2-2018

Toward Adopting a Skills Development Fund for Cambodia

Asian Development Bank

Toward Adopting a Skills Development Fund for Cambodia

Abstract
Key Points:

- Cambodia is endowed with an ample supply of labor, but the labor force is characterized by low levels of education and skills. As technological change and competitiveness increase, there is a growing demand for an adaptable workforce with both cognitive and noncognitive skills.

- The government has an important role in ensuring access to basic education and technical and vocational training to a qualification and standard that supports entry into the workforce, but partnership with industry in workforce development is even more essential in responding to the changing demands of technology in the workplace.

- Countries are exploring different partnership models toward ensuring actual training is funded and driven by industry. Experiences also show that industry is a reluctant partner at the outset, and that piloting a skills development scheme to build credibility and confidence among partners, especially industry, is important before a full-fledged skills development fund can be established.

Keywords
Cambodia, education, skills development, technical and vocational training

Comments

Suggested Citation

Asian Development Bank (2018). *Toward adopting a skills development fund for Cambodia* (ADB Brief No. 90). Mandaluyong City, Philippines: Asian Development Bank.

NO. 90

FEBRUARY 2018

ADB BRIEFS

KEY POINTS

- Cambodia is endowed with an ample supply of labor, but the labor force is characterized by low levels of education and skills. As technological change and competitiveness increase, there is a growing demand for an adaptable workforce with both cognitive and noncognitive skills.
- The government has an important role in ensuring access to basic education and technical and vocational training to a qualification and standard that supports entry into the workforce, but partnership with industry in workforce development is even more essential in responding to the changing demands of technology in the workplace.
- Countries are exploring different partnership models toward ensuring actual training is funded and driven by industry. Experiences also show that industry is a reluctant partner at the outset, and that piloting a skills development scheme to build credibility and confidence among partners, especially industry, is important before a full-fledged skills development fund can be established.

ISBN 978-92-9261-082-1 (print)
ISBN 978-92-9261-083-8 (electronic)
ISSN 2071-7202 (print)
ISSN 2218-2675 (electronic)
Publication Stock No. BRF189241
DOI: http://dx.doi.org/10.22617/BRF189241

Toward Adopting a Skills Development Fund for Cambodia

This brief highlights the findings of a 2017 feasibility study for a skills development fund in Cambodia, undertaken with technical assistance from the Asian Development Bank (ADB).[1] The intent is to raise awareness and stimulate dialogue on the idea of a skills development fund among policy makers, industries, training providers, and development partners working in the field of technical and vocational education and training (TVET).

CAMBODIA NEEDS TO INVEST IN SKILLED WORKERS

Tens of thousands of Cambodia's young population enter the labor force each year. Labor force participation among the working age population (15–64 years) increased from 7.7 million in 2009 to 8.3 million in 2015.[2] While the country is endowed with an ample supply of labor, the labor force is still characterized by very low levels of education and skill. The average educational attainment of the current workforce is primary school completion (grade 6) or below—a major barrier to industrial diversification efforts and moving up the value chain. The 2015 *Cambodia Socio-Economic Survey* found that nearly half (46%) of the labor force have either not completed primary education or never attended school. Less than 7% of workers completed high school (grade 12) (see Figure 1).

There is a pressing need to respond to the growing demand for an adaptable workforce with professional skills and proper workplace behavior. In response, the government has taken steps to reform and strengthen the education and training system, including an enhanced role of the private sector in skills development and providing incentives to enterprises to train their own workforce.

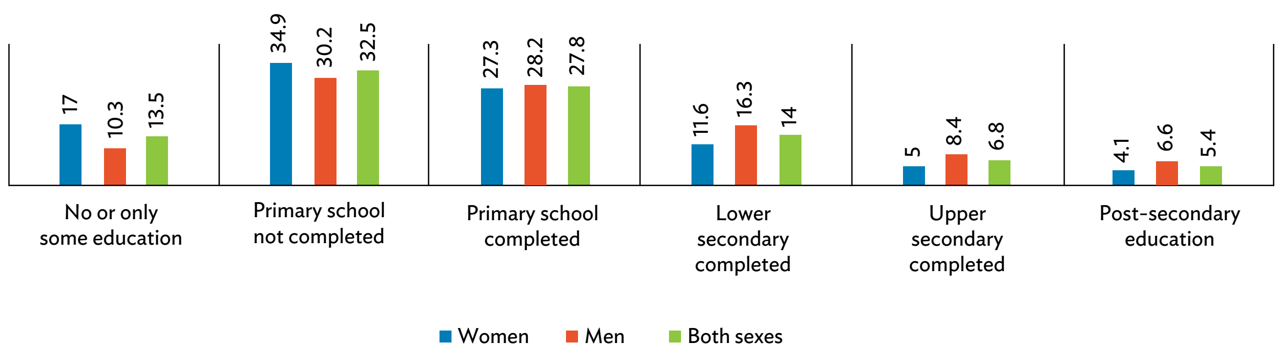
One of the four overarching goals of Cambodia's new national TVET policy 2017–2025 is to promote public–private partnerships and mobilize resources from stakeholders to support TVET. A key strategy to achieve this be establishing a coordination mechanism to set up a national skills development fund.[3]

