry into higher education. In particular, it will be important to improve upper secondary education to prepare students for successfully undertaking science majors at university or for making a successful transition to TVET. This is especially important given the low proportion of engineering graduates and the need for engineers as the economy diversifies into light manufacturing.

Eliminating corruption and enhancing governance in the education system improves educational outcomes. The anticorruption efforts that have been successful for the upper secondary school final exams should be extended throughout the system, including to tertiary levels. Governance issues in public education should be carefully examined with an eye to increasing transparency and reducing opportunities for corruption, just as in other branches of government. Eliminating corruption in the education system will not only improve educational outcomes, but is likely to reduce corruption in other areas by training new generations for whom corruption is not an accepted practice.

TVET is another area in which substantial improvements in the system could help to provide better employment outcomes and to foster inclusive growth. This could start with expanding the capacity to provide basic and vocational training to people who did not complete basic education through skills bridging programs. Furthermore, there should be more, and more explicit, coordination of the TVET system and the regular education stream to ensure they are providing complementary alternatives. This goal would be helped by clearly defining the roles of the various ministries involved in TVET, especially those of the MOLVT and MOEYS. More clearly defined roles would also make it easier to ensure adequate and stable financing for TVET. Effective implementation of the Cambodia Qualification Framework (CQF) needs to be supported by introducing vocational skills certification and recognition of prior learning and current competencies policies and systems, and skills competency standards. Private sector employers and industry exports also need to provide extensive input for these supportive systems and policies.

To improve the relevance of TVET education, private sector involvement and TVET development policies should be promoted. Areas of focus could include designing training programs, setting educational and skills training standards, providing quality assessment and certification of TVET, and accrediting training institutes. Operationalizing the CQF will link education and training across all levels, allowing it to be available in and beyond formal education institutions. It can then provide a sensible structure for qualifications, thereby promoting high quality and relevance. The CQF can also provide a skills recognition system with clear learning outcomes to be achieved and where all achievements can be recognized (ILO and CIDA 2014, p. 11). Private sector participation and investment could also help in establishing sector skills councils and centers of excellence for priority sectors. One specific way of encouraging employers' participation could be NTB-established sector skills councils, by which employers could be engaged either regionally or at the level of individual institutions. For example, employers from the sectoral councils could be represented in the governance of TVET institutions.

4.2.2 Provide Opportunities for Learning outside the School System

Upgrading skills of the current workforce needs to continue by promoting nonformal education and lifelong learning. Because of the rapidity of Cambodia's demographic transition and the low educational attainment of the current workforce, it will be important to provide opportunities for continuing education for those who have already left the school system.

Given the relatively low level of skills in the existing workforce, there are large potential gains from providing continuing education not just through the public education sector, but also through supporting apprenticeship programs and nonformal learning centers. Specific policy to support the better use of workplace learning and apprenticeships would be particularly helpful. Such a policy response should start by focusing on the labor demand side by working with employers. Expanding apprenticeships will require regulatory, financing, and governance systems to be in place that involve both employers and trade unions.

It could also be helpful to encourage customized training, on-the-job training ("soft" and "hard" skills), and apprenticeships more generally, with close collaboration among the government, private sector, and trade unions. The forging of the sort of links that this collaboration will require can also be helpful for the issues of communications and information flow discussed in section 4.2.3.

4.2.3 Improve Information Flows among Students, Schools, and Employers

More information and its better flow are needed for efficient job matching now and tomorrow. It is important for young people and their families to have an accurate picture of the job market today and in the foreseeable future so they can make well-informed decisions on their educational choices. One low-cost intervention is to provide more and better career counseling, to help make sure that students and their families are aware of the economic benefits of education.

The National Employment Agency should also be able to provide better information, in more detail, to the NTB and to employers on current and future skills requirements. Indeed, the National Employment Agency should be better supported as it can potentially have an important role in improving public employment services to better match job seekers with employers, and can expand and improve its existing labor-market information system to help employers, job seekers, and policy makers make informed decisions.

