

ECONOMIC AND FINANCIAL ANALYSIS

A. Macroeconomic and Sector Context

1. Cambodia's gross domestic product grew by more than 7.0% per year from FY2011 to FY2013, despite the 2009 global financial crisis. It is projected to grow by 7.0% in FY2014 and 7.3% in FY2015. Economic growth in 2013 was driven by robust growth in services and expanding export industries—garments and footwear, tourism-related services, and construction.¹ Agriculture employs about 68% of Cambodian workers.² Economic growth has reduced the poverty rate from 47.8% in 2007 to 19.8% in 2011. However, about 75% of Cambodians live on less than \$3 (purchasing power parity) a day and are highly vulnerable. Any shock such as drought, or floods can push people below the poverty line. The poverty rate in rural areas (where 80% of the population lives) is nearly 25%. Ninety percent of the poor live in rural areas. Foreign direct investment is growing, reaching \$1.5 billion in 2012—representing new investments in automotive parts, electronics, and agro-industry. Despite some economic diversification beyond the four traditional growth drivers—garments, agriculture, tourism, and construction—the economy remains vulnerable to external shocks and natural disasters.³

2. **Labor force.** Forty-four percent of the labor force (45% female) is employed in low skilled agricultural jobs.⁴ While unemployment in 2010 was reported at 0.3%, underemployment is high, signifying a mismatch between the supply of skills and demand in the labor market.⁵ Eighty-three percent of the labor force (53% female) is employed in the informal sector—experiencing unproductive, uncertain, and unregulated underemployment (footnote 4). The proportion of women employed in the informal sector is higher, as household responsibilities and childcare limit employment options. Paid jobs increased from 1.0 million in 2004 to 1.3 million in 2009, but still represent a small share of rural employment. In 2011, 1.7 million Cambodians were employed in the formal sector.⁶ The service sector continues to create jobs at the fastest pace, followed by the industry sector. Microenterprises with 10 or fewer staff represent the largest share of employers, with 58% of workers in 2011. There are only 781 large enterprises, mainly in manufacturing, employing over 450,000 workers (25% of the labor force).

3. **Labor market projections.** A recent study forecasts an average of 1 million new jobs to be created annually for 2012–2015.⁷ Among this new job creation, 406,856 are expected to be generated in agriculture, 284,649 in industry, and 434,460 in service. Thus, the service sector will be the main engine of job creation. In terms of employers' skill needs, middle-level (Cambodian Qualifications Framework [CQF] levels 2–4) skills will be required for the top three job categories: service workers, craftspeople, and clerks. Elementary occupations (categorized unskilled) are forecast to be in highest demand. Forecast skill demands are in Table 1.

¹ Asian Development Bank (ADB). 2014. *Asian Development Outlook*. Manila.

² International Labour Organization. 2013. *Rural development and employment opportunities in Cambodia: How can a national employment policy contribute towards realization of decent work in rural areas*. Bangkok.

³ ADB. Forthcoming. *Country Partnership Strategy: Cambodia, 2014–2018*. Manila.

⁴ Ministry of Planning, National Institute of Statistics. 2013. *Cambodia Socioeconomic Survey 2010*. Phnom Penh.

⁵ According to labor force surveys conducted by the Ministry of Planning, underemployment increased from 28% in 2000 to 38% in 2001.

⁶ Ministry of Planning, National Institute of Statistics. 2011. *Economic Census of Cambodia*. Phnom Penh.

⁷ Government of the Republic of Korea, Ministry of Strategy and Finance, and Korea Development Institute. 2013. *Policy Agenda for Cambodia in Developing Industrial Skills, Industrial Complex, and Agro-processing Industry*. Seoul.

Table 1: Forecasts of Changes in Skill

Skill	2012–2013	2013–2014	2014–2015	Average
Managers	2,733	5,403	9,618	5,918
Professionals	368	35,435	65,028	33,610
Technicians	7,159	20,443	29,790	19,131
Clerks	59,394	93,506	141,589	98,163
Service workers	144,145	248,415	342,095	244,885
Farmers	(33,069)	(79,276)	2,269	(36,692)
Craftspeople	147,962	166,274	209,058	174,431
Mechanic	2,231	48,338	12,530	21,033
Unskilled	463,414	530,629	699,662	564,568
Army	(1,351)	845	3,258	917

() = negative.

Source: Government of the Republic of Korea, Ministry of Strategy and Finance, and Korea Development Institute. 2013. *Policy Agenda for Cambodia in Developing Industrial Skills, Industrial Complex, and Agro-processing Industry*. Seoul.

