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3 June 2019

Proposed Loan Skills for Competitiveness Project (Cambodia)

1. The Report and Recommendation of the President (RRP: CAM 50394-002) on the proposed loan to Cambodia for the Skills for Competitiveness Project is circulated herewith.
2. This Report and Recommendation should be read with *Country Operations Business Plan: Cambodia, 2019–2021*, which was circulated to the Board on 6 September 2018 (DOC.IN.296-18).
3. In the absence of any request for discussion and in the absence of a sufficient number of abstentions or oppositions (which should be communicated to The Secretary by the close of business on 24 June 2019), the recommendation in paragraph 35 of the paper will be deemed to have been approved, to be so recorded in the minutes of a subsequent Board meeting. Any notified abstentions or oppositions will also be recorded in the minutes.

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Report and Recommendation of the President to the Board of Directors

Project Number: 50394-002
May 2019

Proposed Loan Kingdom of Cambodia: Skills for Competitiveness Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 March 2019)

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.00025085
\$1.00	=	KR3,986

ABBREVIATIONS

ADB	–	Asian Development Bank
AFD	–	Agence Française de Développement
CAMFEBA	–	Cambodian Federation of Employers and Business Association
CQF	–	Cambodia Qualifications Framework
DGTVET	–	Directorate General for Technical and Vocational Education and Training
DMFP	–	Department of Macroeconomic and Fiscal Policy
EMP	–	environmental management plan
GDP	–	gross domestic product
IDP	–	Industry Development Policy
IEE	–	initial environmental examination
ITC	–	Institute of Technology of Cambodia
MEF	–	Ministry of Economy and Finance
MLVT	–	Ministry of Labour and Vocational Training
MoEYS	–	Ministry of Education, Youth and Sport
PAM	–	project administration manual
PMU	–	project management unit
SDF	–	skills development fund
SSC	–	sector skills council
TTI	–	technical training institute
TVET	–	technical and vocational education and training
WBL	–	work-based learning

NOTES

- (i) The fiscal year (FY) of the Government of Cambodia and its agencies ends on 31 December.
- (ii) In this report, “\$” refers to United States dollars.

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CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	4
D. Summary Cost Estimates and Financing Plan	6
E. Implementation Arrangements	7
III. DUE DILIGENCE	8
A. Economic and Financial	8
B. Governance	8
C. Poverty, Social, and Gender	9
D. Safeguards	9
E. Summary of Risk Assessment and Risk Management Plan	10
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	14

PROJECT AT A GLANCE

1. Basic Data		Project Number: 50394-002	
Project Name	Skills for Competitiveness Project	Department /Division	SERD/SEHS
Country	Cambodia	Executing Agency	Ministry of Labor and Vocational Training
Borrower	Cambodia		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Education	Technical and vocational education and training		60.00
		Total	60.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive Pillar 3: Extreme deprivation prevented and effects of shocks reduced (Social Protection)	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD) Partnerships (PAR)	Institutional development Organizational development International finance institutions (IFI) Official cofinancing	Effective gender mainstreaming (EGM)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
General Intervention on Poverty	Yes		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG4, SDG5, SDG8, SDG10		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		60.00	
Sovereign Project (Concessional Loan): Ordinary capital resources		60.00	
Cofinancing		19.92	
Agence Francaise de Developpement - Project loan (Partial ADB Administration)		19.92	
Counterpart		8.31	
Government		8.31	
Total		88.23	
Currency of ADB Financing: USD			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Kingdom of Cambodia for the Skills for Competitiveness Project.

2. The proposed project will enhance the skills and competitiveness of Cambodia's industrial sector labor force. It will develop human resources to work as skilled workforce in four priority sectors: manufacturing, construction, electricity, and electronics. The project will help transform five selected technical training institutes (TTIs) into leading technical and vocational education and training (TVET) institutes in Cambodia to produce high-quality technicians in priority sectors and to respond to changing technology and industry needs. The project will also strengthen industry's role and engagement in skills development, focusing on upskilling and reskilling of existing workers. Industry and TTIs will forge partnership agreements to promote work-based learning (WBL) programs and expand the skills development fund (SDF) as an innovative TVET financing mechanism.

II. THE PROJECT

A. Rationale

3. **Broad context.** Cambodia is one of the fastest-growing economies in the world, with an average growth rate of 7.1% during 2011–2017. To achieve this, the country has embraced the “Factory Asia” model of economic growth, deploying a large supply of inexpensive low-skilled labor to manufacture simple products for export, particularly garments and footwear. However, despite a favorable economic growth forecast, there are signs of medium-term downside risks. For example, the minimum wage in the garment sector has more than doubled from \$80 a month in 2013 to \$182 a month in 2019, while labor productivity has not improved. Cambodia's ranking in the Global Competitiveness Report 2018 remained low (110th out of 140 economies) because of difficulties finding skilled employees.¹ The growth model of attracting foreign direct investment for labor cost advantage is getting diluted. The Government of Cambodia aims to diversify and modernize industries from labor-intensive to skills-driven ones to sustain economic growth, as laid out in its Industry Development Policy (IDP), 2015–2025.² As such, it has prioritized reform of its TVET system to equip its future and current workforce with the required skills to make the transition from low-skilled jobs to higher-skilled jobs.

