

Regional Meeting on Financial Graduation Gaps of Asia-Pacific LDCs

## Financing Graduation Gaps from LDCs: A case of Cambodia

KIM Veara, Royal University of Phnom Penh

Dhaka, Bangladesh, 28-30 October 2014

### Outline

- Recent Development Trends
- Cambodia Position to Graduation Criteria
- Possible Risks Associated with Graduation
- Policies and Financial Gaps for Intervention
- Conclusion

## 1. Recent Development Trends

Life expectancy, years of schooling, GNI per capita and HDI.

Year	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (2005 PPP\$)	HDI value
1990	55.6	6.5	5.3	509	0.393
1995	56.2	6.5	5.5	797	0.411
2000	57.6	7.5	5.7	1,002	0.444
2005	60.1	10.1	5.7	1,440	0.501
2009	62.1	10.5	5.8	1,786	0.529
2010	62.7	10.5	5.8	1,868	0.532
2011	63.1	10.5	5.8	1,988	0.538
2012	63.6	10.5	5.8	2,095	0.543

Sources: Human Development Report 2013 and Author's estimate

## 1. Recent Development Trends

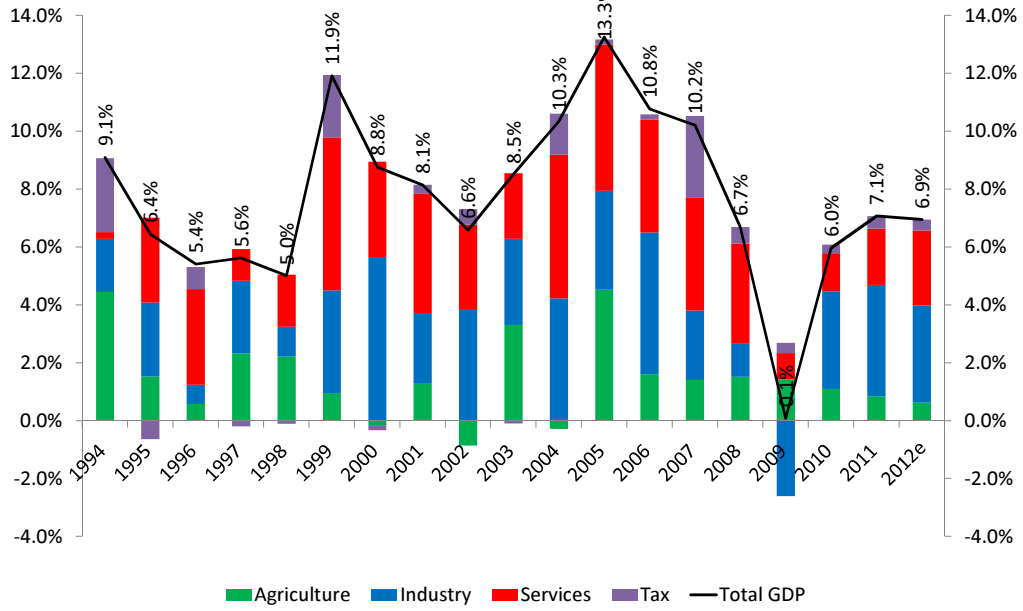
School enrolment and completion rates

	2008	2009	2010	2011	2012
Net enrolment rate in primary education					
Total	94.4	94.6	95.2	96.4	97
Boys	94.8	95	95.8	96.7	97
Girls	94	94.6	94.6	96.1	97
Gross enrolment rate in lower secondary education (Grade 9)					
Total	61.6	58.1	58.5	55	53.6
Boys	64	59	59	55	53.9
Girls	59.2	57.1	57.8	55	54.2
Completion rate at Grade 6					
Total	85.6	83.2	85.3	89.7	87.4
Boys	85.4	82.8	85.6	89.6	86.9
Girls	85.7	83.6	85	89.9	87.8
Completion rate at Grade 9					
Total	49.1	48.7	46.8	42.1	40.6
Boys	52.1	50	49.2	42.6	42.2
Girls	45.9	47.3	44.3	41.6	40.4