4. **Education level of labor force.** Steady increases in school enrollment rates have decreased the share of the total labor force without any formal education by 6.0% while increasing the proportion with primary education by 9.5% from 2004 to 2010. Increased education levels among the labor force may have contributed to the diversification of employment as workers developed more than the basic skills needed for the primary sector (footnote 4), employment in the informal sector as a proportion of total employment decreased from 87% in 1998 to 83% in 2008, and labor productivity increased for all industries.

5. **Demographic window of opportunity.** Cambodia has a relatively small population of 14.8 million people, growing at a modest 1.5% per annum. The 2008 census shows a predominantly young population, with about 46% of the population below the age of 20; but a population that is not as young as it was 10 years before. In 1998 the median age was 16, in 2008 the figure was just over 20, and by 2018 the median age will be 26. The demographic transition can become an opportunity if appropriate investments are made in education and training, health, and employment opportunities for a skilled workforce. It is essential that the formal private sector generates sufficient jobs to keep pace with workforce upgrades.

6. The aim of the program is to increase employment of technical and vocational education and training (TVET) certified workers through an accessible, demand-driven TVET system. The program will support policy reforms and project interventions to increase access to TVET programs, improve the quality and relevance of TVET, increase the involvement of employers in TVET delivery, and strengthen the governance and management of TVET. In 2012, the National Training Board approved the CQF as a unified system of national qualifications covering basic and secondary education, TVET, and higher education. It links together qualifications at each level and between sectors into a national system of educational recognition, providing flexible pathways between TVET and higher education. The CQF is integral to the delivery of education and training offered by the Ministry of Labour and Vocational Training (MLVT), the Ministry of Education, Youth and Sport (MOEYS), and other government agencies, as it recognizes uniform skill standards. A major obstacle to accessing formal TVET (CQF level 1) is the grade 9 entry requirement. Many Cambodian youth drop out of school without completing grade 9 and enter the labor market without basic skills. Formal TVET is an alternative path to general education.⁸

7. **Beneficiaries.** The direct beneficiaries of the program will be about 45,000 trainees who will benefit from the various program interventions. During the program, the stipend program for CQF levels 2–4 training will benefit 4,000 students (30% female) and the stipend program for

⁸ Formal TVET refers to certificate level training based on the CQF.

internships for CQF levels 2–4 training will benefit 200 students (20% female). The women's dormitories with career mentorship programs will benefit 120 women trainees. The enhanced Voucher Skills Training Program (VSTP) will benefit 35,050 trainees (60% female), and the enhanced Skills Bridging Program (SBP) will benefit 6,450 trainees (40% female).

8. The 26 public TVET institutions and five regional training centers (RTCs) will be strengthened to deliver CQF levels 2–4 training programs. The total enrollment capacity will be about 9,700 trainees (30% female). Women and trainees from ethnic groups will capture a significant proportion of the benefits because of the project's gender and ethnic targets. Trainees enrolled in courses at public TVET institutions studying the priority skill areas and pre-service training instructors enrolled at the National Technical Training Institute will also benefit from better instruction, following the introduction of competency-based assessment and certification and instructor apprenticeships with industry. Administrators of public TVET institutions will benefit from capacity development and start-up funds to begin delivering CQF levels 2–4 courses. Employers will benefit from improvements in the quality and relevance of TVET, as improved skill levels are directly linked to improving workplace productivity.

B. Cost–Benefit and Sensitivity Analyses

9. The economic analyses of the subprojects were conducted in accordance with the Guidelines for the Economic Analysis of Projects and the Framework for the Economic and Financial Appraisal of Urban Development Sector Projects of the Asian Development Bank (ADB).⁹ Benefits and costs were arrived at through comparison of the with- and without-project conditions. Benefits and costs were estimated over a 20-year period at constant 2013 prices. An exchange rate of \$1.00 = KR4,000 was used in converting foreign exchange costs to local currency. All costs were valued using the domestic price numeraire. Economic costs were derived from the technical team's financial estimates of investment and recurrent costs, adjusted for transfer payments and other market distortions. Taxes and duties were excluded because they represent transfer payments. Traded goods, net of taxes and duties, were adjusted by a shadow exchange rate factor of 1.1 while a factor of 1.0 was applied for non-traded goods (except for unskilled labor). For unskilled labor, a shadow wage rate factor of 0.75 was used.¹⁰ An economic opportunity cost of capital of 12% was assumed for the analysis.