1 ADB. 2015. *Strengthening Capacity Development for National Skills Development.* Technical Assistance Report. Manila. The full feasibility study is available upon request. The Ministry of Labour and Vocational Training and ADB jointly hosted a consultation workshop to discuss findings and recommendations on 22 March 2017 in Phnom Penh.

2 Ministry of Planning. 2010 and 2016. *Cambodia Socio-Economic Surveys 2010 and 2016.* Phnom Penh.

3 The four national TVET policies' goals are to (i) promote TVET quality to meet national and international market demands, (ii) increase equitable access to TVET for employment generation, (iii) promote public–private partnerships and aggregate resources from stakeholders to support sustainable development of TVET system, and (iv) improve governance of the TVET system.

Figure 1: Educational Attainment of the Labor Force Ages 15–64, 2015 (percent)



Source: *Cambodia Socio-Economic Survey 2015.* National Institute of Statistics. 2016.

WHAT ARE SKILLS DEVELOPMENT FUNDS AND WHY DO COUNTRIES NEED THEM?

A skills development fund or a training fund, is a dedicated stock or flow of financing outside normal government budgetary channels for developing productive skills for work. The purpose of having training funds is to increase the number of workers trained to raise the productivity, competitiveness, and incomes of enterprises and individuals by providing them with needed skills. Many training funds are financed by levies (taxes) on enterprises, but may also be based on public contributions and donor financing.[4]

As technological changes and competitiveness accelerate, there is a growing recognition that upgrading the skills of the existing workforce is an equal priority to training new technicians and professionals by education and technical training institutions. Although the government has a role in ensuring that school-aged youth develop qualifications and skills to a standard that supports entry into the workforce, not all governments can fund the subsequent lifetime learning requirements of the workforce to respond to the changing demands of economic activities and technology in the workplace. It is in this context that many countries are exploring the creation of a partnership model in which industry must fund and drive actual training.

WHAT DO DIFFERENT FINANCING MODELS LOOK LIKE?

Common approaches and financing sources include:

- **Apprenticeship levy.** An apprenticeship is a traditional form of training generally based on a contract between an individual trainee, an employer, and a government agent. It is an agreement that an apprentice will work for the employer for a fixed period and for an agreed wage, and receive training by working under a skilled expert practitioner. Cambodia's Labor Law establishes an apprenticeship fund based on all eligible industries either contributing 1% of their payroll to a central fund or using 1% of their payroll to support an apprenticeship program. However, this fund does not function well, and very few companies pay the 1% levy.
- **Revenue-raising levy.** This refers to a scheme wherein payment of the levy confers few or no special rights to the individual employer to access the training fund. The levy is an earmarked tax on employers with the obtained funds dedicated to training provision. Funds are used to support national skills development for school leavers and labor market entrants to prepare them for jobs, and to provide in-service training for the current workforce. Often the resources go toward provision by public training providers. The coverage varies, both in sector and firm size, and in some countries, is restricted to the industrial sector.
- **Disbursement levy.** Sometimes called a levy-disbursement scheme, it occurs when an employer's payment into the scheme establishes certain rights to make use of the training fund. Alternatively, the employer's expenditure on training can be used to reduce an employer's levy payment. Given the focus on the individual training activities of employers, the main emphasis of such levy is usually the training of existing employees as opposed to school leavers or those seeking jobs. There are two main ways in which the rights of those paying the levy can be reflected: employers can either (i) reduce their levy obligations by conducting training ("train or pay") or (ii) be reimbursed from the fund for approved training.
- **Levy grant.** This differs from levy exemption or reimbursement schemes as it has no strict criteria for allowable training. Instead, the fund administrators evaluate training schemes on a case-by-case basis. This enables resources to be channeled more easily to support specific needs of the economy or certain population groups.

[4] World Bank. 2009. *A Review of National Training Funds.* Washington, DC.

