

FINANCIAL ANALYSIS

A. Institutional Framework and Financial Management

1. **Institutional framework.** The Ministry of Education, Youth and Sport (MoEYS) is responsible for the management of the education sector in Cambodia from early childhood education through post-secondary and university, and it monitors quality and access at all education levels. Public schools offering preschool, primary, and secondary education are under the MoEYS, which is organized into general departments for higher education, basic education, youth and sports, as well as administration and finance and the general inspectorate. Basic education is further divided into early childhood, primary, lower secondary, and upper secondary. There are also offices with specific technical responsibilities for curriculum and teacher training. At the decentralized level, the administration of K–12 education is handled by 24 provincial and 185 district offices of education. The Ministry of Labour and Vocational Training provides vocational training services at the secondary and tertiary levels. Other agencies involved in governing the education sector are (i) public higher education institutes, which are under the jurisdiction of 14 ministries, and provide tertiary education services offering bachelor's degrees, master's degrees, and doctorates; (ii) the Early Childhood Care and Development National Committee, which coordinates public and community-based, early childhood education in conjunction with the MoEYS, Ministry of Interior, Ministry of Health, and Ministry of Women's Affairs; and (iii) the Accreditation Committee of Cambodia, which operates under the Council of Ministers, is directly supervised by the Prime Minister's Office, and is responsible for the accreditation of both public and private higher education institutions.

2. **Public financial management.** Decentralization in the MoEYS is established through four levels: central, province, district, and school. The MoEYS's decentralization policy includes the implementation of budget management centers with increasing accountability in central departments and in provinces and districts, and the setting up of a section in the central finance department in charge of monitoring the execution of program budgets. Provinces, however, have no fiscal autonomy, as their fund allocations are made through programs using a budget norm formula. Moreover, the allocation of funds to individual schools is based on needs assessed remotely. Further decentralization is required to give more budgetary autonomy to schools.

B. Financing of Education in Cambodia

3. The Government of Cambodia's annual expenditure on education increased from KR1,344 billion in 2011 to KR2,305 in 2016, an increase of 71.5%.¹ The proportion of the MoEYS' annual expenditure to total government expenditure, however, declined from 13.6% in 2011 to 12.8% in 2016. Total recurrent cost for education, youth, and sports increased from KR916 billion in 2011 (68.1% of the total annual expenditure of the MoEYS) to KR1,851 billion in 2016 (80.3% of the total annual expenditure of the MoEYS).

¹ The increase demonstrates the government's increasing priority to improve the country's education sector, but the increased expenditure still falls short of what is required. The total expenditure for the MoEYS, as reflected in the data sources, mainly represents total recurrent expenditure (e.g., teachers' salaries and regular annual expenditure items) while the capital expenditure allocation for school rehabilitation and construction is managed by the Ministry of Economy and Finance.

