ECOMMERCE READINESS AND OPPORTUNITIES IN CAMBODIA
OVERVIEW OF CAMBODIA'S ECOMMERCE MARKET LANDSCAPE
JANUARY 2017
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INTRODUCTION

E-commerce and eBusiness have been identified as key drivers of economic growth in emerging markets, in particular for micro-, small-, and medium enterprises (MSMEs).

The eBusiness Working Group in Cambodia, supported by the British Chamber of Commerce in Cambodia and with input from the European Chamber of Commerce in Cambodia’s New Technologies Group, identified a need for a market evaluation of the opportunities and barriers to implementing and accelerating e-commerce in Cambodia, in order to promote growth and adoption of e-commerce practices. Private sector participants have indicated that a lack of this information is a barrier to investment.

This study is intended to provide a broad baseline understanding of e-commerce readiness in Cambodia, in order to encourage investment, and in order to identify opportunities for projects to help facilitate, encourage and accelerate e-commerce activities in the Kingdom of Cambodia.

The Asia Development Bank’s Mekong Business Initiative has sponsored this research.
The potential for eCommerce is significant in Cambodia, promising to provide new jobs, increase financial inclusion, and generally to increase the velocity of money in the economy. The introduction of cashless payment tools alone – just one component of the eCommerce value chain – is expected to add an additional 6% to emerging market GDP by 2025.1

In Cambodia, eCommerce is already taking place, both formally and informally, and a robust, innovative marketplace is developing:

• Cambodia has a vibrant ecosystem of micro-entrepreneurs who are finding ways to sell goods online – particularly in the area of “social commerce”, in which individual buyers operate small, curated storefronts through Facebook, Instagram, Line, and other platforms. These entrepreneurs are creating workarounds for the eCommerce barriers that exist; for instance, almost all deliveries are organized personally, with “last mile” delivery and address-finding performed by hyper-local agents.

• Medium and Large enterprise businesses benefit from eCommerce through improved processes and reduced costs of doing business, and many are moving to implement or improve eCommerce tools.

• The Royal Government of Cambodia is in the process of moving most of its public-facing registration and taxation payment systems online, through an e-Government initiative, which itself promises to reduce the collection of “unofficial fees” and increase consumer use of cashless payments.

While sufficient infrastructure exists within Cambodia to allow for basic eCommerce functions, additional capacity is in development, as ICT enterprise businesses are investing to improve this infrastructure.

Yet barriers to eCommerce adoption endure.

For instance, almost all transactions are settled using cash-on-delivery, raising concerns about security and the cost of handling cash. Finding an address, and “last mile” delivery of purchased goods, also present significant costs and challenges – especially for micro and small merchants. The high cost of electricity, as well, is often mentioned as a barrier to ICT infrastructure providers. Additionally, a lack of trained Information Technology (IT) services professionals is slowing the implementation of eCommerce systems.

These barriers present opportunities to engage in activities to support the development and acceleration of eCommerce and eBusiness in Cambodia.

The private sector, the development sector, trade organizations, and private sector advocacy groups such as Chambers of Commerce can all play a role in accelerating the adoption of eCommerce by consumers and by merchants.

Among the positive trends for eCommerce adoption:

• Rapid adoption of Smartphones, estimated at 50% of phones and growing

• Widely available 3G network, and some 4G, with more planned

• Inexpensive data plans

• New and existing infrastructure companies investing in the Cambodian market

• Cambodia’s retail landscape is underdeveloped, as the nation is just developing a middle class with more discretionary income, creating a gap in the market that can be filled by eCommerce

• Consumers are shopping online, especially young people, and teaching their parents to be more comfortable with this activity

• Young consumers are looking to the Internet for information on products to buy
• There is an emerging new ecosystem for eCommerce, including online sellers on social media, new payment options, and new businesses facilitating importing and distributing of goods

• Micro-entrepreneurs are fueling growth in online shopping

Among the challenges to eCommerce adoption:

• Cambodia is still a predominantly cash-based culture, and many Cambodians have little trust in online transactions or in financial institutions

• Most eCommerce transactions are not settled online, requiring cash-on-delivery as payment

• Few Cambodians have a bank account, credit card, or debit card; and it is difficult to acquire these

• Many Cambodians use Wing – a point-to-point remittance service – to make payments; but even so, these cashless payments require cash top-ups at a physical agent location

• Difficulty with logistics and address finding

• Few online merchants have the IT capabilities required to offer online ordering and payment, and most do not understand the value of investment in IT

• Banks do not have the resources to assist merchants in gaining access to their payment gateways

• Lack of information and awareness of laws and regulations governing eCommerce

• Lack of laws governing consumer protection

• Lack of local-language terminology for many of the concepts and terms involved in eCommerce, together with the requirement that contracts and tax invoices be rendered in the local language (Khmer)

This report addresses these opportunities and challenges in detail, and more fully describes the history and context of the issues mentioned above.