- **Voluntary fund.** This involves voluntary contributions based on the state's recommendations plus nongovernment contributors for skills development. Contributions are encouraged as the primary mechanism to develop links between training institutions and workplaces. The government can set up a public trust to manage the fund. The fund acts as a catalyst for skills development funding enterprises, companies, and organizations that provide skills training. The public trust account is subject to regular audit by an independent audit authority.

ASSESSING THE ADVANTAGES OF A SKILLS DEVELOPMENT FUND

Skills development funds have several advantages as compared with financing training through the government's budget system. A fund fosters competitive training markets and a demand-driven training system. To this end, two specific objectives of a skills development fund are worth highlighting:

(i) mobilizing resources among stakeholders and increasing revenue available for skills training and upgrading through competitive bidding among qualified training providers; and
(ii) building partnerships between the public and private sectors, including non-state parties, in a coordinated manner, to plan, manage, and finance labor force training and upgrading in accordance with national TVET policies and priorities.

Table 1 presents three main types of training funds which are differentiated by their purpose and source of funds. The overall framework for training funds depicting sources and uses of funds is shown in Figure 2.

WHO ARE THE PARTNERS IN A SKILLS DEVELOPMENT FUND?

A skills development fund requires planning, management and financial involvement of all stakeholders. Roles and levels of involvement can change over time, but each partner has a role and a responsibility based on ability to contribute and primary benefit. The partners can be:

- government (national and local),
- training providers (public and non-state training institutions, including nongovernment organizations),
- individual industries (companies) and their associations,
- workers or trade unions, and
- trainees and in some cases, trainees' families.

THE GOVERNMENT'S ROLE IS TO

- ensure the national skills development policy promotes sector skills councils as full partners in skills development;
- support industry involvement in the development and updating of skills standards plus learning and assessment materials for all occupations;
- ensure an independent or industry recognized assessment and certification system to assess and recognize the skills of all applicants regardless of the place of mastery of those skills;
- ensure a functioning and comprehensive labor market information system with data on the demand for and supply of skills;
- encourage the development of non-state training providers to promote a competitive environment for training provision;
- make skills development accessible to the population, with special provisions for women and those with special needs;
- set accreditation requirements for all public and non-state training institutions to ensure quality of training program; and
- develop regulatory frameworks and facilitate the fund's effective operation to support the continuous upgrading of the workforce by industry.

INDUSTRY ENGAGEMENT IN SKILLS DEVELOPMENT FUNDS

One of the best ways to engage industry in a demand-led training system is through sector skills councils. A council is a platform for cooperation to promote skills development in an economic sector. The roles of sector skills councils could include:

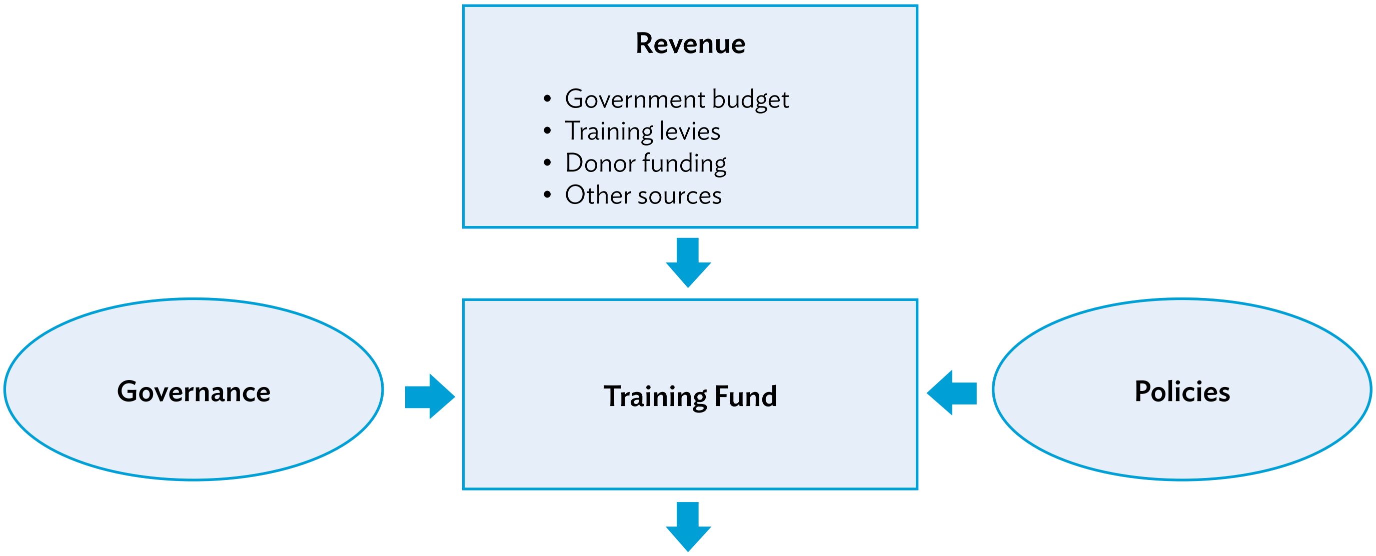
- to review and approve skills standards for priority sectors and occupations;
- to facilitate the development of learning materials and assessment tools;