Table 1: Trends in the Financing of Education in Cambodia, 2011–2016

Item	2011	2012	2013	2014	2015	2016
MoEYS Annual Expenditure						
1. Annual expenditure (KR billion) ^a	1,344	1,357	1,491	1,803	1,977	2,305
2. Annual recurrent expenditure (KR billion) ^b	916	1,008	1,120	1,342	1,494	1,851
3. Annual capital outlay (KR billion) ^c	17	8	8	8	8	32
4. Development partner capital outlay (KR billion) ^d	411	342	363	453	476	422
5. Total capital outlay (KR billion)	428	350	371	461	484	454
Government Total Annual Expenditure (KR billion)^e						
	9,850	10,768	12,095	13,596	15,035	18,076
GDP (KR billion)^f						
	52,069	56,617	62,220	67,740	73,423	81,242
Calculated Ratios						
1. MoEYS expenditure as a proportion of total government expenditure (%)	13.6	12.6	12.3	13.3	13.2	12.8
2. Total government expenditure as a proportion of GDP (%)	18.9	19.0	19.4	20.1	20.5	22.3
3. MoEYS expenditure as a proportion of GDP (%)	2.6	2.4	2.4	2.7	2.7	2.8
4. MoEYS recurrent expenditure as a proportion of MoEYS expenditure (%)	68.1	74.2	75.1	74.4	75.5	80.3
5. MoEYS capital outlay as a proportion of MoEYS expenditure (%)	1.3	0.6	0.5	0.4	0.4	1.4
6. Development partner capital outlay as a proportion of MoEYS expenditure (%)	30.6	25.2	24.4	25.1	24.1	18.3
Annual Growth and Inflation Rates						
1. MoEYS annual expenditure (%)		1.0	9.8	20.9	9.7	16.6
2. MoEYS annual recurrent expenditure (%)		10.0	11.1	19.9	11.3	24.0
3. Development partner capital outlay (%)		(16.9)	6.2	24.7	5.1	(11.3)
4. Annual inflation ^g	5.5	2.9	3.0	3.9	1.2	2.8
5. Annual real growth ^h	7.1	7.3	7.4	7.1	7.0	6.9

GDP = gross domestic product; MoEYS = Ministry of Education, Youth and Sport.

^a Knoema. World Data Atlas. Cambodia: Public spending on education as a share of gross domestic product. Expenditure on education, youth, and sports is estimated based on the percent share of education expenditure of GDP (sourced from Trading Economics. Cambodia GDP, 1960–2018), multiplied by the value of GDP. (Accessed March 2018)

^b Government of Cambodia, MoEYS, Department of Finance.

^c Government of Cambodia, MoEYS.

^d Council for the Development of Cambodia. The Cambodia ODA Database. http://odacambodia.com/Reports/reports_by_updated.asp?status=0 (Accessed March 2018)

^e World Bank. World Development Indicators, Cambodia. <https://data.worldbank.org/indicator/NE.CON.GOV.T.ZS?locations=KH> (accessed March 2018).

^f World Bank. World Development Indicators, Cambodia. <https://data.worldbank.org/indicator/NE.CON.GOV.T.ZS?locations=KH> (accessed March 2018)

^g Government of Cambodia, Ministry of Economy and Finance. Cambodia Macroeconomic Monitor: Mid-year Assessment 2016. Phnom Penh.

^h Trading Economics. Cambodia GDP Annual Growth Rate, 1994–2018.

Source: Asian Development Bank

4. Funds for capital expenditure are mainly derived from two sources: (i) the government treasury, and (ii) funding provided by development partners. Annual capital outlay from the government treasury remained well below 1.5% of the MoEYS's expenditure during 2012–2016. Funding from development partners for capital outlay as a percentage of the MoEYS's total annual expenditure decreased from 30.6% in 2011 to 18.3% in 2016. Despite the significant decrease in financial assistance, development partners are expected to remain the major source of financing of the government's capital expenditures for education.² Such heavy

² Government of Cambodia, MoEYS. 2014. *Education Strategic Plan, 2014–2018*. Phnom Penh.

dependence on development partner financial assistance for capital outlay is not sustainable in the long term.

5. Despite the government's clear vision on education's important role in Cambodia's economic development, the allocation of funds for the improvement of the sector has been limited. In 2016, the country's total expenditure on education was about 2.8% of its gross domestic product, which was significantly lower than its neighboring countries: Viet Nam's was 5.7% in 2013, Malaysia's was about 5.0% in 2015, Thailand's was about 4.2% in 2013, and Indonesia's was 3.6% in 2015.³ There is also a need to increase government expenditure for secondary education if the country is to meet the requirements for continued economic growth. In the long run, greater economic benefits will be generated from investments in education as a better educated and skilled labor force is able to contribute to the economy. The inadequate education budget has constrained the provision of critical resources to upgrade students' proficiency, especially in specializations at the upper secondary education (USE) level.