4. **Labor force.** On average, Cambodia adds 200,000 persons to its labor force annually.³ While the agriculture sector contributed 25.3% to annual gross domestic product (GDP) and accounted for 37% of total employment in 2017, the industry sector (32.8% of GDP and 26% of employment in 2017) and the services sector (32.8% of GDP and 37% of employment in 2017) have been the main sources of job growth since 2012. This has been driven by an expansion in manufacturing, tourism, and construction. Only 30% of Cambodia's working age population of 10.4 million completed lower secondary education (up to grade 9). Of this cohort, only 6.6% completed post-secondary education (beyond upper secondary education or grade 12).⁴

¹ World Economic Forum. [The Global Competitiveness Report 2018](#). Geneva.

² Government of Cambodia. 2015. *Industrial Development Policy, 2015–2025*. Phnom Penh.

³ Cambodia's working age population (ages 15–64) grew by an average of 2.4% per annum compared with its general population, which grew by 1.9% per annum during 2007–2015. The working age population increased from 8.3 million in 2007 to 10.4 million in 2017 (51% of which are women).

⁴ The Asian Development Bank (ADB) supports Cambodia in improving its educational attainment through a series of loans aimed at strengthening upper secondary education outcomes. ADB. [Cambodia: Upper Secondary Education](#)

5. **Skills shortage and skills gap.** The low skill base of Cambodia poses barriers for the country to diversify and modernize its industries, move up global value chains, and increase competitiveness. Industries face skills gaps and shortages, particularly in machining, mechatronics in the manufacturing and construction sectors, and electrical technology. A 2017 employer survey identified technicians and associate professionals in these sectors as the most difficult positions to fill.⁵ Significant skills gaps and shortages result from low education attainment, weak industry relevance of training (especially at the post-secondary diploma level), and lack of industry-specific medium-term skills demand planning. The Ministry of Labour and Vocational Training (MLVT) in 2018 established four sector skills councils (SSCs) comprising representatives from industry associations in manufacturing, construction, auto mechanics, and electrical works. The SSCs are expected to serve as a platform for TTIs and industry to jointly identify skills gaps and shortages in each industry and plan skills trainings. However, as the MLVT lacks the capacity to engage industry in TVET, SSCs are yet to be effective. Industry representatives have little incentive to invest time and effort to engage with MLVT and TTIs.

6. **Lack of industry-relevant diploma-level technical and vocational education and training programs.** There are 56 public TTIs, of which only 23 TTIs under the MLVT and 4 institutes under Ministry of Education, Youth and Sport (MoEYS) offer post-secondary diploma-level TVET programs. However, most of the diploma programs are for service sector jobs, such as business administration and information and communication technology. There is a need to expand and strengthen diploma-level TVET programs catering to industry sector jobs by upgrading training facilities and equipment in the TTIs, and updating curricula to meet industry needs. Upgrading TTI trainers' technical and pedagogical skills with industry experience will be vital. TVET graduates are less prepared for the world of work and lack necessary foundation skills (such as science, technology, engineering, and mathematics) and industry-specific technical skills. Female graduates in diploma-level TVET programs are particularly low, such as construction (4%) and electricity (6%).⁶

7. **Lack of opportunities for upskilling and reskilling current workers.** Most small and medium-sized enterprises do not have the capacity to provide any training to their employees.⁷ Large employers, mostly foreign firms in special economic zones, invest in some in-house, on-the-job training, but without any linkages with TTIs. While some TTIs have entered into partnerships with industry, there is no system to expand work-based continuous learning opportunities for upskilling current workers. Formal training opportunities are limited to only those who possess at least lower secondary education graduation certificates. Thus, many current workers are trapped in low-wage and low-skill jobs.

8. **Inadequate financing to the technical and vocational education and training sector.** The current level of public TVET financing is insufficient and not responsive to labor market needs. In 2018, the MLVT budget was around 6% of the total national budget for education and training. About 80% of the budget allocated for TVET is used for recurrent expenditures, particularly

[Sector Development Program](#); and ADB. [Cambodia: Second Upper Secondary Education Sector Development Program](#).

⁵ Government of Cambodia, National Employment Agency. 2018. *Skills shortages and skills gaps in the Cambodian labour market: Evidence from employer survey 2017*. Phnom Penh.

⁶ Government of Cambodia, Ministry of Labour and Vocational Training, TVET Management Information System. *TVET Statistics 2016–2017*. Phnom Penh.

