



Policy Brief

Skill Development to Ensure a Smooth LDC Transition in Cambodia

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Key messages:

Cambodia faces critical skills gaps that threaten its economic development:

A staggering 84% (9.3 million workers) of the workforce has only a primary education.

A significant overall skills gap of 27.6%, reaching crisis levels in key sectors like Garment, Footwear, and Textile (45.6%) and Food and Beverage Manufacturing (54.2%).

Cambodia's digital skills lag behind its ASEAN neighbors (36%), hindering its transition to Industry 4.0 and its goal of graduating from Least Developed Country (LDC) status by 2029.

Labour productivity has seen some improvement, with a 2.6% annual increase (5.6% in industry), strategic skills development is crucial enabling diversification from garment manufacturing to higher-value sectors and drive improvements within the garment sector itself, ultimately boosting economic growth and competitiveness.

Priority policy should consider these aspects such as:

- ✓ Strengthen the student base, and develop human capital from an early age
- ✓ Regularly conducting labour market research to keep pace with rapid economic and technological to ensure students are equipped with current market skill needs
- ✓ Adjusting the curriculum to align with labour market demands.

Overview

Cambodia has experienced remarkable economic growth and development, transitioning to a lower-middle-income country in 2015. The nation now aims to reach upper-middle-income status by 2030. However, Cambodia's upcoming graduation from the Least Developed Country (LDC) category in 2029 presents both challenges and opportunities. A crucial factor for navigating this transition is equipping Cambodia's workforce with the skills and knowledge necessary to thrive in an increasingly competitive global economy. This report examines the current state of skill development in Cambodia, identifies challenges and opportunities, and outlines policy recommendations for strengthening skill development in the country.

Current state of skill development in Cambodia

Cambodia's current supply of skilled labor falls short of the increasing demand, with a notable gap in workers possessing the required technical and vocational skills. There is also a limited understanding of the concepts of creative destruction and how Cambodia's labor market is approaching the so-called "Lewis Turning Point". Hypothetically boosting the supply of skilled labor could spur GDP growth but also influence wage structures and employment opportunities. Skilled workers might find more job opportunities, albeit potentially at lower wages, while lower-skilled workers might enjoy higher wages but face fewer job opportunities. Consequently, skill development in Cambodia is essential for several reasons such as: enhancing productivity and competitiveness, attracting foreign direct investment (FDI) reducing reliance on trade preferences, and supporting sustainable development meeting the criteria for LDC graduation.

Challenges and Opportunities of skill development in Cambodia

Challenges

The demographic change creates a growing demand for skilled labour that outpaces the current supply. From 2010 to 2023, the workforce in agriculture shifted from 54% to 31%. While the economy is diversifying beyond agriculture into industrial and service sectors, this transformation has led to a growing skills shortage. The rise of new technologies further exacerbates this issue, necessitating updated regulations to protect workers' rights and benefits amid ongoing economic reforms.

Despite economic growth, there is a significant mismatch between the skills workers possess and those required by employers, resulting in inefficiencies and structural unemployment. In Cambodia, the skill gap remains substantial at 27.6%, particularly pronounced in sectors such as FTG with 45.6% and food and beverage manufacturing with 54.2%.

About 84% of Cambodia's workforce have only primary education and limited skills, leading to a skill trap. The lack of basic knowledge tends to prevent a low-skill workforce from advancing to higher levels of training in technologies and competencies. Consequently, they often find themselves 'trapped' in low-skilled, low-wage jobs, leading them to gradually shift to the informal labour market.

The productivity of Cambodia's labour force is still low compared to neighboring countries. Through the Global Competitiveness Index 2019, Cambodia ranks among the least competitive countries, ranking 106 out of 141 countries. This poses a significant obstacle to achieving the economic growth and development necessary for graduation from LDC status.

Cambodia's digital skills lag significantly behind its ASEAN neighbors, with only 36.56% of the population possessing adequate digital literacy.¹ This places Cambodia second to last in the region, creating a substantial obstacle as the country transitions towards Industry 4.0 and prepares for its graduation from LDC status. The rapidly evolving job market demands a digitally proficient workforce, and Cambodia's current skill levels risk hindering its economic progress and competitiveness.

Mismatch between the institution and labour market demand Graduates often lack the specific skills and knowledge sought by employers, leading to unemployment and underemployment.² This mismatch highlights the need for closer collaboration between higher education institutions and industry.

Concerns exist about the quality and relevance of some training programs. This is particularly relevant in the context of Cambodia's need to move beyond the four sectors that have traditionally dominated its economy (garment manufacturing, tourism, construction, and agriculture) and develop skills in new and emerging sectors.

Opportunities

Cambodia has several promising enablers to address its skill gap. Cambodia possesses strong demographic potential with a large proportion of its population in the prime working-age range. Specifically, 64.5% of Cambodians are between 15 and 64 years old, while 30.4% are under 14, which provides a potential demographic dividend, especially with increased government investment in education and skills development. The expanding digital economy offers new avenues for skilled workers in areas like software development and cybersecurity. Furthermore, growing private sector engagement, including initiatives like the TVET and SDF, fosters partnerships between employers and training providers to ensure skills development aligns with market needs.

Policy Recommendations

- ✓ **Embracing the principle of creative destruction can be a catalyst for growth and resilience.** Understanding this concept empowers individuals to explore new industries and develop the skills necessary for emerging job markets. This is crucial for businesses, policymakers, and entrepreneurs alike, as it highlights the critical need for adaptability and continuous innovation in today's dynamic market. Investing in training and education programs focused on future-oriented skills will create a workforce capable of adapting to evolving demands, ensuring a smoother transition and fostering long-term economic prosperity.
- ✓ **Cambodia has the opportunity to align with the ASEAN declaration on promoting green transition and creating green jobs by promoting green transition and sustainable practices across various sectors, such as renewable energy and agriculture.** This shift towards a greener economy not only benefits the environment but also boosts Cambodia's economic growth and social equity by creating new job opportunities, ensuring a more sustainable future, and attracting more investors to the country.
- ✓ **To boost worker wages by enhancing skills and productivity, a progressive wage model can be implemented.** This encourages and incentivizes workers to continuously update their skills. It requires government intervention to identify essential skills and support skill upgrades. Subsequently, businesses should pay higher wages, fostering a more equitable system.
- ✓ **Strengthen the skills development ecosystem by improving coordination among stakeholders, promote public-private partnerships and establish a national qualifications framework.** This is a very crucial step to improve coordination among stakeholders by enhancing collaboration between government agencies, training institutions, and the private sector.
- ✓ **There is a need to strengthen Cambodia's skills development ecosystem.** Policymakers should prioritize improving coordination among stakeholders. This can be achieved by actively promoting public-private partnerships and establishing a robust national qualifications framework. These initiatives will foster enhanced collaboration between government agencies, training institutions, and the private sector, which is essential for effective skills development.
- ✓ **Policymakers should encourage continuous skills development, support adult education and training programs, and recognize and validate prior learning ensuring lifelong learning.** Particularly, implementing a skill credit system would enable current workers to update their existing skill sets. This comprehensive approach will support workforce adaptability and lifelong employability.
- ✓ **Invest in teacher training and development to enhance the capacity of trainers and instructors to deliver high-quality training.** This can include providing training on modern pedagogical methods, industry-specific knowledge, and the use of technology in education.
- ✓ **Mechanism ASEAN countries should establish a unified accreditation system to certify workers, enabling better mobility and standardization of skills across the region.** This framework would facilitate faster labour market movement and help countries overcome the skills trap, particularly in the context of green transformation.

References

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