6. **Financing of secondary education.** Total secondary education expenditure increased from KR454 billion in 2011 to KR765 billion in 2016, an increase of 68.6% (Table 2).

Table 2: Trends in the Financing of Secondary Education in Cambodia, 2011–2016

Item	2011	2012	2013	2014	2015	2016
Government Expenditure by Level of Secondary Education						
Total expenditure on secondary education (KR billion)	454	499	563	538	651	765
Lower secondary education (KR billion)	341	385	437	377	467	520
Upper secondary education (KR billion)	113	114	127	161	184	245
Total expenditure of MoEYS (KR billion)	1,344	1,357	1,491	1,803	1,977	2,305
Calculated Ratios						
Expenditure on secondary education as a proportion of total expenditure of MoEYS (%)	33.7	36.8	37.8	29.9	32.9	33.2
Expenditure on lower secondary education as a proportion of total expenditure of MoEYS (%)	25.3	28.4	29.3	20.9	23.6	22.6
Expenditure on upper secondary education as a proportion of total expenditure of MoEYS (%)	8.4	8.4	8.5	8.9	9.3	10.6

MoEYS = Ministry of Education, Youth and Sport.

Source: Asian Development Bank

7. Average cost per secondary student is estimated to have increased 67.4% from KR527,808 in 2011 to KR883,354 in 2016 (Table 3). Average government expenditure per LSE student increased 41.0% from KR629,515 in 2011 to KR887,308 in 2016, while government expenditure per USE student increased 146.6% from KR354,822 to KR875,061 during the same period.

Table 3: Financing per Secondary Education Student in Cambodia, 2010–2016

Item	2011	2012	2013	2014	2015	2016
Lower Secondary Education						
Total number of LSE students	541,147	534,710	538,626	546,864	558,621	586,042
Total government expenditure for LSE (KR billion per year)	341	385	437	377	467	520
Average government spending per LSE (KR per student per year)	629,515	720,914	810,737	690,117	835,987	887,308
Upper Secondary Education						
Total number of USE students	318,165	288,789	266,293	262,072	266,449	279,409
Total government expenditure for USE (KR billion per year)	113	114	127	161	184	245

³ World Bank. [Gross Domestic Product](#) (accessed March 2018).

Item	2011	2012	2013	2014	2015	2016
Average government spending per USE student (KR per student per year)	354,822	394,816	475,803	614,061	690,564	875,061
Secondary Education as a Whole						
Total number of secondary education students	859,312	823,499	804,919	808,936	825,070	865,451
Total government expenditure for secondary education (KR billion per year)	454	499	563	538	651	765
Average government spending per secondary education student (KR per student per year)	527,808	606,556	699,930	665,477	789,024	883,354

LSE = lower secondary education, USE = upper secondary education

Source: Government of Cambodia; Ministry of Education, Youth, and Sport.

C. Fiscal Impact and Financial Sustainability

8. The Second Upper Secondary Education Sector Development Program consists of activities designed to support the MoEYS in the implementation of the government's USE action plans. The program consists of a policy-based loan (PBL) and a project loan. The total cost of the program is estimated at about \$50.0 million, comprising the PBL of about \$15.0 million and the project loan of about \$35.0 million, both from the concessional ordinary capital resources of the Asian Development Bank.⁴

9. **Fiscal impact analysis.** A financial plan is shown in Table 4, which presents the government's projected annual total expenditure requirements, including those for the education sector and the USE subsector, as well as the funding needed to finance program expenditures during the period of implementation.