⁷ Of the total businesses, 97% are micro-businesses with establishments employing fewer than 10 employees. Women own the majority of businesses, but these businesses only account for 40% of the total business revenue. Government of Cambodia, Ministry of Planning, National Institute of Statistics. 2015. *Intercensal Economic Survey 2014*. Phnom Penh.

salaries of trainers and staff. Very little remains for investment in TVET facilities and training equipment, and in building partnerships with industry for work-based continuous learning programs. The Asian Development Bank (ADB) conducted a feasibility study in 2017 to explore options and implementation strategies for innovative TVET financing mechanisms to increase the private sector's investments.⁸ Based on the study's recommendations, the government established a pilot SDF in the Ministry of Economy and Finance (MEF) to foster engagements and cost sharing of training programs with industry.⁹ The pilot SDF is an industry demand-driven workforce development financing mechanism that encourages joint financing with industry, with focus on upskilling and reskilling current workers.

9. **Government strategy for skills development.** The IDP; the Rectangular Strategy Phase IV;¹⁰ and the National TVET Policy, 2017–2025 reaffirm the government's commitment to skills development as a means of facilitating inclusive growth. The IDP has set specific targets to increase the share of the industry sector in GDP through increased growth of the manufacturing sector (20% by 2025). The government aims to develop a comprehensive, long-term, multisector policy framework to guide industrial development, employment generation, and skills development.

10. The MLVT, MoEYS, and MEF have consulted with representatives of industry and employer associations, the Cambodia Productivity Committee, and other stakeholders to identify priority sectors for skills development in achieving IDP objectives. Four sectors were identified: (i) manufacturing—focusing on machining, mechatronics, and agro-processing; (ii) construction; (iii) electricity; and (iv) electronics. These were prioritized based on analyses of labor market trends, economic factors, skills shortages and skills gaps, national policies such as the IDP, and industry associations' demand.

11. **ADB engagement in technical and vocational education and training.** ADB has supported education and TVET in Cambodia since 2001 and is the leading development partner in the sector. Earlier TVET support focused on improving nonformal and entry-level short-term programs. This contributed to increased employment opportunities for low- and semiskilled labor, mostly in the agriculture sector. The ongoing TVET Sector Development Program¹¹ supports secondary-level TVET (certificate level or Cambodia Qualifications Framework [CQF] levels 2–4),¹² and reforms in assessment and certification systems. It has also supported the MLVT to establish SSCs. The project builds on these previous and ongoing ADB-financed TVET projects and supports the IDP goals by producing high-quality technicians (diploma level or CQF level 5) in the four priority industry sectors. It complements the TVET Sector Development Program in supporting TVET reforms in close coordination with SSCs, industry associations, and development partners.¹³

⁸ ADB. Kingdom of Cambodia: The National Skills Development Fund—A feasibility study with options and implementation strategy. Unpublished.

⁹ The pilot SDF was established pursuant to *Prakas* No. 265 SHV-Brk issued by the MEF. It includes a project management unit (PMU) and committee of the pilot SDF.

¹⁰ Government of Cambodia. 2018. *Rectangular Strategy for Growth, Employment, Equity and Efficiency: Building the Foundation Toward Realizing the Cambodia Vision 2050, Phase IV*. Phnom Penh.

¹¹ ADB. [Cambodia: Technical and Vocational Education and Training Sector Development Program](#).

¹² The CQF has three streams: (i) general education comprising 9 years of basic education plus 3 years of upper secondary education, (ii) TVET, and (iii) higher education. The CQF for TVET has eight levels starting with a vocational certificate (level 1); TVET certificates (levels 2–4), which are equivalent to upper secondary school or grades 10–12; diploma (level 5) equivalent to postsecondary or grade 12 completion; bachelor's degree (level 6); master's degree (level 7); and doctorate degree (level 8).

¹³ Development Coordination (accessible from the list of linked documents in Appendix 2).

12. **Lessons learned.** The project design incorporates lessons learned from earlier projects and ensures its transitions to more industry demand driven TVET project. First, there should be a clear incentive mechanism and continuous trust-building dialogues between the government and industry to enhance demand-driven skills development. SSCs thus need to be strengthened with appropriate incentives to bridge the gap between government agencies, TTIs, and employers. Second, TVET financing mechanism should be diversified and strengthened to increase the private sector's contributions to skills development. Third, the selected TTIs should not be passive beneficiaries of project activities and should commit to achieve key performance indicators at the institute level. This assures sustainability of results beyond project completion.

13. **Value added by ADB assistance.** ADB's added value comes from several key innovative features: (i) expanding toward institutionalizing SDF as an innovative TVET financing mechanism, (ii) piloting WBL programs through partnership arrangements with industry for upskilling and reskilling of current workers, (iii) enhancing cross-sectoral and development synergies in skills development in the agro-industry¹⁴ and electricity sectors, (iv) strengthening industry linkages by engaging the Cambodian Federation of Employers and Business Association (CAMFEBA) to reflect industry's demands,¹⁵ (v) incorporating key emerging issues such as climate change in the upgraded TVET curricula, and (vi) developing a long-term skills development road map. The project aligns with ADB's Strategy 2030 (Table 1).¹⁶

Table 1: Alignment with ADB's Strategy 2030

Strategy 2030 Priorities	Project Tasks
Addressing remaining poverty and reducing inequalities	Improve education and training and facilitating quality job creation by (i) increasing access to quality diploma-level programs in priority sectors and (ii) providing upskilling opportunities for the current workforce through industry engagements and innovative technical and vocational education and training financing mechanism expansion.
Accelerating progress in gender equality	Pursue gender equality in human development and promote women's economic empowerment by improving women's access to trainings.

