



## The impact of increased public spending on education in Cambodia

By Sothy Ear, Sokcheng Sim and Pirom Khiev

### Key messages

- Increasing education spending, as in the 2014-2018 Education Strategy Plan, has a positive impact on household welfare, particularly for the rural population.
- Increased public spending should be balanced between the primary, secondary and higher education sectors according to the initial spending structure.
- The increase in funding should come from reducing administrative sector costs rather than reallocating the existing education budget.

### Skills mismatch is holding Cambodia back

Cambodia is currently facing a skills shortage, creating a mismatch of skills between industry and the existing and future labor force. This lack of skilled and highly educated labor is one of the most significant challenges facing Cambodia as the country aims to attain lower-middle income status in the next few years.

Having seen the vital role of human capital for growth and development, education has become a priority sector for the Royal Government of Cambodia (RGC). The education sector is considered particularly strategic in terms of increasing international competitiveness. As such, many institutional reforms and policies have been adopted to ensure fair access to education services, to improve the quality and efficiency of educational services and institutions, and to develop the capacity of educational staff to allow for decentralization.

Recently, the Ministry of Education, Youth and Sport (MoEYS) published the Education Strategy Plan (ESP) for 2014-2018. The policy aims to provide equitable education and training by improving access to education for all potential students and by prioritizing higher education. Under this policy, the government plans to increase spending on education from 2% of GDP in 2014, to 2.4% in 2016 and to 3% in 2018. This represents an increase from around 16% of the government's total budget being spent on education to around 26%. As such, about 53 million USD will be added to the current education budget.

With education planned to take a significantly larger portion of public spending, and considering Cambodia's limited fiscal space, it is important to consider the effects this policy will have on household welfare.

As such, a team of local PEP researchers set out to investigate the impact on the labor market and household welfare of increasing government spending on education. They also looked at what would happen if government resources were aimed particularly at developing the higher education sector.



## Data and methodology

To provide an in-depth analysis quantifying the impacts on the labor market and household welfare of increased public spending on education, the research team used a computable general equilibrium (CGE) model. The research team conducted three simulations to identify the impact of different government spending scenarios.

- Scenario 1: The current allocation for higher education will be doubled with funds coming from reduced spending on primary and secondary education equally.
- Scenario 2: 53 million USD is reallocated from administration costs to education with 50% spend on higher education, 25% going to primary education and 25% going to secondary education.
- Scenario 3: 53 million USD is reallocated from administration costs to education and is distributed according to the current education spending structure: 41.6% to primary, 46.6% to secondary, and 11.8% to higher education.

## Key findings

Analysis of the simulation results indicates that **increasing public spending on education by reallocating funds from the administration sector (scenarios 2 and 3) is preferable to reallocating funds from the primary and secondary education budgets for higher education (scenario 1)**. Scenario 1 decreased labor demand, wage rates, household income and household welfare.

**Increasing education spending according to the original spending structure (scenario 3) provided the best results in terms of the labor market, household income and household welfare.**

Specifically, in scenario 1 real GDP increased only very slightly (0.003%) while the consumer price index (CPI) and gross GDP both dropped. This is caused by a drop in the wages of Low Educated Labor (LEL) and Fairly Educated Labor (FEL), causing household income and consumption to fall significantly. Unemployment among FEL workers increased and no improvement was made to the unemployment levels of LEL workers. Furthermore, household income drops under scenario 1, particularly for rural households. As such, shifting spending from primary and secondary education to higher education would not provide a significant benefit to the Cambodian economy.



Scenarios 2 and 3 both produced an increase in real GDP of 0.12%. Gross GDP also increased under these scenarios. Scenario 3 would lead to a higher gross GDP than scenario 2, as scenario 3 would lead to a greater increase in the CPI. While there was no change in unemployment levels for LEL workers under scenarios 2 and 3, both FEL and Highly Educated Labor (HEL) unemployment was reduced.

Increasing spending in proportion with the initial education budget structure (scenario 3) had the best results for increasing LEL and FEL income. It is also the only scenario under which all household income increased. Additionally, the income of poor households (in both rural and urban areas) increased significantly and at a higher percentage than non-poor households.

## Implications for policy

The results of this study indicate that **increasing education spending, as in the 2014-2018 Education Strategy Plan (ESP), has a positive impact on household welfare, particularly for the rural population.** This strategy does not create a significant shortfall for the Cambodian economy.

However, focusing increased public spending on higher education is not currently the most beneficial strategy. In particular, reallocating spending from primary and secondary education to higher education is not a good policy option given the significant negative effects it has on the national economy. Instead, **the increased public spending should be balanced between the primary, secondary and higher education sectors according to the initial spending structure.**

Should the government particularly wish to develop the higher education sector, investing a substantial amount of capital would be more effective than increasing consumption spending.



In 2012, with support of the UK Department for international Development (DfID) and the International Development Research Centre (IDRC) of Canada, PEP launched a new program to support and build capacities in “Policy Analyses on Growth and Employment” (PAGE) in developing countries.

This brief summarizes the outcomes of [MPIA-12804](#) supported under the 3<sup>rd</sup> round of the PAGE initiative (2015-2016). To find out more about the research methods and findings, read the full paper, published as part of the PEP [working paper series](#).

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