Table 4: Fiscal Impact of the Program

Item	2019	2020	2021	2022	2023	2024	2025	2026	2027
Government of Cambodia Expenditure									
1. Total annual expenditure (KR billion) ^a	23,071	26,064	29,446	33,266	37,582	42,458	47,966	54,189	61,220
2. Total expenditure on education (KR billion) ^b	2,871	3,204	3,576	3,991	4,454	4,971	5,548	6,191	6,910
3. Total expenditure on secondary education (KR billion) ^c	948	1,056	1,176	1,310	1,459	1,624	1,809	2,015	2,244
Program Total Cost									
1. Counterpart funding (KR billion)	3	7	3	2	1				
2. ADB project loan (KR billion)	15	33	45	37	10				
3. ADB PBL (KR billion)	30	30							
Fiscal Impact or Contribution of the Program to Expenditure									
1. Total program cost to total government expenditure (%)	0.21	0.27	0.16	0.12	0.03				
2. Total program cost to total education expenditure (%)	1.65	2.17	1.33	0.96	0.25				
3. Total program cost to total secondary education expenditure (%)	5.01	6.58	4.04	2.94	0.76				

ADB = Asian Development Bank, PBL = policy-based loan.

^a Total annual expenditure is projected to increase at 13.0% per year based on the average growth rate estimated during 2011–2016.

⁴ The Government of Cambodia will provide counterpart funding of \$3.5 million, which will be sourced from its central budget.

^b Total education expenditure is projected to increase at 11.6% per year based on the average growth rate estimated during 2011–2016.

^c Total secondary education expenditure is projected to increase at 11.4% per year based on the average growth rate estimated during 2011–2016.

Source: Asian Development Bank

11. Financial analysis indicates that the total program funds (i.e., PBL, program investment, and government counterpart funds) will contribute additional funds to annual government, education, and USE expenditure. For example, program funds will contribute (i) 0.21% of total annual government expenditure, 1.65% of total annual education expenditure, and 5.01% of total annual USE expenditure in 2011; (ii) 0.27%, 2.17%, and 6.58% in 2012; (iii) 0.16%, 1.33%, and 4.04% in 2013; (iv) 0.12%, 0.96%, and 2.96% in 2014; and (v) 0.03%, 0.25%, and 0.76% in 2015 (Table 4).

12. **Financial sustainability.** MoEYS has sufficient surplus from its annual recurrent budget to cover incremental operation and maintenance (O&M) expenditure and that the government, as the end borrower, is capable of covering both annual O&M expenditure and debt service beyond program implementation. The proportion of total O&M expenditure and debt service to incremental education recurrent expenditure is projected to be insignificant. In 2027, when loan repayments are to commence 3 years after program completion, the proportion is estimated at about 2.2%, decreasing to 0.9% in 2035, and further to about 0.3% in 2051, when the project loan and PBL have been fully paid and during which time the government only has to cover O&M expenditure which is estimated at 0.03% of incremental recurrent expenditure for education (Table 5).

Table 5: Financial Sustainability of the Program

Item	2027	2028	2029	2030	2031	2032	2033	2034	2035
Total annual O&M cost^a	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Loan¹ Repayment (including interest)	11.1	11.4	18.4	11.2	11.1	11.0	10.9	10.8	10.7
1. Project loan (KR billion) ^b	6.8	7.2	7.1	7.0	6.9	6.9	6.8	6.8	6.7
2. PBL (KR billion) ^c	4.3	4.2	4.2	4.2	4.2	4.1	4.1	4.0	4.0
Total annual O&M cost and Loan Repayment (KR billion)	12.0	12.3	12.2	12.1	12.0	11.9	11.8	11.7	11.6
1. Annual recurrent expenditure for education (KR billion)	5,434	6,051	6,739	7,505	8,358	9,309	10,367	11,545	12,858
2. Incremental recurrent expenditure for education (KR billion)	555	618	688	766	853	950	1,058	1,178	1,312
Proportion of O&M and Loan Repayment to incremental recurrent expenditure for education (%)	2.2	2.0	1.8	1.6	1.4	1.2	1.1	1.0	0.9

O&M = operation and maintenance, PBL = policy-based loan.

^a Consultant's estimates based on program cost estimates.

^b Project loan will be fully paid by 2050.

^c PBL will be fully paid by 2042.

Source: Asian Development Bank