10. The economic analysis for the program was done by calculating economic net present value (ENPV) and economic internal rate of return (EIRR), and conducting sensitivity analysis to see the impact of changes on ENPVs and EIRRs. Direct beneficiaries of over 45,000 trainees (para. 13) are considered for the analyses. The following assumptions have been made in conducting the analyses:

- (i) Training will be provided by public TVET institutions, including RTCs, provincial training centers (PTCs), and centers of excellence. Some 60,851 trainees will be enrolled for CQF levels 1–4 training courses. Dropout rates are assumed to be: 10% from CQF level 1, 20% from CQF level 2, and 15% from CQF levels 3 and 4. The dropout rate from CQF level 2 is assumed to be higher than the observed 10% because of the larger share of alternative entry into CQF level 2.
- (ii) Some 10% of TVET certified trainees will be expected to find employment with large enterprises, given the extent of employer engagement under the project.

⁹ ADB. 2007. *Guidelines for the Economic Analysis of Projects*. Manila; ADB. 1994. *Framework for the Economic and Financial Appraisal of Urban Development Sector Projects*. Manila.

¹⁰ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kingdom of Cambodia for the Greater Mekong Subregion Southern Economic Corridor Towns Development Project*. Linked Document on Economic Analysis. Manila.

- About 20% of all CQF level 3 graduates and 25% of CQF level 4 graduates will be employed at an appropriate wage level.
- (iii) From years 3–5 of project implementation, about 900 Cambodians will be assessed through recognition of prior learning and current competencies for CQF levels 2–4. It is assumed that 85% of those assessed will be deemed competent at CQF level 2, 10% at CQF level 3, and 5% at CQF level 4.
- (iv) Interventions to strengthen RTCs and PTCs to deliver CQF levels 2–4 training courses in construction, auto mechanics, and information and communication technology/business will enable RTCs to enroll up to 85% of capacity and PTCs to enroll up to 80%.
- (v) About 60,851 enrollees in all levels are expected. A total of 4,851 of the 9,336 CQF level 2 entrants will be employed, giving an overall employment rate of 52%. The average employment rate during years 2–5 will be 56%. Table 2 provides annual details of course enrollments and employments for all levels.

Table 2: Estimated Course Enrollments and Employment for All Levels

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total	Remarks
CQF 1								
CQF Level 1 VSTP	5,225	7,860	9,745	7,980	4,240		35,050	
CQF Level 1 SB	1,050	1,350	1,350	1,350	1,350		6,450	
CQF Level 1 CBT VSC	0	0	120	691	615		1,426	
Total CQF 1 entrants	6,275	9,210	11,215	10,021	6,205		42,926	
Total employment CQF 1				189	284	353	826	
CQF 2								
CQF 2 - Total available slots	1,980	1,980	2,160	2,625	2,625		11,370	
RTC	900	900	900	1,050	1,050		4,800	
PTC	1,080	1,080	1,260	1,575	1,575		6,570	
Total CQF 2 entrants	1,629	1,629	1,773	2,153	2,153		9,336	85% of RTC slots, 80% of PTC slots
Dropouts	326	326	355	431	431		1,867	20% dropout rate
Workforce participation	195	365	383	428	428	86	1,886	15% participation rate + 170 RCC assessed
Immediate employment	147	274	287	321	321	0	1,350	75% immediately employed
Delayed employment		39	73	77	86	86	360	20% employed after 1–2 years
Total employment CQF 2	147	313	360	398	407	86	1,710	
Employed as % of CQF 2 entrants	9%	19%	20%	18%	19%			
CQF 3								
CQF 3 entrants	1,108	938	1,036	1,294	1,294		5,668	Number who will proceed to CQF 3
Dropouts	166	141	155	194	194	0	850	15% dropout rate
Workforce participation	222	199	219	270	268	0	1,177	20% participation rate + 20 RCC assessed
Immediate employment	166	149	164	202	201	0	883	75% immediately employed
Delayed employment		44	40	44	54	54	235	20% employed after 1–2 years
Total employment CQF 3	166	193	204	246	255	54	1,118	
Employed as % of CQF 3 entrants	10%	12%	12%	11%	12%			
CQF 4								
CQF 4 entrants		598	661	830	832		2,921	Number who will proceed to CQF 4
Dropouts		90	99	124	125	0	438	15% dropout rate
Workforce participation		489	461	600	579		2,129	80% participation rate