Source: Ministry of Education Youth and Sport 2013

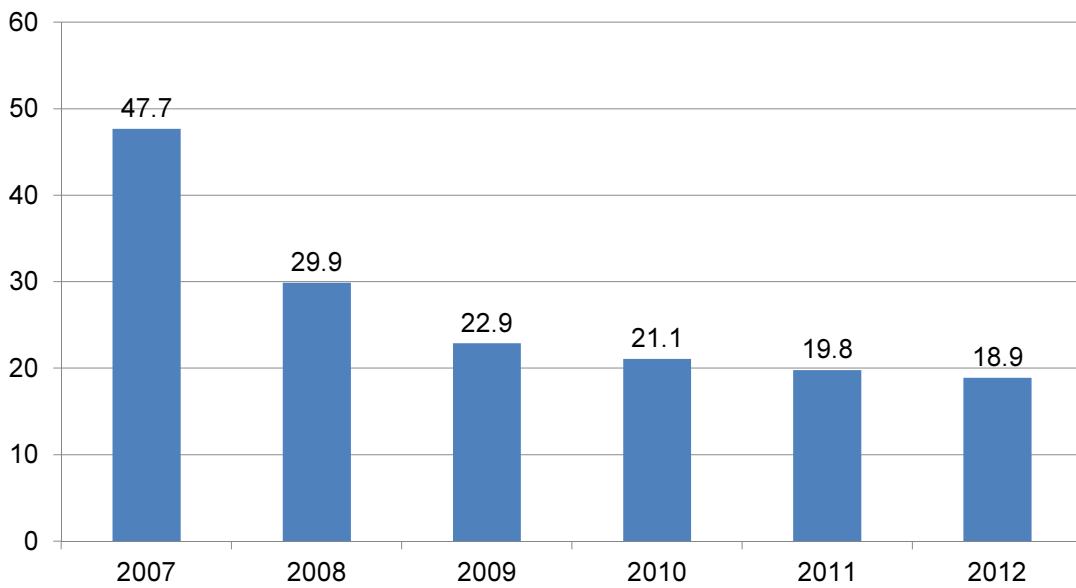
### 1. Recent Development Trends

GDP Growth and Sectoral Contribution: 1994-2012



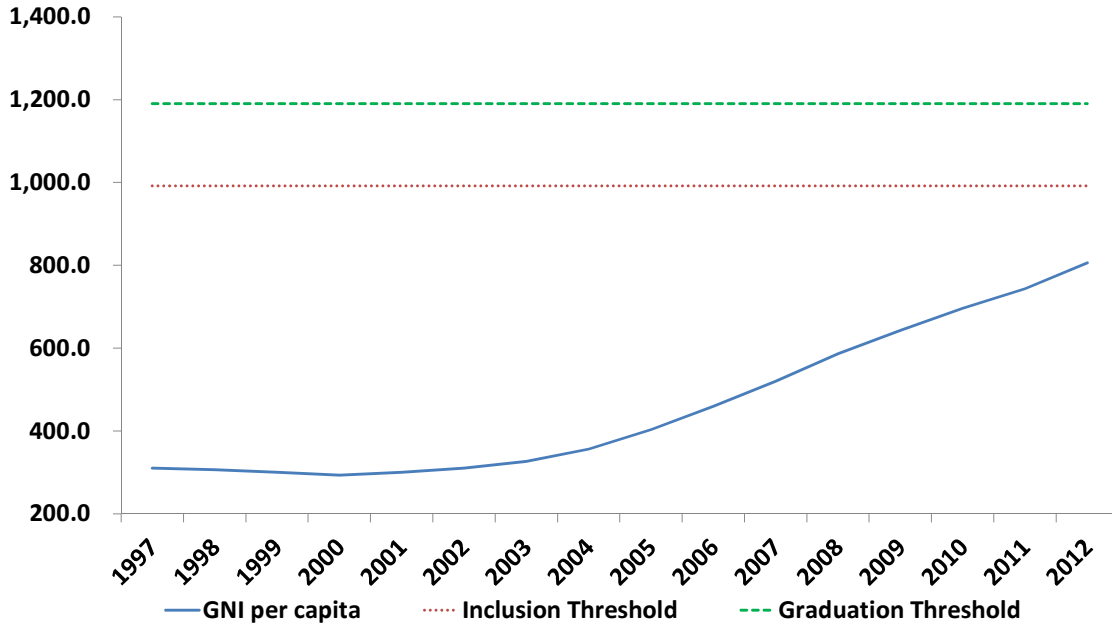
### 1. Recent Development Trends

Poverty Reduction 2007-2012