CONCLUSIONS

Cambodians are adopting eCommerce, both as consumers and merchants, and there exists the potential for eCommerce to become a significant sector in the economy, and to improve lives and livelihoods.

Nonetheless, there remain barriers to eCommerce, and gaps in infrastructure, that are a drag on the growth of eCommerce.

This report identifies many opportunities to address these barriers, and to support and accelerate eCommerce adoption in the Kingdom of Cambodia.
BACKGROUND & OBJECTIVES

The mission of the group is to:

• Provide a forum for interested stakeholders to collaborate and to promote eBusiness and eCommerce in Cambodia;
• Promote and build awareness of challenges and opportunities;
• Coordinate with other stakeholders including government, NGO, private sector and business associations;
• Create information resources; and
• Propose and support projects to accelerate adoption of eBusiness and eCommerce in the Kingdom of Cambodia.

From these conversations, the group identified a series of initiatives that it believes will have an immediate impact on eBusiness and eCommerce readiness and investment in Cambodia.

One of these initiatives is this Baseline Study on eCommerce Readiness and Opportunities in the Kingdom of Cambodia.

While there are research projects that have focused on various aspects of eCommerce in Cambodia, such as financial inclusion, logistics, regulations, mobile phone adoption, and similar discreet parts of the eCommerce Value Chain, there seemed a lack of studies examining how all these forces interact to create an ecosystem in which eCommerce activities can grow and flourish.

The overall project goal is to develop and complete a research program, and produce a final report, to inform on insights related to market
size, barriers and opportunities in eCommerce Cambodia, specifically related to eCommerce, and to identify opportunities for the private sector, development agencies, and government policies to encourage eCommerce development.

This report describes findings from Phase 1 of the proposed three phases of research:

**Phase 1:** Overview of the eCommerce market, map of stakeholders and participants, and identification of issues for further research

- Based on interviews with key informants and secondary research including the use of Internet search tools and academic and periodical databases

**Phase 2:** Understanding of which segments of the consumer market are ready for eCommerce and what are the opportunities to encourage growth

- To be based on qualitative and quantitative research with consumers in Cambodia

**Phase 3:** Profile of Cambodian SMEs’ eCommerce readiness - What segments of the private sector are ready for eCommerce and what support do they need to be successful

- To be based on interviews with SMEs in Cambodia

**INITIAL ISSUES**

**IDENTIFICATION PROCESS**

In order to identify key barriers and issues to successful eBusiness and eCommerce, the group completed seven working sessions between August and October 2015, with over 100 individual contributors from the private sector participating in the creation of a “Briefing Document” to capture challenges and opportunities, and surface private sector concerns and requirements for the growth and success of eCommerce in Cambodia.

Working sessions included discussions, presentations, brainstorming, and sector-specific contribution by industry sector participants (banking, logistics, legal, telecommunications and IT).

At the completion of these working sessions, the group had identified several dozen issues that it considered barriers or challenges to eCommerce adoption, and undertook to consolidate and group these issues.

Desk research was performed, with reviews made of relevant academic, private sector and NGO-sponsored research papers focused on adoption of eCommerce in emerging markets, in order to understand existing conceptual frameworks for these barriers.

Based on this research, the factors needed to accelerate eCommerce were grouped into three framework areas:

- Technical and Operational Factors
- Socio-Economic and Cultural Factors
- Legal and Governmental Factors

A final presentation of the synthesized findings and issue groupings was presented to a group of over 100 private sector and government participants at the InterContinental Hotel Phnom Penh on October 26, 2015, in a session called “eCommerce in ASEAN Emerging Markets: Cambodia”.