Strengthening public employment services to better support labor market interventions and provide vocational, career, and employment counseling would also be valuable. Creating awareness and strengthening the delivery of services of its current network of job centers will allow for a more effective labor market exchange system. This could serve as an important channel for passing on information about improved TVET options, apprenticeships, and continuing education opportunities.

Increased support for employer organizations, especially organizations in sectors that will be important for Cambodia's economic transition, can help foster labor market communications. These organizations can help to serve as a hub for information about current and future labor demand and as an aid to provide expert input for TVET design and qualification certification, apprenticeship programs, and the education system more broadly.

Overall, the government may consider programs that will help unemployed youths find work. These could include (i) specific youth programs at job centers and labor exchanges, including assistance with interview skills and writing a curriculum vitae; (ii) TVET programs targeted at unemployed youth; and (iii) employment subsidies, either in the public or private sector, to create jobs for the unemployed as short-term measures to allow them to build up work experience.

4.3 Support the Rural Population

Income-earning prospects in nonagriculture sectors and the income security of the rural population need to be improved through better provision of social security, social protections, and training for skills development to facilitate structural change. Furthermore, increasing relatively low agricultural productivity will be essential for improved outcomes for rural development and employment.

Without improving productivity, income provision, and security of subsistence farming, nonagriculture sectors will continue to face seasonal labor shortages. Such cyclical labor shortages may well constrain development of diversified nonagriculture sectors, which are generally more productive than traditional agriculture and are likely to provide better income-earning prospects for Cambodian workers. In particular, extended irrigation will not only increase agricultural productivity, but also reduce the cyclicality of demand for labor. This should allow for a more stable supply of labor into nonagricultural rural enterprises, encouraging economic diversification in rural areas. At the same time, a more systematic provision of social protections could not only improve the livelihoods of poor families, but also facilitate their investment decisions in education, mobility, and occupational choices for the younger generation. Such changes would encourage structural transformation and help provide a basis for long-term growth.

Investment in the agriculture sector could produce large payoffs in terms of rural employment outcomes and economic transformation. Other approaches to increasing agricultural productivity, improving labor market outcomes, and facilitating the transformation of the rural economy could include increasing investments in agriculture and agribusiness, investing in transport infrastructure, and improving TVET education to match the needs of local industries and the agriculture sector as it adopts mechanization and other methods for more intensive cultivation. Public infrastructure investments in irrigation and transportation could be used in particular to increase returns from investments and to strengthen the linkages between agriculture and agribusiness. Furthermore, improving the legal framework, increasing service quality in the tourism sector, and extending access to financial services for small or medium-sized enterprises are likely to have positive effects on productive employment in rural areas. Facilitating improved access to financial services for rural enterprises can further support the transition to commercial agriculture.

Rural development and improving agricultural productivity are essential for sustained high and inclusive growth in Cambodia. Rural development and improving productivity in agriculture will be necessary not only to improve employment opportunities and outcomes for rural areas, but also to release labor that will allow for a structural transformation of the Cambodian economy similar to those that other fast-growing countries in East Asia have already passed through. Therefore, an active approach to rural development and agricultural productivity will be a key component of any successful strategy for economic diversification and sustainable, well-distributed growth.

4.3.1 Improve Agricultural Productivity

Improving agricultural inputs will increase productivity. Broadly speaking, a number of steps can help in moving toward higher agricultural productivity. First, the use of existing land in cultivation can be intensified. It is well known that improvements in agricultural productivity can be achieved through greater use of fertilizer and irrigation. One study by Yu and Fan (2009), found that applying fertilizer is the largest single contributor to yield increases in rice production in Cambodia. The study also found, unsurprisingly, that irrigation is another key determinant of yield. Thus, the first step to improving agricultural productivity will be to improve the access of farmers to modern inputs, technology, and credit, the factors that are complementary to agricultural labor. Improving transport facilities in rural areas can increase effective agricultural productivity by opening up new channels for distribution of marketed crops. Construction of irrigation facilities to help unlock the value of Cambodia's rich reserves of fresh water should be a critical priority, as it will raise productivity and rural incomes, and lead to greater seasonal stability of agricultural labor demand, which will help encourage the release of labor for other rural enterprises.