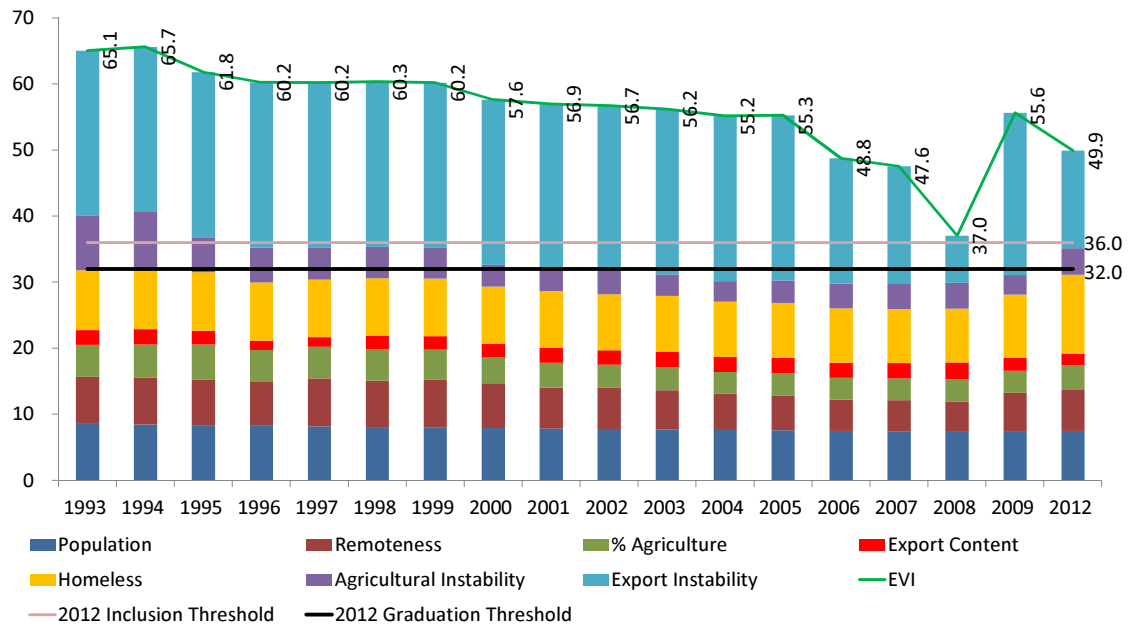
## 2. Cambodia Position to Graduation Criteria

Figure 3: GNI per capita (3 Year Moving Average)



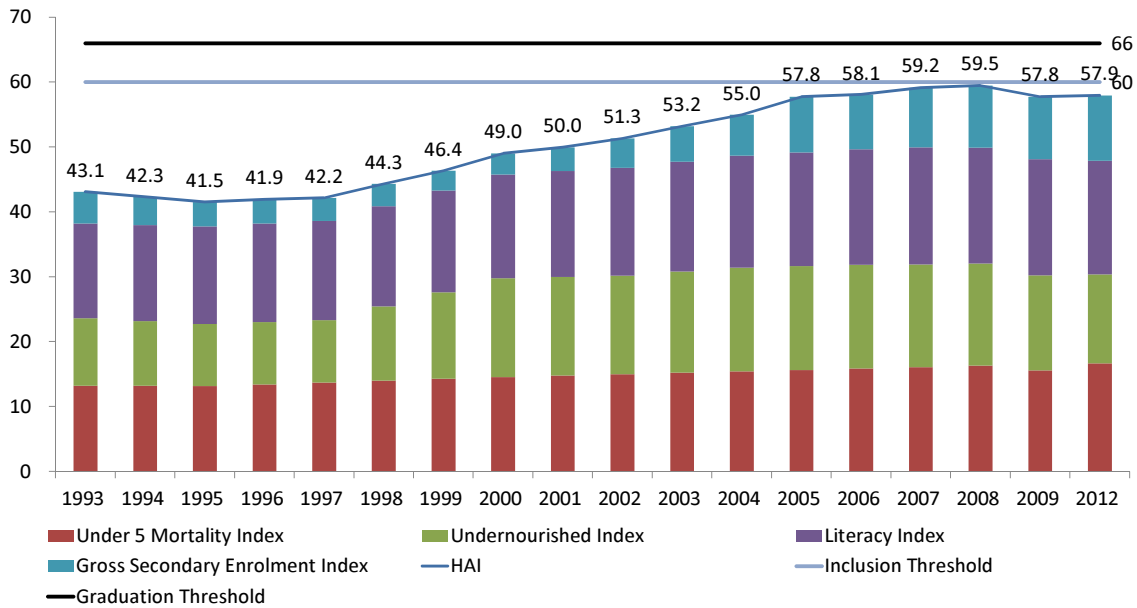
## 2. Cambodia Position to Graduation Criteria