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Total	Remarks
Immediate employment		367	346	450	435		1,597	+ 10 RCC assessed 75% immediately employed
Delayed employment		0	98	92	120	116	426	20% employed after 1–2 years
Total employment CQF 4		367	443	542	555	116	2,022	
Employed as % of CQF 4 entrants	0%	23%	25%	25%	26%			
Summary								
Total enrollment: all courses	9,012	12,375	14,685	14,297	10,483		60,851	
Total CQF 2 entrants	1,629	1,629	1,773	2,153	2,153		9,336	
Total employment	313	873	1,008	1,186	1,216	255	4,851	
Employed as % of CQF 2 entrants	19%	54%	57%	55%	57%	68%	52%	56%: average for years 2–4

CBT = competency-based training, CQF = Cambodian Qualifications Framework, PTC = provincial training center, RCC = recognition of current competencies, RTC = regional training center, SB = skills bridging, VSC = vocational skills certification, VSTP = voucher skills training program.

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank.

11. The project preparatory technical assistance undertook a survey of large enterprises in regions where RTCs have been established, and Phnom Penh.¹¹ The survey calculated mean and median wage levels for various job categories in large enterprises (100 staff or more). Wage levels were identified with corresponding TVET qualifications. Median wages are used to calculate ENPV and EIRR. Salaries of qualified workers are 90% of the median wages cited in Table 3. Expected wages are reduced by 20% to account for employment with microenterprises.

Table 3: Monthly Salaries Paid by Large Enterprises, 2013

Classification	TVET		
	Qualification	Mean	Median
Elementary occupations	None	\$115	\$110
Plant and machine operators	Level 1	\$139	\$130
Services and sales	Level 1	\$168	\$150
Craft and tradespeople	Levels 2–3	\$230	\$220
Technicians, associate professionals	Level 4	\$280	\$250

TVET = technical and vocational education and training.

Source: Asian Development Bank and BDLINK. 2013. *Large enterprises and their skills needs: The demand for TVET skills in Cambodia amongst large employers in Cambodia*. Phnom Penh.

The demand for TVET skills in Cambodia amongst large employers in Cambodia. Phnom Penh.

12. **Assumptions.** Program economic costs are the actual costs of the four outputs. They include civil works, equipment, stipends for trainees, operational costs for RTCs and PTCs and centers of excellence to deliver CQF levels 1–4 training courses, operational costs for the VSTP, training costs for TVET instructors and Directorate General of Technical and Vocational Education and Training (DGTNET) staff, operating costs for Skill Sector Councils, and salary supplements for DGTNET staff. In addition, trainee costs include opportunity costs and direct costs of participation in training, as well as training institutions' explicit and implicit costs of delivering training not covered under the program. The economic cost was computed by eliminating taxes and duties, price contingencies, and financing charges. A shadow wage rate factor of 0.75 was applied for unskilled labor and a shadow exchange rate factor of 1.1 for foreign costs. The total economic cost is \$23.6 million (Table 4).

¹¹ Asian Development Bank and BDLINK. 2013. *Large enterprises and their skills needs: The demand for TVET skills in Cambodia amongst large employers in Cambodia*. Phnom Penh.

Table 4: Computation of Economic Cost (\$ million)

	Total Financial Cost	Financial Costs Excluding Tax, Duties & Price Contingencies								Total Economic Costs
		Unskilled Labor		Skilled Labor		Local Materials		Foreign Costs ^{a/}		
		Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	
A. Investment Costs										
1 Civil Works	2.589	21%	0.544	9%	0.233	70%	1.812	0%	-	2.453
2 Mechanical and Equipment	4.415	9%	0.397	21%	0.927	70%	3.090	0%	-	4.316
3 Consultants										
a. Project Management	0.694	0%	-	76%	0.524	0%	-	24%	0.170	0.710
b. Capacity Development	3.379	0%	-	16%	0.546	0%	-	84%	2.833	3.662
4 Training	8.854	0%	-	0%	-	98%	8.693	2%	0.161	8.871
5 Grants and contracts	1.631	0%	-	0%	-	69%	1.133	31%	0.498	1.681
Subtotal (A)	21.562		0.941		2.230		14.729		3.661	21.693
B. Recurrent Costs										
1 Salaries	0.804	0%	-	100%	0.804	0%	-	0%	-	0.804
2 Equipment O&M	0.598	5%	0.030	25%	0.149	70%	0.418	0%	-	0.590
3 Taxes and Duties	0.979		-		-		-		-	-
Subtotal (B)	2.380		0.030		0.953		0.418		-	1.394
Total Base Cost	23.942		0.971		3.183		15.148		3.661	23.087
C. Contingencies										
1 Physical	0.546	4%	0.023	14%	0.076	66%	0.360	16%	0.087	0.549
2 Price	0.641		-		-		-		-	-
Subtotal (C)	1.187		0.023		0.076		0.360		0.087	0.549
D. Financing Charges										
1 Interest During Implementation	0.480	0%	-	0%	-	0%	-	100%	-	-
Subtotal (D)	0.480		-		-		-		-	-
Total Project Cost (A+B+C+D)	25.609		0.994		3.259		15.508		3.748	23.636