The mechanization of production should be encouraged to increase yields per hectare and reduce the labor needs of the agriculture sector. Mechanization can be encouraged through providing channels for financing, setting quality standards, and targeting TVET programs for technical training for the use and maintenance of modern agricultural equipment. Another method to encourage mechanization is through joint utilization systems for agricultural machinery that allow farmers to lease machines on demand, reducing investment costs and allowing smaller plots to be farmed, and setting up pilot farms to demonstrate and promote the use of machinery.

More crops per year are feasible by increasing irrigation facilities and land productivity. Apart from increasing cultivation intensity, the number of crops per year can also be increased. Most Cambodian farmers cultivate paddy rice only once a year, during the rainy season, while farmers in Viet Nam's Mekong Delta region cultivate three crops a year, with the assistance of a complex and extensive system of irrigation (Hoanh, Suhardiman, and Tuan 2010). While the Mekong Delta region is not directly comparable to most of the agricultural land in Cambodia, nonetheless it provides a dramatic illustration of what can be accomplished. The traditional farming system in Cambodia is low-productivity, terraced rain-fed rice production, undertaken by around 70% of the rural population, representing 80% of the rice cropping area and 70% of paddy production (AusAID 2006). A lack of irrigation facilities restricts the majority of producers to a single crop per year, and makes them dependent on rain-fed conditions, with the inherent risk and production variability that this brings.

Promoting high-value rice strains can increase value added. Given the lack of a large pool of excess labor in the agriculture sector, it could be beneficial for Cambodia to implement a strategy similar to one used in Thailand, which focuses on high-value strains of rice. In doing so, farmers could earn higher incomes without having to commit additional labor to production. Thailand commits a relatively low volume of labor to its agriculture sector, about one person per hectare, and even though rice yields there are relatively low, at just 2.7 tons per hectare, Thai farmers can fetch higher prices, more than enough to make up for the lower yields, and thus earn higher incomes than farmers in other countries. Thus, a concerted government effort to mobilize farmers to produce high-value rice strains will increase revenue for rice producers, while it may also contribute to release of labor into the modern sectors of the economy.

4.3.2 Improve Other Employment Opportunities in Rural Areas

Cambodian can develop a domestic agroprocessing industry and integrate it into a complete regional agricultural value chain. While agriculture is by far the most important economic activity in rural areas, its role in employment will decline over time as agricultural productivity rises and the Cambodian economy industrializes. In this context, a key task will be to develop a domestic agroprocessing industry and to integrate it into a complete agricultural value chain. It will also be important to provide an environment in which small and medium-sized enterprises can form and grow to absorb agricultural output and stimulate growth.

Improving rural workforce quality and mobility will also aid employment outcomes. In this context, mechanisms and facilitation services to efficiently coordinate the flow of agricultural labor between subsistence and commercial agriculture will help agricultural workers find the best options. For instance, commune councils can disseminate information and mobilize the exchange of labor across communes. Further, TVET and informal training opportunities can help to develop skills that are required in the modern sector. Provision of appropriate social protection, for which recommendations are discussed below, will also help in encouraging households to move beyond subsistence agriculture and take the risks needed to enter the modern sector.

4.3.3 Improve the Legal Framework to Facilitate Transactions and Secure Land Tenure

Improving the security of land tenure and the legal structure for transactions in land will be a key step forward for rural development. With secure, well-recorded land tenure and an effective legal structure in place, an effective land market can take root, which will help in the allocation of land to the most efficient users, thus increasing agricultural productivity. It will also help to improve rural credit by making better use of land as collateral; collateral is not useful to a bank if it cannot be obtained and liquidated to eliminate the debt. Secure tenure will provide economic incentives for smallholders to invest in improving their land, as they know that they will be able to benefit from such improvements. This will also contribute to increased agricultural productivity. In addition, secure land tenure will help to protect the rights of smallholders, who may otherwise find their land unfairly appropriated as a result of unclear landholding rights.