Figure 4: Cambodia's Economic Vulnerability Index 1993-2012



## 2. Cambodia Position to Graduation Criteria

Figure 5: Cambodia's Human Asset Index: 1993-2012



## 3. Possible Risks Associated with Graduation

Chart 1. Disbursements & projections 2004-2013 (USD million)

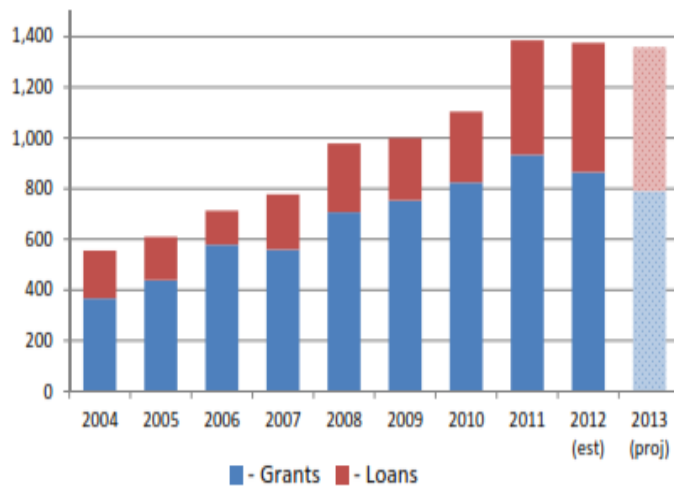
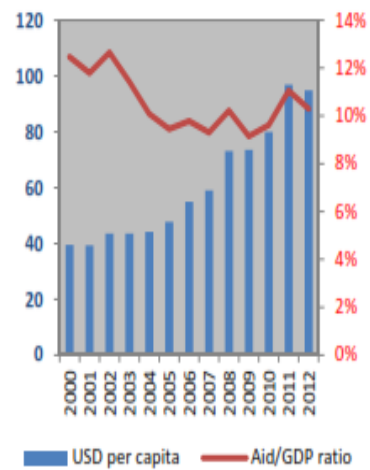


Chart 2. Major trends



### **3. Possible Risks Associated with Graduation**

A modest increases in public resources can be expected through growth in the tax base and efficiency improvements since domestic resource mobilization through domestic borrowing seems also not feasible.

### **3. Possible Risks Associated with Graduation**

Cambodia could see less preferential economic treatment by Europe in coming years, as it graduates as a more developed country. Cambodia's economy is heavily reliant on garment exports to the EU, which accounted for more than \$1.2 billion, or 25 per cent of its exports, in 2011. If the country lost its trade preferences, its products would be less competitive posing burdens on its single-export economy.

## 4. Policies and Financial Gaps for Intervention

### 3.1 Agricultural Policy

- RGC sets the year 2015 as a target year for achieving at least 1 million tons in milled rice export.
- RGC rice policy does not take into due account climate change, does not focus on storage infrastructure and is too confident in the global rising of aggregate demand.

## 4. Policies and Financial Gaps for Intervention

### 3.1 Agricultural Policy

- Proposed Options:
  - increase institutional capacity to use climate information in setting up better rice cropping;
  - invest in rice varieties that could be resilient to droughts, floods and salinity;
  - increase rice production through adaptive measures such as the water use efficient technologies;
  - facilitate pre-harvest and post-harvest techniques and technology;
  - establish a climate monitoring system;
  - make export incentives conditional to the building of storage facilities
  - Attract FDIs to invest in rice-milling industry

## 4. Policies and Financial Gaps for Intervention

### 3.2 Industrial Policy/Export Diversification

- Cambodia's Industrial Development based on market forces; the Royal Government only set priority sectors by providing tax incentives and maintaining favorable investment climate to promote those sectors. Private sector and market force are solely left to drive the economic growth and structural change.
- The industrial policy does not provide any scientific backup why a number of specific sectors should be diversified. The role of government in promoting industrial diversification is not very much highlighted in the industrial development policy. The policy seems to not take into account serious issues of low level of human capital and financial capital to promote specific industries.

## 4. Policies and Financial Gaps for Intervention

### 3.2 Industrial Policy/Export Diversification

- Proposed Policy Options:
  - Shift the average educational attainment in the economy towards secondary and higher level of education within the next decade if the industrial diversification is to be achieved.
  - Address the trade-off between working and schooling of the young population. TVET & on-the-job training are very crucial and critical to retain and sustain the human capital development in the economy.