**CONSIDERATIONS - TYPES OF ECOMMERCE**

In creating its Briefing Document on barriers and challenges to eCommerce adoption, the group expressed additional considerations for grouping and analyzing eCommerce activities, including:

- **Geographic location** of buyers and sellers, specifically whether commerce takes place domestically only (in-country), or is cross-border;

- **Market access needs**, such as local sellers looking for international market access, or multi-national companies looking for local market access; and

- **Channels of activity**, with a focus on whether transactions are business-to-business (B2B), business-to-consumer (B2C), or consumer-to-consumer (C2C).

The initial groupings and issues from these activities are presented in the Appendix.

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2 McDermott, Keira, Key Business Drivers and Opportunities in Cross-Border eCommerce - International Expansion into Emerging Markets (2014: Payvision BV)
4 El Gawady, Dr. Zeinab Mohamed, The Impact of E-commerce on Developed and Developing Countries - Egypt and United States, paper for International conference of Globalization, Technology and Sustainable Development, United Arab Emirates University, World Association for Sustainable Development, Al Ain, UAE, 21-30 November 2005
5 Lawrence, Japhet E., PhD and Usman A. Tar, PhD, Barriers To eCommerce In Developing Countries (Information, Society and Justice, Volume 3 No. 1, January 2010: pp 23-35)
6 Mohanna, Shahram (PhD), Nour Mohammad Yaghoubi (PhD) et al., Limitations of eCommerce Implementation in Developing Countries: Case Study of Iran (American Journal of Scientific and Industrial Research: 2011), Science Huß, www.schub.org/AJSIR
eCommerce is the trading or facilitation of trading in products or services using computer mediation. The term “eCommerce” is used most frequently in one of two different contexts:

- If any part of a sales or trade transaction occurs through computer-mediation (broad definition), or
- If all parts of a sales or trade transaction occur through computer-mediation (narrow definition).

It appears that the more widely accepted view of eCommerce is the broader definition, in which any part of a sales or trade transaction occurs through computer-mediation.

eCommerce, therefore, is said to occur if any or all of the following methods are in use:

- Online catalog of products for sale
- Online ordering of goods or services for sale
- Online payment, including commitment to pay cash on delivery
- Online coordination of delivery logistics
- Online customer service or post-purchase service

Some respondents in this study indicated they believed that only if all of these criteria are met, does a transaction qualify as eCommerce. Perhaps this view may be called “true” or “pure” eCommerce.
EBUSINESS VERSUS ECOMMERCE

Although the terms “eCommerce” and “eBusiness” are often used interchangeably, in fact they represent distinct concepts.

In eCommerce, the focus is placed on the actual information and communications technology used to facilitate sales or trade transactions.

The term eBusiness, however, more typically refers to the overall business processes conducted through computer mediation. Specifically, this can refer to enhancements and efficiencies in business processes brought about by information and communications technologies, rather than the technologies themselves. For instance, this may include improvements in production, procurement, inventory management, customer service, logistics, and other functions.

CASHLESS PAYMENT SYSTEMS

Cashless payment systems include credit, debit, and mobile payments. Cashless payment transactions typically occur between a consumer and a merchant, and involve mediation through third parties, such as a card association like UnionPay, MasterCard or Visa.

ACQUIRING BANK, ISSUING BANK, CARD ASSOCIATION

In cashless payment systems, there are typically several businesses involved in processing a transaction. The most important are the “acquiring bank” and the “issuing bank”.

An acquiring bank is a bank that processes credit or debit card payments for merchants who accept credit cards, debit card, or other types of stored-value cards.

An issuing bank is a bank that has issued a specific credit, debit or stored-value card to a consumer.

When a merchant accepts a cashless payment, such as a credit card, the merchant passes the information to its bank (the acquiring bank). The acquiring bank then contacts the issuing bank – the bank that has issued the cashless payment card (in this example, a credit card). This contact is organized through a card association, such as Visa or MasterCard.

Card associations are networks of acquiring banks and issuing banks that have agreed to interoperate for funds transfer.

Widely-known card associations include Visa, MasterCard, JCB and China UnionPay. American Express and Discover Financial Services (including Diners Club and JCB in the United States) function simultaneously as both issuing banks and card associations.