ADB = Asian Development Bank.

Source: ADB.

B. Impact and Outcome

14. The project is aligned with the following impact: Cambodia's industrial structure is modernized and transformed from labor intensive to skills driven by 2025 (footnote 2). The project will have the following outcome: skills and competitiveness of men and women in the industrial labor force improved.¹⁷

C. Outputs

15. **Output 1: Quality and relevance of postsecondary technical and vocational education and training improved.** Diploma-level industry-responsive skills development programs will be delivered by the five selected TTIs. The project will produce a total of 18,000 qualified technicians (of which 28% are women) with higher employability and advanced technical skills in four priority sectors: manufacturing (focusing on machining, mechatronics, and agro-processing); construction; electricity; and electronics. The project will facilitate a long-term

¹⁴ The project will use recommendations to be made by value chain studies conducted by ADB to develop diploma level program for agro-processing course. ADB. [Cambodia: Agricultural Value Chain Infrastructure Improvement Project](#).

¹⁵ CAMFEBA is recognized nationally and internationally as the sole employers' representative in Cambodia. It aims, among other things, to strengthen Cambodia's private sector and enable its members to compete in the global economy.

¹⁶ ADB. [Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific](#).

¹⁷ The design and monitoring framework is in Appendix 1.

partnership between a regional education institute and the MLVT and the selected five TTIs to improve the quality and industry relevance of the TVET system. Output 1 will improve the quality and industry relevance of the selected TTIs by (i) upgrading 16 new training facilities (workshops, laboratories, classrooms, and dormitories) with gender-sensitive and energy-saving design features (separate dormitory floors and toilets for women and men, accessible design features for disabled students); (ii) providing advanced, industry-grade training equipment; (iii) upgrading diploma-level competency-based curricula and trainers' capacities in partnership with industry; and (iv) providing merit-based stipends to selected diploma students. The five TTIs were selected through a series of consultations with industries and the government, and will serve as change agents.¹⁸ The selection considered strategic locations of TTIs near to economic corridors and special economic zones in the country and the capacity of TTIs to act as change agents. Each TTI has identified its priority programs based on current and future local market needs, and has committed to achieve agreed key performance indicators to sustain project outputs.¹⁹

16. Output 2: Work-based learning programs with industry partnerships promoted.²⁰

Output 2 will provide upskilling and reskilling opportunities for existing workers to address skills gaps and skills shortage in industries. It will develop the capacity of SSCs and the five selected TTIs to identify training needs, develop needs-responsive trainings, and deliver WBL programs effectively to upgrade the skills of existing workers. WBL programs will also meet the continuing demand from industries to train workers' soft skills such as teamwork and communication. The selected TTI trainers and industry-liaison unit staff will be trained to implement at least 18 WBL programs in partnership with industries, which will provide WBL opportunities to at least 360 existing workers. In addition, the selected TTIs will develop at least 20 WBL proposals to access to the pilot SDF (output 3). ADB, through Agence Française de Développement (AFD) cofinancing, will engage CAMFEBA to fully operationalize SSCs by mobilizing a coordinator and providing financial incentives to industry representatives for providing expertise for the project. This includes providing advice to the MLVT, MEF, and TTIs on future industry and market trends, and technical expertise to the MEF to evaluate proposals submitted to the pilot SDF.

17. Output 3: Innovative technical and vocational education and training financing mechanisms expanded. Output 3 will expand the pilot SDF, which is currently managed by the MEF's Department of Macroeconomic and Fiscal Policy (DMFP). It is an innovative model in Cambodia to increase and incentivize industry's investments in skills development (para. 8). The government has allocated \$5 million from the national budget for the pilot SDF, with ADB's technical assistance to establish the governance structure, operational mechanism, and financial management. Implementation arrangements for the pilot SDF are set forth in the SDF project administration manual (PAM) and the SDF financial management manual.²¹ The project will (i) finance training proposals to be funded by the pilot SDF, which provide training opportunities for at least 3,500 persons in the labor force (of which at least 25% are female); (ii) develop capacity of the MEF's DMFP to strengthen its management of the pilot SDF; and (iii) provide support for the establishment of a new SDF agency by producing key policy study and knowledge products,

¹⁸ The five TTIs are Battambang Institute of Technology, Institute of Technology of Cambodia (ITC), National Polytechnic Institute of Angkor, National Technical Training Institute for TVET Park, and Regional Polytechnic Institute Techo Sen Svay Rieng.

¹⁹ Key performance indicators are included in the Project Administration Manual (PAM) (accessible from the list of linked documents in Appendix 2).

²⁰ WBL programs under the project include delivery of training in the workplace by training providers, center-based specialized training, or a combination of both. The program may be on technical or soft skills, and may be intensive full-time short courses or delivered part-time, as may be agreed in the partnership agreement.