## **4. Policies and Financial Gaps for Intervention**

### **3.2 Industrial Policy/Export Diversification**

- Third, the role of the government is important to coordinate the training needs of the workers with the industry demand for skills. The government needs to increase the funding for overall education and in particular for the post-secondary and higher education (Universities, Polytechnics and Institute of Vocational and Technical Training). In particular, the government should also emphasize the importance of Science and Engineering Universities and University of Agriculture, which would aid in increasing the technology diffusion and productivity of the agriculture sector.

## **4. Policies and Financial Gaps for Intervention**

### **3.3 Human Development Policy**

- The RGC has made some significant progress in ensuring equal access to education services, improving quality and efficiency of the education services, and strengthening institutional development and capacity building for decentralization. To ensure equal access to education services, the number of new schools has been added up every year.
- However, school construction alone is not a measure of success because not all schools operate on a full-time, daily basis and the current shortage of trained teachers continues to be a significant problem in Cambodia. Teacher shortage and demotivation of public school teachers due to low salary and limited management capacity of school directors are still big challenges for improved accessibility and quality education.

## 4. Policies and Financial Gaps for Intervention

### 3.3 Human Development Policy

#### Proposed Policy Options:

- First, there is a need to reallocate education staff funding to allow for fair salaries for teachers to help reduce informal school fees and encourage them to stay where they are sent. Moreover, salary of teachers shall be increased to a level where they can be motivated to concentrate on their teaching work.
- Second, community should be sensitized and made to participate in school affairs so as to value education and appreciate the work teachers do. In doing so, teachers' morale will be boosted and the quality of education improved.
- Last, increase the budget for education sector (currently on 1.6 of the GDP)

## 4. Policies and Financial Gaps for Intervention

### 3.4. Natural Resource and Environmental Policy

- Policies supporting natural resource management are paramount to sustainable development process, as a significant majority of the population is dependent upon these natural resources.
- On fisheries resources, recent years have proven difficult for Cambodia's fishing households, both poor and non-poor. Fragmented activities between sub-national administrations, which may not be aware of decentralization processes, may jeopardize sustainable fisheries, especially regarding illegal fishing practices and unregulated and unregistered community fisheries.

## 4. Policies and Financial Gaps for Intervention

### 3.4. Natural Resource and Environmental Policy

- On forestry resources, some shortfalls exist and some recommendation could be made. First, RGC/FA should limit the definition of “forests” to “natural forest” and exclude plantations.
- At the same time, a number of concerns were observed in the enforcement of existing mining law, relocation and compensation, access to detailed and timely information, lack of meaningful consultation on EIA reports, and limited institutional capacity.
- Concerns over the development of hydropower dams and the energy sector are consistent with those environmental protection and climate change.

## 4. Policies and Financial Gaps for Intervention

### 3.5. Financial sources for interventions

- To meet three criteria for measuring progress for LDC graduation, the Royal Government of Cambodia has estimated fund required for investment in period 2014-2020 of \$ 37.5 billion. This amount of financing required:
  - Private sector capital investments are estimated to be \$ 26.8 billion- accounting for 71.5 per cent of total capital investments, and
  - Public sector capital investments are estimated to be \$ 10.7 billion- accounting for about 28.5 per cent of total capital investments.

## 4. Policies and Financial Gaps for Intervention

### 3.5. Financial sources for interventions

- Sources of financing:
  - Some \$ 18.8 billion or 50.1 per cent of total capital investments are projected to be financed from domestic sources, and
  - Some \$ 18.7 billion or 49.9 per cent of total capital investments are projected to be financed from foreign sources

## 4. Policies and Financial Gaps for Intervention

- Attract more FDI from transnational corporations. Investment climate is critically important in attracting FDI and ensuring sustainable long-term industrial development. Cambodia needs to enhance it by maintaining macroeconomic stability, the rule of law, regulatory framework, and logistics and labour relations, particular focusing on both soft and hard infrastructures and trading facilitation.
- Cambodia should focus on enhancing performance of special economic zones (SEZs).

## 5. Conclusion

- Despite notable progress in many fronts, Cambodia has not yet met any of the thresholds associated with the three criteria: it stood at 59 per cent of the per capita income threshold; 50.5 per cent of the human assets threshold and 57.9 per cent of the economic vulnerability threshold. Given its small open economy, Cambodia is vulnerable to external shocks as reflected by the recent global financial crisis.

## 5. Conclusion

- The success of policies and strategies to push for graduation critically depends on the development of key human capital skills for the next stage of industrial development and economic growth. Several key challenges exist in the economy which require important economic and institutional reforms to avoid a “low skill, low-wage development trap”.
- There is a need to diversify the industry structure and the exports market to create the links for global production value-chain. Given the structural changes in the economy, there are growing skills mismatches in the labour market.