ONLINE PAYMENT PURCHASE AND PROCESSING FLOW

Total time for transaction payment processing is typically under three seconds.
PAYMENT PROCESSORS AND THIRD PARTY PROCESSORS

A payment processor is a company that manages cashless payment transactions on behalf of merchants, whether the merchant operates a physical location, or operates online. A payment processor helps to facilitate the connections between a merchant, their acquiring bank, a card association, and the issuing bank.

The payment processor connects to card associations (such as Visa, MasterCard, or UnionPay), and provides settlement services between the merchant’s bank (the “acquiring bank”), and the bank connected to the customer’s credit or debit card (the “issuing bank”).

Payment processors can be banks themselves, though more typically they are independent organizations that have relationships with banks.

Third Party Processors, or TPPs, are a type of specialized payment processor that allow merchants to accept payments, but without the merchant needing their own merchant bank account (acquiring bank). Rather, TPPs themselves are merchant bank customers who provide payment processing services to their own subset of clients who are merchants. A TPP’s merchant clients, thus, do not need to establish a direct relationship with a merchant bank. This allows merchants who do not have the time, money or technical skills to qualify for a merchant bank account, to nonetheless be able to accept cashless payments.

OPEN LOOP VERSUS CLOSED LOOP

The terms “open loop” and “closed loop” describe types of payment systems.

“Open loop” systems allow merchants to accept credit or debit cards from multiple issuing banks, whether or not known to the merchant, and the transaction is processed and settled through a card association such as Visa or MasterCard. Card associations are open loop systems because they mediate transactions between parties not known to one another, but who have agreed to a common set of rules for doing business, and for dispute resolution.

A “closed loop” system is one in which only a single card or virtual currency can be processed, through a direct connection between a merchant and the closed loop provider. This is more costly for merchants because each closed-loop system must be individually integrated with a merchant’s payment system.
**PAYMENT GATEWAY**

A payment gateway is the online equivalent of a physical credit-card swiping machine.

It connects a customer’s cashless payment to a merchant’s bank, or to a TPP that is connected to a merchant bank.

Information about a payment made through a website or a mobile phone is passed to a payment gateway, and then in turn forwarded to a merchant’s Third Party Processor or acquiring bank.

**DIGITAL WALLETS / E-WALLETS**

A digital wallet (or e-wallet) is an electronic device, such as a smartphone or specialized tool like an electronic “fob”, that allows individual consumers to make cashless payments. Some digital wallets are software-only applications, and do not have a physical device. There are several varieties of digital wallets: stored-value, connected to a credit or debit card, or connected directly to a user’s bank account.

**STORED VALUE CARDS**

A stored-value card is a type of payment card system in which monetary value is attached to the card itself; the card user “tops up” or adds money to the card. They are typically anonymous cards, in that they are not issued in a person’s name. They are bearer instruments. Often these cards cannot be used for “Card Not Present” transactions such as online or telephone shopping, but that is not always the case.¹¹

A closed-loop stored-value card typically has data about the value of the card stored on the card itself; an open-loop stored-value card is issued by a bank in conjunction with a card association such as MasterCard or Visa, and the monetary value of the card is cleared through those systems. In some cases, a closed-loop stored-value card is issued and cleared by a bank, as is the case with Wing in Cambodia. Wing has been classified as a special category of bank, which allows it to offer this stored-value card service.

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8 Desk research; Google
10 Emmanuel Lallana, Rudy Quimbo, Zorayda Ruth Andam, ePrimer: An Introduction to eCommerce (Philippines: DAI-AGILE, 2000)
11 www.en.wikipedia.org/wiki/Stored-value_card
Key informant interviews were conducted with 27 experts across eCommerce-related industries, including payment providers, banks, logistics companies, legal firms, and companies engaged in online selling.

The information and issues surfaced have been analyzed and grouped into the three broad categories:

- **Technical and Operational Factors**, including banking, Internet access, telecommunications, logistics and trained workforce,
- **Socio-economic and Cultural Factors**, including trust, awareness, and an understanding of benefits by consumers and merchants, and
- **Legal and Regulatory factors**, including laws, regulations, tariff and non-tariff barriers, licensing requirements, and regional trade agreements.
TECHNICAL AND OPERATIONAL FACTORS

Cambodia is in a fortunate position as compared to many emerging market economies, in that the technology infrastructure in place is sufficient to support eCommerce. This infrastructure is expected to improve over the next few years as new market entrants and established businesses implement planned investment projects.