²¹ PAM (accessible from the list of linked documents in Appendix 2), Annex 3.

which include a long-term skills development road map. The SDF agency is expected to be established pursuant to the government's adoption of a decree or sub-decree around 2024.²² The project will add value by enhancing the credibility of the pilot SDF and increasing industry recognition of the benefits and effectiveness of this financing model and the new SDF agency.

D. Summary Cost Estimates and Financing Plan

18. The project is estimated to cost \$88.23 million (Table 2). Detailed cost estimates by expenditure category and by financier are included in the PAM (footnote 19). The major expenditure items are works, equipment, the SDF, training, stipends, and consulting services.

Table 2: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1: Quality and relevance of postsecondary TVET improved	59.01
2. Output 2: WBL programs with industry partnerships promoted	7.40
3. Output 3: Innovative TVET financing mechanisms expanded ^c	9.83
Subtotal (A)	76.24
B. Contingencies^d	9.24
C. Financial Charges During Implementation^e	2.74
Total (A+B+C)	88.23

TVET = technical and vocational education and training, WBL = work-based learning.

^a Includes taxes and duties of \$3.46 million to be paid by the government (through tax exemptions) and both the Asian Development Bank and Agence Française de Développement loans. Such amount does not represent an excessive share of the project cost.

^b In mid-2018 prices as of February 2019.

^c Includes financing training proposals of \$7.00 million and \$2.83 million for capacity-building activities and support for the establishment of a permanent skills development fund.

^d Physical contingencies computed at 7% for civil works; 5% for goods, project management, capacity development and recurrent costs and 2% for consulting services. Price contingencies computed at average of 1.5% on foreign exchange costs and 3.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^e Includes interest during construction computed at 1% per year during the 8-year grace period and 1.5% per year thereafter.

Source: Asian Development Bank estimates.

19. The government has requested a concessional loan of \$60 million from ADB's ordinary capital resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years; an interest rate of 1% per year during the grace period; and 1.5% per year thereafter, and such other terms and conditions set forth in draft loan agreement.

20. AFD will provide loan cofinancing not exceeding of 18 million Euros (\$19.92 million equivalent), to be partially administered by ADB.²³ ADB and AFD envisage the signing of a cofinancing agreement in the third quarter of 2019. It has been discussed and agreed that the AFD loan will finance mechanical and training equipment, CAMFEBA, a portion of the stipends, and related taxes and duties, among other things (outputs 1 and 2). The government will provide \$8.31 million in counterpart funds in the form of cash and/or in-kind contributions.

²² The legal and governance structure, and sustainable financing options, for the SDF agency will be finalized pursuant to the adoption of the government decree or sub-decree.

²³ Partial administration includes ADB's administration of procurement and disbursement activities for the AFD loan following the ADB Procurement Policy (2017, as amended from time to time), Procurement Regulations for ADB Borrowers (2017, as amended from time to time), and disbursement guidelines (2017, as amended from time to time). ADB. [ADB Procurement Policy](#); ADB. [Procurement Regulations for ADB Borrowers](#); and ADB. [Loan Disbursement Handbook 2017](#).

Table 3: Summary Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	60.00	68.0
Agence Française de Développement (loan) ^a	19.92	23.0
Government of Cambodia	8.31	9.0
Total	88.23	100.0

^aPartially administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

21. The climate risks associated with the civil works proposed for the five TTIs were assessed to be low. No significant climate mitigation or adaptation costs are envisaged.

E. Implementation Arrangements

22. The MLVT will be the executing agency. The MLVT's Directorate General for Technical and Vocational Education and Training (DGTVET), the MoEYS' Institute of Technology of Cambodia (ITC), and the MEF's DMFP will be the implementing agencies. The implementation arrangements are summarized in Table 4 and described in detail in the PAM (footnote 19).

Table 4: Implementation Arrangements

Aspects	Arrangements		
Implementation period	October 2019–October 2024		
Estimated completion date	31 October 2024		
Estimated loan closing date	30 April 2025		
Management			
(i) Oversight body	Project steering committee: Chair: secretary of state, MLVT; Members: undersecretary of state, MLVT; representatives from Ministry of Economy and Finance, MoEYS, and other relevant institutions; representatives from sector skills councils; and DGTVET, Institute of Technology of Cambodia, and DMFP		
(ii) Executing agency	MLVT		
(iii) Implementing agencies	DGTVET, DMFP, Institute of Technology of Cambodia,		
(iv) Implementation unit	PMU under MLVT, PIUs at each implementing agency with total 63 staff		
Procurement	Open competitive bidding, international advertisements	5 contracts	\$15.08 million
	Open competitive bidding, national advertisements	5 contracts	\$25.50 million
	Request for quotations with advertisement	9 contracts	\$2.36 million
Consulting services	Quality- and cost-based selection, 1 project implementation consultant	356 person-months (estimated)	\$2.40 million
	Fixed-budget selection, 1 regional education institute	324 person-months	\$3.60 million
	CQS, 5 value chain studies-DMFP	50 person-months	\$0.60 million
	Direct contracting ^a	1 contract	\$0.24 million
	Individual consultants (7)	342 person-months	\$1.30 million
Retroactive financing and/or advance contracting	No retroactive financing. Advance contracting is planned for civil works and project implementation consultants' recruitment.		
Disbursement	The ADB and Agence Française de Développement loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank; CQS = consultant qualification selection; DGTVET = Directorate General of Technical and Vocational Education and Training; DMFP = Department of Macroeconomic and Fiscal Policy; MLVT = Ministry of Labour and Vocational Training; MoEYS = Ministry of Education, Youth and Sport; PIU = project implementation unit; PMU = project management unit;

^a Direct contracting with the Cambodian Federation of Employers and Business Association.
Source: ADB.