Currently, there is a substantial lack of clarity in land rights. In 2012 alone, there were 70 new land dispute cases, affecting 101,408 hectares and 10,689 families (ADHOC 2013). The Land Management and Administration Project has been unable to protect many vulnerable households, with the influx of foreign investment and rapid urbanization and commercialization endangering the land tenure of many. As of December 2012, the government had reserved or allocated about 2.7 million hectares of land under the Economic Land Concession scheme, despite announcing a moratorium on granting land concessions in this fashion. While the government also granted 38 social land concessions, under a plan to provide land to poor, landless families, these covered only 101,000 hectares—a negligible figure compared with the amount of land granted to the private sector under other concession schemes (ADHOC 2013). Against this backdrop, the clarification of land tenure and enforcement of existing land rights will be essential for rural development.

4.4 Address the Issues of the Informal Economy

The informal economy as a whole will be an important component of the Cambodian economy for many years to come, making it important to promote productivity and efforts to improve the working conditions of those engaged in the informal sector.

The provision of a conducive policy and legal environment for the informal sector and micro, small, and medium-sized enterprises (MSMEs) will help new businesses to start, and smaller businesses to enter the formal economy and create new formal jobs. The focus on employment generation should be complemented by skills development support, as discussed in section 4.2. Again, the needs of the informal sector highlight the importance of vocational training as well as small business start-up skills. It will also be important to increase public awareness of these nonschool educational programs and make them attractive to MSMEs and their employees. Improving educational quality is critical for the Cambodian economy in general. However, as lack of skills was identified as one of the key constraints to the development of MSMEs, skills development is particularly important for the informal sector. It may be useful to introduce into general and tertiary education some aspects of technical training, as well as soft skills development such as entrepreneurship, communication, management, and negotiation.

Policies to help successful MSMEs move into the formal economy will improve outcomes. While the informal economy makes up a huge fraction of the entire economy, it is important to help bring MSMEs that are currently in the informal economy fully into the formal economy so that tax revenue is collected, regulations are enforced, social protections are extended, and appropriate rights are guaranteed to workers. Simplifying the formalities for setting up a business will be especially important for enterprises in the informal sector that may want to move toward official status. To begin with, it should be inexpensive for local and national authorities to improve access to information on business registration and to simplify the documentation requirements that allow entities to register their businesses.

Increasing the benefits of legal registration, including easier access to commercial buyers, more favorable credit terms, better legal protection and contract enforcement mechanisms, and better delivery of public goods, can tip the balance toward formalization in significant ways. In other words, a successful strategy to provide incentives for businesses to register will involve both reducing all of the costs of registration (formal, informal, and informational), as well as increasing the benefits of registration. Legal support and business counseling, training courses in business management and financial literacy, and improved access to financial services are potential interventions to provide incentives for formalization without stifling business activity and innovation in the informal sector.

Creating an enabling environment for MSMEs in the informal sector can foster economic growth and various government policies can help. Providing vocational training to microenterprises—especially those with only one or two people—in technical and soft skills such as business management, business planning, communication, marketing, and basic accounting for record keeping will help generate employment for low-skilled or unskilled workers. Government agencies such as the MOLVT and the Ministry of Industry and Handicrafts are in good positions to facilitate such training. Business associations can also be encouraged to provide such training to MSMEs, although this will be much more effective with support from the donor community.

The provision of business consultation services to MSMEs will also help to support the informal sector. Such programs should be ongoing rather than implemented for a short period since newly created MSMEs need continuing support to help them grow. These consultation services should also be carried out as a follow-up to the training provided. Most interviewees in the MSME survey said that such follow-up services were necessary to give MSMEs the chance to assess their business challenges. The government agencies in charge of MSMEs and existing business services are in a good position to provide business consultation services to MSMEs. Long-term donor financing may also be required to help finance such business consultation services.