Telecommunications

Cambodia has a competitive telecommunications market, with large, enterprise businesses committed to adding capacity throughout the country.

The mobile (cellular) network provider market is dominated by Smart Axiata and Metfone, with Cellcard in third place for market share. Provider qb is still active, and newcomers Seatel and CooTel both state that they plan to invest heavily in building 4G networks and acquiring subscribers. The telecommunications market has consolidated, and the remaining businesses have indicated that they are committed to investing in upgrading their networks.

Pricing is competitive and affordable, and both data and call plans are well below the global average. Most Cambodians pay by usage, and top up their accounts when needed (“pre-pay”).

Almost all Cambodians have a mobile phone (95%), and smartphone penetration is increasing rapidly, estimated at 50% in 2015 and growing at a compound annual growth rate of 40%.

Cambodia is a “mobile first” market, where most Cambodians go online via their mobile device rather than using a computer. However, most smartphones are purchased on the grey market and are not registered, so the owner can’t purchase official apps, which is a barrier to use for cashless payments.

Internet Providers

There is sufficient bandwidth to support eBusiness activities in the major cities in Cambodia, and bandwidth in the provinces is getting better. There are many active ISPs, and they are increasing broadband capacity countrywide.

There are estimated to be about a dozen active ISPs in the market, although consolidation is expected. The largest of these, S.I.Net and Ezeecom, plan to expand their international connections to improve service and allow for faster online transactions. Second tier companies including Digil, ONLINE, WiCAM, MekongNet, Opennet, and Today Communication offer competitive pricing.

Banks and MFIs

Many of the stakeholders interviewed expressed concern that Cambodia’s banks are not prepared to play their part in the development of eCommerce and eBusiness.

The National Bank of Cambodia (NBC) lists 35 commercial banks, 13 specialized banks, and over 50 micro-finance institutions (MFIs) operating in Cambodia. Most of these institutions do not have sophisticated technology or IT departments that can provide the infrastructure and security to enable eBusiness processes for their customers.

The National Bank of Cambodia is seen as having the opportunity to play a significant role in encouraging banks to introduce policies that would accelerate eBusiness activities. In April 2016, NBC launched its Fast and Secure Transfer (FAST) system, which facilitates real-time Khmer Riel fund transfers between participating banks. So far, only seven banks and seven MFIs have integrated into this service. “Fast Payment” is only available for transactions in Riel, and it is intended to both enable cashless payments and to push towards the de-dollarization of the economy. There have been suggestions that NBC should make a more significant effort to require that banks integrate with FAST, but many banks would need to invest significantly in their IT infrastructure and have not been motivated to do so.
In 2012, NBC completed the creation of a shared “national switch” clearing and settlement system (CSS) for interbank settlements within Cambodia, with some of the funds coming from the Asia Development Bank. Its primary function is Automated Clearing House (ACH) solutions. It appears that not all banks use this centralized switch, and not all banks use all the functions of the ACH CSS. The software, from Swedish provider CMA, does include a payment gateway; however it appears that this is not implemented in Cambodia.

From the consumer perspective, it is difficult to acquire and use banking services in Cambodia. The majority of Cambodians are unbanked, with the World Bank estimating that 22% of Cambodians had bank accounts in 2014. It is estimated that only 40,000 people in the country possess credit cards, and 1.5 million people – or 10% of the population – have bank cards, according to government statistics. Nevertheless, many banks in Cambodia have begun offering clients online banking services.

Even among those with a bank account, credit cards and even debit cards are difficult to get. They require significant paperwork that potential users may not have available. For example, they require a proof of residency. Workers who live in dormitories or apartments in Phnom Penh must provide proof of residency for their home location in the province – as apartment or dormitory rental does not qualify. They are then rejected for banking services in Phnom Penh, because their registered home address is in a province, outside of the city.

ABA Bank has started to offer their customers a virtual MasterCard. It is a stored-value card that can be used for online purchases, and needs to be renewed monthly. The customer can top up the amount of money they wish to spend on the card, and then purchase something and pay for it online. This type of product has recently been offered by Smart Axiata in conjunction with Canadia Bank, called SmartPay; it allows customers to put cash on their card through a mobile device with a Smart Axiata SIM card.