Table 1: Typology of Skills Development Funds

Type	Main Purpose	Financing Sources
Pre-employment training fund	Finance the expansion and delivery of initial training before employment	Payroll levy-revenue generating
Enterprise training fund	Provide incentive to increase in-service training of workers in enterprises	Payroll levy scheme
Equity training fund	Increase opportunities for skills acquisition by disadvantaged groups not covered by enterprise schemes	Public subsidy, levy, or donors

Source: ADB. 2009. *Good Practice in Technical and Vocational Education and Training.* The Philippines.

Figure 2: Mechanism of Skills Development Funds



Uses: Disbursements	
Core funding to training institutions	Pre-employment training
Enterprises	Direct subsidies Levy reimbursements
Microenterprise and informal sector	Intermediary institutions
Special target groups	Unemployed, disadvantaged

Source: ADB. 2009. *Good Practice in Technical and Vocational Education and Training.* The Philippines.

Source: ADB. 2009. *Good Practice in Technical and Vocational Education and Training.* The Philippines.

- to monitor the changing demand for skills in the workplace;
- to disseminate information about which skills are in highest demand;
- to ensure that skills standards are reviewed by industry specialists and support anticipated changes in the industry in response to new technology, legislation, and investment;
- to train and certify industry specialists as skills assessors to conduct independent skills assessment;
- to approve the criteria for skills development fund training proposals in a particular sector;
- to facilitate strategic planning, forecasting, and cooperation between training providers and employers;
- to encourage industries in the sector to participate in all aspects of the sector skills council's responsibilities; and
- to provide direct funding for training.

INTERNATIONAL EXPERIENCE WITH SKILLS DEVELOPMENT FUNDS

Many countries have varying experience with skills development funds. The examples presented in Boxes 1 to 3 illustrate diverse institutional mechanisms involved in making fund allocation decisions.

Box 1: South Africa's Skills Levy

One of the best examples of a levy grant system is South Africa's National Skills Fund. The objective was to support initiatives in the country's national skill development strategy, which focused on apprenticeship and internship. Since the fund was established there have been three different strategies, each with different objectives. The current priority focuses on further education and training at institutional level.

The fund is financed by a levy that was established under the Skills Development Act. All employers registered for taxation purposes with the South African Revenue Service, and who have an annual payroll of more than 250,000 rand are required to pay 1% of their total payroll to the revenue service. Subsequently, 80% of these monies are distributed back to skills education and training authorities and the remaining 20% are paid into the fund. Employers are entitled to claim back monies if they undertake systematic activities associated with industry-based training.

To be eligible for reimbursement, each employer is required to appoint a skills development facilitator. This is referred to as grant A, under which employers are entitled to claim back 15% of their initial payments. Once the company has appointed agreed-on facilitators, they can make an application for grant B which involves the submission of a workplace skills plan, outlining what training the company intends to implement. Subject to approval from their respective training authority, the employer will claim back a further 10%. A subsequent 20% will be claimed back when they start the implementation of their training plans and submit an annual training plan based on their workplace skills plan to their training authority. A final grant D is available to the equivalent of 5% of the total amount by the employer for the specific initiatives. These initiatives are determined by the training authority board, which comprises employers and trade unions.

Besides grants A to D, an employer can apply for a grant from the fund administered by the Department of Labor. The fund comprises the remaining 20% of the total skill levy paid by employers and is used to address important issues. The Department of Labor administers these resources under different funding windows, adjusted according to changing priorities. The funding windows are discretionary grants that encourage employers to help the government achieve the skill development objectives outlined in the national strategy.

Source: Austraining International. 2014. PPTA No. 8281-CAM: Strengthening Technical and Vocational Training II (unpublished).