III. DUE DILIGENCE

A. Economic and Financial

23. **Economic analysis.** The project's economic internal rate of return is estimated at 9.7%, which is above the minimum required threshold for ADB social sector projects (6%). This indicates that the project is economically viable or that the value of the expected economic benefits from the project is above the opportunity cost of the required investment. The principal benefits considered in the analysis are the likely incremental wages to be earned by additional graduates trained under the project. Sensitivity analysis indicates that the project's economic internal rate of return is sensitive to possible changes in employment rate among training graduates as well as changes in training participation and completion rates.

24. **Financial sustainability.** The project will contribute additional funds to raise the annual government expenditure on TVET. In 2018, of the \$54 million total budget allocated to the MLVT, over one-third (\$18.7 million) was allocated to the DGTVE. To fully cover the project's operation and maintenance costs, the DGTVE requires about \$1.4 million per year (9.2% of its recurrent budget in 2018) from 2024 to 2028, and about \$1.8 million per year (12.3% of its recurrent budget in 2018) from 2029 onwards. This requires the DGTVE's recurrent budget to grow by at least 2.38% per year starting in 2019. This is lower than the expected 7% growth rate for the Cambodian economy, and the DGTVE's recurrent budget, indicating that the project is financially sustainable.

B. Governance

25. **Financial management.** The financial management assessment concluded that the overall pre-mitigation financial management risk for the project as well as for the executing agency and each implementing agency is *substantial*. The major risks involve the limited capacity of MLVT, DGTVE, ITC, and DMFP staff in financial management, including financial reporting. The mitigation measures include (i) appointing qualified counterpart staff for the project management unit (PMU) and implementing agencies, (ii) recruiting three financial management consultants to support each implementing agency, (iii) providing training and financial management information systems software, and (iv) continuing to develop operational systems for the pilot SDF.

26. **Procurement.** The procurement capacity assessment concluded that the overall risk rating is *medium*. All procurement and recruitment of consultants will be undertaken by the respective implementing agencies through procurement committees. To strengthen procurement capacity, ADB and the project implementation consultants will provide in-country support and carry out training for PMU staff and the implementing agencies. ADB will mobilize a start-up procurement consultant to support advance actions for civil works and consulting services procurement. In addition, three procurement consultants will strengthen the capacity of each implementing agency to ensure compliance, quality, and timely procurement activities. Procurement of goods and works, and recruitment of consulting services will be undertaken following the ADB Procurement Policy and Procurement Regulations for ADB Borrowers (2017, as amended from time to time). As ADB will partially administer the AFD loan, universal procurement will be applied.

27. **Anticorruption.** ADB's Anticorruption Policy (1998, as amended to date) was explained

to and discussed with the government and MLVT. The specific policy requirements and supplementary measures are described in the PAM (footnote 19).

C. Poverty, Social, and Gender

28. The project is categorized as effective gender mainstreaming and designed to help reduce gender inequality in accessing TVET and increase the number of female skilled workers in nontraditional sectors. Most of the female students in TVET are enrolled in courses on accounting, finance and banking, and information and communication technology. In 2018, an estimated 19% of the students and only 10% of the trainers in the priority sector technical courses in the selected TTIs were women. The project will promote enrollment of female students to diploma-level TVET and capacity building of female trainers in teaching and management positions. The gender action plan includes measures to attract more women to acquire industry-relevant skills and gain employment into male-dominated sectors. The project will upgrade facilities in the selected TTIs with gender-sensitive design, develop gender-sensitive diploma modules and training, and provide merit-based stipends to female students. Partnerships between the selected TTIs and industries to promote female technicians and adopt gender-inclusive policies for hiring female students, workers, and trainers will be established.

D. Safeguards

29. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows.²⁴

30. **Environment (category B).** An initial environmental examination (IEE) and an environmental management plan (EMP) have been prepared covering civil works at TTIs. The draft IEE and EMP were disclosed on ADB's website. The final IEE and EMP will be disclosed following detailed designs. The improvements proposed through the project will not cause significant adverse environmental impacts. The potential impacts associated with construction and demolition of buildings include community and occupational health and safety hazards, increased noise and dust levels, waste generation and disposal, and traffic congestion. These impacts can be mitigated through effective implementation of mitigation and monitoring measures, as specified in the EMP, and good construction site management practice. The PMU and project implementation units will designate counterpart safeguards staff to monitor compliance of the contractors with the EMP, relevant regulations of the government, and ADB policies, with the support of one national safeguards consultant. The Ministry of Environment has approved building designs. Project-related complaints will be addressed through a grievance redress mechanism.