Strengthening coordination and cooperation among the private sector, its representative associations, and the public sector will be critical in moving toward improved employment outcomes for those employed in both the formal and informal sectors. This could include supporting business associations and other private sector organizations promoting MSME development as well as groups representing the interests of workers and their social protection. Strengthening and building the capacity of organizations representing employers and employees can help to make legal and policy frameworks for labor more effective. While functional groups exist, they mostly represent those engaged in the formal economy.

Obstacles to the recognition and promotion of organizations of employers and workers in the informal economy can be removed to allow greater participation in social dialogue on national priorities and strategies. This will require raising awareness of the appropriate rights and benefits for the informal sector, even though participants are engaging in businesses that mostly fall outside the existing legal and policy frameworks. Establishing and formalizing dialogue between the private sector and the public sector can move forward through channels similar to the Government–Private Sector Forum.

Further efforts can be put into place to develop administrative capacities, build a countrywide implementation structure, and strengthen coordination among public agencies that deal with the informal sector. The recent adoption of the National Social Protection Strategy for the Poor and Vulnerable under the leadership of Council for Agricultural and Rural Development, for instance, is one positive attempt to coordinate all relevant actors and streamline the implementation arrangements among them.

4.5 Expand Social Protection

The Constitution lays down the broad principles of social protection for the Cambodian people, but it is only in the last few years that policies have been introduced, based on which a system of social protection is being created. While a strong start has been made, the system of social protection does not extend in any substantial way to the majority of the population.

More inclusive health care and pensions should be top priorities. In the short term, a high priority for social protection should be the creation of a national health insurance scheme that allows for significant reductions in out-of-pocket health care spending. In the medium term, a public pension system should be established such that current and future generations will be able to maintain basic living standards in retirement. Both programs should be specifically inclusive of the rural population, so that poverty can be decreased effectively and reliance on subsistence activities reduced.

At the moment, the scope of social protection is limited, though improving. While current policies envision a significant expansion of these protections, they are not yet in place and stable long-term financing is not yet arranged. Significant expansion of social protections in the short run is constrained by the need to create fiscal space; indeed, while there are many demands on the government budget, expanding social protection will be one of the most important in the medium term.

In terms of health care, basic improvement will require an increase in the number of physicians and other health care professionals, and the expansion of health care coverage and access. To achieve this, there will need to be an expansion of schooling for doctors and other medical professionals, promotion of medicine as a career option, and medical sector salaries that are commensurate with the skills required. At the moment, there do not appear to be as many students studying science and medicine at the tertiary level as will be needed to cover future health care needs. Although user fees for public health care are modest, health care coverage for the poorest is largely provided through donor-funded health equity funds. While these programs are generally thought to have been very successful, the dependence on donor financing marks them as transitional institutions that do not constitute a dependable institutional structure for the long term.

The government should ensure the effective implementation and financial management of the new health insurance program under the National Social Security Fund. Indeed, all of the insurance schemes that are coming on line should be established on a clear and transparent basis, with independent funding established on an actuarially sound footing. Without reliable, dedicated financing, social protection programs may not be able to achieve their goals of insuring against adverse events in the lives of Cambodians.

While fiscal constraints are significant in the short run, it is still possible to prepare for increased social services spending and wider coverage of social protection over the medium term. Ad hoc social programs can be consolidated and social safety nets can be systematically implemented under a comprehensive national social protection system with sustainable long-term goals and plans. Medium-term expansion should include protections for rural families operating in the informal economy to help facilitate the move away from subsistence farming and toward the modern economic sector.

4.6 Strengthen Industrial Relations

Recent tensions in industrial relations have become a challenge for modernization, for continued inflows of foreign direct investment, and for protections of workers and their guarantee of a voice. Industrial relations continue to be challenged by the capacities of all concerned parties, both with respect to knowledge of industrial relations practices and regulations as well as for resources. Compliance issues also remain significant. While the foundations on which a mature and sustainable system of industrial relations can be built are in place, much remains to be done.