O&M = operation and maintenance.

Source: Asian Development Bank.

13. **Economic internal rate of return.** Based on the above assumptions and 80% of monthly salaries reported by large employers in 2013, carefully targeted skills development may increase monthly wages from 18% for vocational skills certification (VSC) holders (CQF level 1) to 127% for CQF level 4 certification holders. Some 56% of beneficiaries receiving training under the project, utilizing skills and knowledge in the labor market over the long term, translate to a total average annual earnings increment of about \$6.0 million per year.¹² Estimating these benefits over 20 years (including a 5-year investment period) and based on the total project cost of \$23.6 million plus an annual recurrent cost of \$0.1 million, yielded an EIRR of 24%.

14. **Sensitivity analysis.** A sensitivity analysis was conducted by varying the rate of employment, increasing costs, decreasing benefits, and reducing the projected period for return on investment. This analysis confirmed the viability of the project, with EIRRs higher than the required 12% and with positive ENPVs. The result was most sensitive to a change in employment rate from 56% to 45% where the EIRR was 12.7%. This was followed by an EIRR of 18.5% for a change in the employment rate to 50%. A scenario with a simultaneous increase in economic costs by 10% and a decrease in benefits by 10% produced an EIRR of 19.2%. Findings from the base case and sensitivity analysis are in Table 5.

¹² A real annual increase of 2%–3% in salaries for qualified staff of large employers is assumed after 13 years from program completion, due to the government's initiative to diversify the economy, continued growth of the TVET sector, and the growing reputation of TVET graduates.

Table 5: Summary Result of Base Case Scenario and Sensitivity Analysis

Base case [56% employment, budgeted costs]	EIRR	NPV
Base case over 10 years	17.1%	3.2
Base case over 15 years	22.7%	10.2
Base case over 20 years	24.0%	14.2
Sensitivity Tests (over 20 years)		
Employment at 56%		
10% increase in costs	21.6%	12.3
10% decrease in benefits	21.4%	10.9
10% increase in costs and 10% decrease in benefits	19.2%	9.1
Employment at 50% [90% of base] ^a	18.5%	7.4
Employment at 45% [80% of base] ^a	12.7%	0.7

EIRR = economic internal rate of return, NPV = net present value.

^a With budgeted costs and benefits as in base case.

Source: Asian Development Bank.

15. Other benefits excluded from the calculation of the EIRR are (i) improved gender distribution in TVET due to program activities; (ii) improved quality and relevance of training in other skill areas due to the introduction of competency-based assessment, and increased involvement of industry; (iii) improved management of public TVET institutions due to capacity development of administrators; and (iv) improved TVET system governance. Policy reforms are envisaged to sustain benefits, particularly increased equitable access to formal TVET.

C. Financial Sustainability Analysis

16. **Technical and vocational education and training sector finance.** Government recurrent budgets increased over 2007–2011 by 86.9% and are projected to rise a further 25.7% over 2011–2014 (Table 6).¹³ The MLVT recurrent budget increased from \$13.1 million in 2009 to \$26.9 million in 2013. The program budget finances TVET programs. The DGTVET recurrent budget grew strongly in nominal terms and as a percentage of the MLVT budget from 2009 to 2013. The DGTVET recurrent budget tripled over that period from \$5.4 million to \$16.6 million, indicating the importance given to improving skills development in Cambodia. Increases in the program-based budget of DGTVET were substantial, particularly for equipment. Under the non-program budget for DGTVET, funds for central administration rose from \$3.5 million to \$7.7 million. However, recurrent budgets are projected to fall in 2014 to \$22.5 million (16% decrease) for the MLVT and \$10.6 million (36% decrease) for the DGTVET. Reductions in the DGTVET budget are mainly in the program budget, with \$3.7 million cut from the equipment budget line. Table 7 and Table 8 present the DGTVET recurrent and program budgets for 2009–2014.