Box 2: Chile's Tax Credit System

Instead of a levy grant tax, Chile's government decided to subsidize worker training using tax credits. Enterprises can train their workers and obtain tax credits under the following three formulas:

- Tax credits may fully compensate an enterprise for the cost of training up to the equivalent of 1% of the company's payroll. The national service for training and employment, a division of Ministry of Labor, certifies how much credit an enterprise obtains.
- Member enterprises' contributions to their technical assistance institutions are also eligible for the tax credit. These are intermediate-level organizations that represent a sector of economic activity (e.g., construction, tourism) and support their members through training activities and diffusion of technology. While they charge for their services, they are established as nonprofit organizations.
- Wages paid to workers under apprenticeship programs are also eligible for tax credits. This program consists of temporary work contracts aimed at training young workers (up to 21 years of age). Up to 60% of the salary paid can be added to the tax credit.

Source: Austraining International. 2014. PPTA No. 8281-CAM: Strengthening Technical and Vocational Training II (unpublished).

Box 3: Australia's National Workforce Development Fund

This fund is part of the government's skill connection program that aims to target the skill needs of employers and industry for priority occupations. A long list of priority occupations in demand is identified and all training must correspond to one of these occupations.

To receive the fund, an application must be made through the various sector skills councils that operate in Australia. Each sector skill council provides guidance to applicants on how to submit a proposal. The project application must focus upon current and future skills required in the sector and the application must involve a partnership between enterprises, an industry skills council, and a registered training organization.

The rationale for this fund is to encourage organizations to undertake workforce planning and skill needs analysis, and to develop corresponding training solutions aligned with business goals. The applications and management of the fund will be the responsibility of a new workforce and productivity agency.

Source: Austraining International. 2014. PPTA No. 8281-CAM: Strengthening Technical and Vocational Training II (unpublished).

LESSONS FOR CAMBODIA

South Africa, Chile, and Australia may be at different stages of development compared to Cambodia, but useful lessons include:

(i) There are different ways in which funds are used to encourage industries to engage in skills development. Chile is a good example of using tax credits to expand the volume of training.
(ii) The most common type of revenue for training funds is the levy grant. In South Africa, the levy is imposed on an industry with a defined payroll threshold. In other countries, the levy is based on the number of employees in an industry.
(iii) South Africa's example also shows how raising funds from a levy grant can be used to cross-subsidize different areas of skills development.
(iv) Governments use funds as a means of ensuring that priority skills are developed. Australia develops a list of skill shortage areas and only these are eligible for funding. South Africa's national strategy defines priority areas for the skills fund.
(v) In Australia, the funds are used to encourage partnership between sector bodies, training providers, and employers.
(vi) In nearly all of these countries, employers play an important role in the management and delivery of the funds.
(vii) South Africa and Australia highlight the role that employer-led sector bodies play in the management process.
(viii) All case studies highlight the relative independence of different funds from normal government budgets and the flexibility they offer in responding to new skills in demand at different time periods.
(ix) It is important to use existing functional systems whenever possible.

TOWARD A NEW SKILLS DEVELOPMENT FUND FOR CAMBODIA

Cambodia's labor force urgently needs upgraded qualifications and skills as the country aims to diversify industry and move away from low-skilled employment. International experience shows that no government can fund the lifetime learning requirements of its labor force to respond to the rapid changing demands of technology in the workplace. Many countries have explored partnership models funded and driven by industry.

Experience also shows that industry has been a reluctant partner at the outset, and that the establishment and operation of a full-fledged skills development fund can take a few years regardless of the funding model. This brief recommends the following steps:

(i) Pilot a new fund's model and management structure, at least in the first 2 to 3 years, to build credibility and ensure that stakeholders understand the model.
(ii) Pilot the fund with financing from government and/or donors and with full industry participation to build confidence, and provide opportunity for industry to play its role in management and the decision-making process.
(iii) Ensure the pilot's management and governance structure is simple and made up of experts and a supervisory team with strong commitment to transparency and concrete results.
(iv) While having industry assessing the benefits of the pilot fund, gradually refine the management model and long-term funding strategies, including a range of contributions by industries.
(v) Ensure links between the fund and skills development priorities and broader economic development strategies. The design of the fund must be sufficiently flexible so the priority for support can change as the economy matures.
(vi) Include in the fund's management a significant number of industry participants from the selected sectors. Industries must be part of managing the funds and the primary decider of what training will be purchased.
(vii) Select training providers accredited by the appropriate authority and approved by the industry.
(viii) Assess those completing training against national standards by an approved assessment body or authority.
(ix) Ensure the fund is separate and independently audited.

About the Asian Development Bank
ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to a large share of the world's poor. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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.

ADB Briefs are based on papers or notes prepared by ADB staff and their resource persons. The series is designed to provide concise, nontechnical accounts of policy issues of topical interest, with a view to facilitating informed debate. The Department of Communications administers the series.

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444

www.adb.org/publications/series/adb-briefs