31. **Involuntary resettlement (category C).** Due diligence confirmed that all selected TTIs are existing operational education facilities located on state-owned land plots and will not require acquisition of additional land and/or involuntary resettlement. The due diligence report was disclosed on the ADB website.

32. **Indigenous peoples (category C).** Due diligence confirmed that the project is not expected to have any impact on indigenous people, as it is not being implemented in provinces with indigenous communities.

²⁴ ADB. [Safeguard Categories](#).

E. Summary of Risk Assessment and Risk Management Plan

33. Significant risks and mitigating measures are summarized in Table 5 and described in detail in the risk assessment and risk management plan.²⁵

Table 5: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Inherent risk related to the country's inconsistent application of the financial reporting standards used to prepare project financial statements	ADB and other development partners have been supporting the government to update its national financial reporting standards to fully align with the International Public Sector Accounting Standards (IPSAS). A draft roadmap has been submitted to ADB by the government to show its plans and commitments to transition towards the IPSAS cash basis. ADB will continue to resolve this issue through implementation of the time-bound roadmap.
Possible irregularity in financial reports, as the current financial management information system does not fully align to the government's chart of accounts	The project will procure a computerized financial management information system to implement chart of accounts up to 16 digits in compliance with the externally funded projects financial management manual.
MLVT and implementing agencies do not have adequate number of staff with sufficient capacity for financial management	The project will appoint counterpart staff with finance skills and provide capacity development on financial management, and recruit four financial management consultants to support each implementing agency.
MLVT and implementing agencies lack familiarity with ADB's new procurement guidelines and procedures, resulting in procurement delays	The project will hire one procurement consultant to support advance actions through ADB transaction technical assistance, recruit three procurement consultants to support the project management unit and implementing agencies, and ADB will provide oversight support and training.

ADB = Asian Development Bank, MLVT = Ministry of Labour and Vocational Training.

Source: ADB.

IV. ASSURANCES

34. The government and MLVT have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, financial management, and disbursement as described in detail in the PAM and loan documents. The government and MLVT have agreed with ADB on certain covenants for the project, which are set forth in the draft loan agreement.

V. RECOMMENDATION

35. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the loan of \$60,000,000 to the Kingdom of Cambodia for the Skills for Competitiveness Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1% per year during the grace period and 1.5% per year thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreement presented to the Board.

Takehiko Nakao
President

31 May 2019

²⁵ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with Cambodia's industrial structure is modernized and transformed from labor intensive to skills driven by 2025 (Industrial Development Policy, 2015–2025) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Skills and competitiveness of men and women in the industrial labor force improved	By 2025: a. At least 10% increase in diploma graduates (15% of whom are women) of the five selected TTIs who find initial employment in four priority industries within 6 months of graduation (2019 baseline: To be established) b. Share of the employed population with TVET qualifications ^b increased to 2.3% for men and 1.6% for women (2017 baseline: 1.8% for men and 1.1% for women)	a. TTI database (student tracking data) b. Socioeconomic surveys (National Institute of Statistics, Ministry of Planning)	Industrial Development Policy is not implemented as planned Unexpected decline in the economy
Outputs 1. Quality and relevance of postsecondary TVET improved	By 2024: 1a. Five selected TTIs upgraded with five workshops, seven classroom buildings, and four dormitories built (2019 baseline: 0) 1b. At least 3,700 (at least 30% women) trainees graduate in school year 2024 from 2-year diploma programs designed in partnership with industry and alignment with industry standards from the selected TTIs (2018 baseline: 1,720 [326 or 19% of whom are women]) 1c. At least 300 trainers (at least 42 of whom are women) at selected TTIs have increased knowledge of pedagogy and technical subjects (2018 baseline: 0)	1a. Project progress reports 1b. TTI databases and/or enrollment and post-graduation records of TVET management information system and Institute of Technology of Cambodia 1c. Project progress reports and pre- and post-trainers' training competency assessment reports	Insufficient operation and management budget allocation to TTIs
2. WBL programs with industry partnerships promoted	By 2024: 2a. At least 18 pilot WBL programs implemented and partnership agreements between selected TTIs and industries signed (2018 baseline: 0 programs) 2b. At least 360 existing workers (at least 25% of whom are women) have increased relevant technical and soft skills through WBL programs (2018 baseline: 0)	2a–b. TVET management information system and TTI records, including partnership agreements with industries for WBL programs 2b. Project progress reports, and WBL training reports which include pre- and post-training assessments	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	2c. At least 20 WBL proposals from the selected TTIs that were jointly developed with industries and that complete all eligibility criteria are submitted to the SDF (2018 baseline: 0)	2c. Project progress reports; SDF database	
3. Innovative TVET financing mechanisms expanded	<p>By 2024:</p> <p>3a. At least 3,500 persons in the labor force trained under the SDF (at least 25% female) (2018 baseline: 0)</p> <p>3b. 75% of SDF-supported pre-employment graduates employed in their trained areas within 3 months of training completion (at least 25% female) (2018 baseline: 0)</p> <p>3c. Satisfaction of employers with skills attainment of SDF graduates improved by 10% for both male and female (2019 baseline: To be established)</p> <p>3d. Policy recommendations to establish a sustainable SDF agency submitted to the government (2019 baseline: Not applicable)</p>	<p>3a–b. Project progress reports and SDF progress reports</p> <p>SDF pre- and post-training assessment reports</p> <p>3c. SDF employer tracer study</p> <p>3d. Government policy paper</p>	Private sector has little interest in TVET sector