Table 6: Ministry of Labour and Vocational Training Recurrent Budget, 2009–2014

Item	2009	2010	2011	2012	2013	2014	Total
A. Program Budget	1.6	1.8	3.7	9.2	8.8	4.6	29.8
TVET	1.6	1.8	3.3	8.8	8.3	4.1	27.9
Non-TVET	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NEA	0.0	0.0	0.4	0.4	0.5	0.6	1.8
B. Non-Program Budget	11.5	12.9	16.2	15.6	18.0	17.9	92.1
TVET	3.8	4.3	6.6	6.2	8.3	6.3	35.6
Non-TVET	7.7	8.5	9.6	9.4	9.7	11.6	56.4
NEA	0.0	0.0	0.0	0.1	0.0	0.0	0.1
Total (A+B)	13.1	14.7	19.9	24.8	26.9	22.5	121.8

NEA = National Employment Agency, TVET = technical and vocational education and training.

Source: Asian Development Bank.

¹³ Note that 2007–2010 are budget expenditures and 2011 is budget allocation.

**Table 7: Directorate General of Technical and Vocational Education and Training
Recurrent Budget, 2009–2014**

Item	2009	2010	2011	2012	2013	2014
A. Program Budget	1.6	1.8	3.3	8.8	8.3	4.0
Central (Equipment)	0.5	0.5	1.8	6.1	4.4	1.9
Provincial (Training)	1.1	1.3	1.5	2.8	3.9	2.1
B. Non-Program Budget	3.8	4.3	6.6	6.2	8.3	6.3
Central	3.5	3.8	6.0	5.5	7.7	5.7
Provincial	0.4	0.5	0.6	0.6	0.6	0.6
Total (A+B)	5.4	6.2	9.9	15.0	16.6	10.3
Percent of MLVT Budget	41%	42%	50%	61%	62%	46%

MLVT = Ministry of Labour and Vocational Training.

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank.

**Table 8: Directorate General of Technical and Vocational Education and Training
Program Budget, 2009–2014**

Program 1: Developing quality and effective TVET to meet economic demand	2009	2010	2011	2012	2013	2014	% Change
Subprogram 1.1: Strengthening and mainstreaming TVET policy and strategic plan	0.0	0.2	0.1	0.1	0.1	0.1	(2)
Subprogram 1.2: Supporting TVET activity response to economic demand	1.4	1.4	1.5	2.9	4.0	2.3	(44)
Subprogram 1.3: Increasing skills competitiveness and strengthening quality of TVET response to the needs of labor market	0.1	0.2	1.6	5.7	3.9	1.5	(62)
Subprogram 1.4: Activities, subprogram and program valuation	0.0	0.0	0.1	0.1	0.2	0.2	(22)
Total Program 1	1.6	1.8	3.3	8.8	8.3	4.1	(51)

() = negative, TVET = technical and vocational education and training.

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank.

17. The government's National Strategic Development Plan, 2014–2018 reaffirms its high prioritization of and commitment to skills development for inclusive growth.¹⁴ At the same time, the Ministry of Economy and Finance is committed to continue the rollout of the Public Financial Management Reform Program by extending the scope of program budgets to align with policy commitments. The MLVT is one of the priority ministries for the rollout of the reform program. Future MLVT budget allocations will depend on the extent to which it aligns program budgets with policy commitments. Increases to the DGTVET program-based budget can sustain key project interventions such as stipend programs for CQF levels 2–4 training and internships, and the VSTP and SBP. Recurrent expenditures, such as additional operating costs of PTCs and RTCs and equipment maintenance, can be covered by additional government funding. A government contribution of \$2.6 million will cover supplemental salaries, taxes and duties, civil works, and workshop equipment. The average incremental recurrent cost under the project is \$0.5 million per year. The annual government contribution is 16% of the total DGTVET recurrent budget. The government's annual commitment to the project is deemed affordable.

18. **Civil servants' salaries.** The government will provide salary supplements to government staff implementing the project. This supplement will be in addition to the government's annual increase of 20% on base salaries for civil servants, in place since 2009. Upon project completion, salary supplements will cease as there are no regulations to maintain commitment. Civil servants working as project staff will be recognized for the additional responsibility in terms of future promotions.

¹⁴ Government of Cambodia. 2013. *National Strategic Development Plan 2014–2018*. Phnom Penh.