Capacity building for all parties will help industrial relations. Given the evolving nature of industrial relations in Cambodia, it is important to continue efforts in capacity building for workers, trade unions, employers, and employer organizations on labor rights and obligations, the roles and responsibilities of representative bodies, labor dispute resolution, and collective bargaining. One of the important constraints to improving industrial relations is a general lack of understanding concerning the role and practice of collective bargaining. Expanding the knowledge of the involved parties will help to unify expectations, develop behavioral norms, and prevent misunderstandings.

As the key institution from the government side in connection with industrial relations, it will be critical to provide adequate support for the MOLVT. This will include the provision of further technical assistance, resources, and extending capacity building efforts to allow the ministry to better carry out its role in facilitating effective industrial relations.

Expanding attention to industrial relations beyond the garment and footwear sector will become increasingly important. To date, the garment and footwear sector has dominated discussions of industrial relations because of its degree of organization and sheer scale in the number of its employees in the formal sector. As the economy diversifies and more enterprises move into the formal sector, it will be important to pay further attention to nongarment sector labor relations, including implementing capacity building efforts concerning labor rights and obligations and extending the reach of labor dispute services. Consideration needs to be given as to whether the minimum wage should be applied more broadly than to just the garment sector, as the importance of other manufacturing industries, including those that also produce for export, is likely to grow over time.

In the analysis of constraints, both for labor relations and the informal sector, it was noted that the Labor Law does not, at least in practice, extend substantive legal protections to the informal sector. With the majority of workers in the informal sector, it makes sense to consider making provisions for labor regulation of workers in the informal economy, either via amending the Labor Law or, should that be impractical in the short term, by new legislation providing for a more limited set of regulations, but with much broader scope of coverage.

Transparency in the industrial relations policy process will create better outcomes. The experience of labor relations indicates that lack of transparency and openness concerning the decision processes for industrial relations policies has on some occasions led to misunderstandings and labor strife. As such, it is clear that open and transparent consultative processes for social dialogue with respect to relevant laws and regulations will help all parties to understand that their needs and opinions have been considered and increase support for regulations. Such social dialogue and policy development should balance the needs and interests of workers and of employers, while adhering to fundamental international labor standards.

Currently, there is very little public information available on unions and union activity. To provide this information, centralized public databases could be developed that provide access to up-to-date information on union registration and status, registered CBAs, current legislation, and regulations that are relevant to labor practices and industrial relations.

Innovative social programs and institutions can be considered to encourage positive developments in industrial relations. Better Factories Cambodia and the Arbitration Council are good examples. The former was launched in 2001 as a direct result of a trade agreement between Cambodia and the US, which provided Cambodia better access to the US market in exchange for improved working conditions. Better Factories Cambodia operates three core programs—monitoring, training, and advisory services—to improve working conditions. The Arbitration Council was established in 2003 with the support of the Ministry of Labour, employers, and unions. It is an independent, national institution with quasi-judicial authority derived from the Labor Law and is empowered to assist parties in resolving collective labor disputes in Cambodia. Securing the long-term future of programs and institutional innovations such as these will be a significant step toward a sustainable future of stable industrial relations.

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Cambodia: Addressing the Skills Gap
Employment Diagnostic Study

Cambodia's growth in the last 20 years has been remarkable and the lives of its people have improved substantially. But low-cost labor advantages on a narrow economic base have driven this growth. The country now needs to move beyond the four sectors that have dominated its economy: garment manufacturing, tourism, construction, and agriculture. Better education outcomes and higher-level skills are crucial for economic diversification and structural transformation and to sustain its inclusive growth. Labor force participation is high and unemployment relatively low, but the large majority of jobs are informal and more than a half of the employed have just a primary education or less. Addressing the problems of skills mismatch and future skills demand is therefore a priority. This joint report from the Asian Development Bank and the International Labour Organization examines constraints and opportunities for increasing productive employment in Cambodia. It can help the country exploit the opportunities its youthful labor force offers, but this window is closing fast.

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Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

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The International Labour Organization (ILO) is the United Nations agency for the world of work. It sets international labor standards, promotes rights at work, and encourages decent employment opportunities, the enhancement of social protection and the strengthening of dialogue on work-related issues. The ILO has a unique structure, bringing together governments, employers' and workers' representatives.

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