Key Activities with Milestones

1. Quality and relevance of postsecondary TVET improved

- 1.1 Complete civil works for all TTIs by Q4 2021.
- 1.2 Finalize training equipment lists for tendering by Q2 2020.
- 1.3 Provide relevant training equipment to the selected TTIs by Q3 2021.
- 1.4 Approve stipend guideline for diploma students by Q1 2021 and introduce new stipend scheme from Q3 2022 onwards.
- 1.5 Select and contract partnership agreement with the Regional Education Institution by Q2 2020.
- 1.6 Review and develop selected diploma modules for priority sectors relevant to industry demands; Ministry of Labour and Vocational Training to approve by Q2 2021.
- 1.7 Develop and implement an in-service training program for trainers to upgrade pedagogical and technical knowledge for new diploma modules by Q4 2021.
- 1.8 Implement return-to-industry scheme for at least 80 diploma trainers from selected TTIs from Q4 2020 to Q2 2024.
- 1.9 Develop science, technology, engineering, and mathematics curricula and train trainers by Q4 2020.

2. WBL programs with industry partnerships promoted

- 2.1 Select and contract partnership agreement with the Regional Education Institution by Q2 2020 (refer to output 1.5).
- 2.2 Develop a study on WBL models for low-skilled workers and WBL needs, and establish baseline information by Q3 2020.
- 2.3 Strengthen and operationalize industry liaison units in each TTI, including the Directorate General for Technical and Vocational Education and Training, by Q4 2023.
- 2.4 Train TTI management and industry liaison unit staff to develop, undertake, and manage WBL by Q4 2023.
- 2.5 Support the joint development by institutes and the private sector of WBL programs from Q4 2020 to Q2 2024.
- 2.6 Engage sector skills councils and private sector to participate in WBL by Q4 2024.
- 2.7 Complete impact assessment by 2024.

3. Innovative TVET financing mechanisms expanded	
3.1	Develop and conduct sequenced series of capacity-building workshops for SDF implementing agencies (Q1 2020–2024).
3.2	Draft and revise SDF pilot operational guidelines and manuals, including screening and disbursement mechanisms by Q1 2020, revision by Q1 2022.
3.3	Conduct baseline study of employers' satisfaction with skills attainment by Q3 2020; conduct verification study by Q3 2024.
3.4	Issue call for proposals at least twice a year and select and award contracts (Q1 2021–2024)
3.5	Hire independent skills assessors through the Cambodian Federation of Employers and Business Association and establish pool of sector experts by Q1 2021.
3.6	Conduct value chain studies, and draft strategic skills road map and other analytical work to contribute to education, skills, and employment policy dialogue (five studies and/or knowledge products delivered by 2024).
3.7	Confirm compliance of standard operating procedures annually through financial audits (2021–2024).
3.8	Conduct outreach activities and communication campaign, and establish web page and social media activities starting Q1 2020.
3.9	Provide policy recommendations and hold high-level consultations to institutionalize SDF by Q3 2023.
Project Management Activities	
Establish implementing agency arrangements by Q1 2019.	
Establish steering committee by Q2 2019.	
Establish project management unit by Q2 2019.	
Establish project implementing units in each implementing agency by Q2 2019.	
Complete initial civil works design and bill of quantity by Q2 2019.	
Tender civil works package by Q3 2019.	
Tender project implementation consultants by Q2 2019.	
Organize inception, midterm, and final workshops.	
Oversee and monitor project implementation.	
Conduct tracer study.	
Conduct project completion review.	
Inputs	
Asian Development Bank: \$60.00 million (concessional loan)	
Agence Française de Développement: \$19.92 million (loan) ^c	
Government of Cambodia: \$8.31 million	
Assumptions for Partner Financing	
Not applicable.	

Q = quarter, SDF = skills development fund, TTI = technical training institute, TVET = technical and vocational education and training, WBL = work-based learning.

^a Government of Cambodia. 2015. *Industrial Development Policy, 2015–2025*. Phnom Penh.

^b “Technicians and associate professionals” in socioeconomic survey.

^c Partially administered by the Asian Development Bank.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=50394-002-3>

1. Loan Agreement
2. Sector Assessment (Summary): Education (Technical and Vocational Education and Training)
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Economic and Financial Analysis
7. Country Economic Indicators
8. Summary Poverty Reduction and Social Strategy
9. Risk Assessment and Risk Management Plan
10. Gender Action Plan
11. Initial Environmental Examination

Supplementary Document

12. Social Safeguards Due Diligence Report