MFIs offer an alternative to banks for many lower income Cambodians. They offer loans and increasingly are looking to offer other traditional banking services for the unbanked. Some offer money transfer services. AMK and AMRET offer mobile deposit/withdrawal and money transfer services.

### Payment Gateways

There are few payment gateways available in Cambodia. Banks that offer payment gateways include Acleda, Cathay United, Canadia and ABA. Banks with payment gateways have been slow to offer Application Programming Interfaces (APIs) that allow merchants access to their gateways. Merchants complain that the banks are difficult to work with, and that they are unwilling to work with small and even mid-sized companies.

Some respondents indicated that the reason for this was the low profit margins generated by payment gateway services versus other banking products, making the payment gateways a low priority for banks. Typically, TPPs can fill this gap, as they have the technical skills to integrate with a bank’s payment gateway; their business model is then to integrate their own TPP systems directly with merchants. Several respondents indicated that international TPPs, including PayPal, have expressed interest in entering the Cambodian market – but that these companies find it difficult to enter because of regulations, concerns about fraud, and questions about enforceability of the rule of law.

What’s more, merchant fees for payment gateways available in Cambodia are significantly higher than in other regions, because of perceived risk by card associations. The MasterCard Internet Gateway (MIG) charges 4-5% for a merchant’s transactions in Cambodia, versus 1-2% in developed markets.

Acleda has begun to work with more merchants; however complaints surfaced.
Gerald Ferguson, RFI Group

We are seeing developing markets surge ahead in the usage of mobile and cashless banking. This trend is due to the absence of large legacy systems from a banking perspective, coupled with a predominantly unbanked or underbanked population that is highly digitally engaged.

that the bank is slow to respond, difficult to work with and expensive compared to alternatives. They require that merchants open an account and fund it with $3,000; with the additional challenge of integrating a merchant’s system with the Acleda transaction processing backend systems.

Respondents indicated that Cathay United does not offer IT integration support for their payment gateway.

Bongloy is an innovative service that offers a payment gateway and targets merchants who service tourists, such as hotels and travel services, and who need to be able to accept credit cards. Bongloy fills a gap in the market by offering service and support to merchants who have limited or no IT staff; their business proposition is to provide all the technology and training to allow merchants to accept credit cards. Online payments are a challenge for merchants who cannot comply with the security requirements to accept payments on their website, and Bongloy solves this problem by conducting the transaction outside of the merchant’s website, on their own payment site, but branded as the merchant’s site.

**Cashless Payment Services**

The lack of traditional banking services opens the door to alternatives. There are several cashless payment services available in Cambodia, with more planning to enter the market.

The largest and most successful service in Cambodia today is Wing, which reports that it facilitates nearly 50% of the Cambodian GDP through its services.15

While Wing is viewed as predominantly a remittance service, interviews suggest that it is increasingly being used for business to business payments, which could explain the volume of money traveling through the system. Wing has built a network of 5,000 agents throughout Cambodia, and is available even in remote villages. Cambodians have learned to trust their local agent to take their cash and get it transferred to someone else.

Wing is designated as a specialized bank, a new designation from the NBC, different from a TPP. They have the authority to conduct many bank-type services, including payments and transfer of funds. Their stated goal is to reach the unbanked and underbanked, providing them with mainstream financial services and giving them options for using cash electronically. They
state that they are in discussions with banks to offer greater functionality. They are working with corporate partners such as Manulife, to allow cashless payments of monthly bills. They have launched a Wing card and Wing mobile app to facilitate usage, offering a convenient way to top up mobile accounts or buy movie tickets.

The success of Wing is attracting many new competitors. Current competitors include TrueMoney from Thailand, eMoney offered by Metfone, PayGo, and SmartLuy. Brown Coffee offers a popular stored-value and loyalty card. Smart Axiata has launched a new service, SmartPay, a prepaid virtual MasterCard, in conjunction with Canada Bank. ABA has also launched a virtual MasterCard for their customers.

PayGo has been in Cambodia for four years and is gaining traction in the market. They have a partnership with ABA Bank and can be used as a virtual MasterCard, and use kiosks rather than an agent network as their access point for users. PayGo wants to expand their support for eCommerce merchants, and focus on making it easy to top up phone cards and pay bills, rather than trying to compete in the remittance market. They are building partnerships with the various eWallet providers, and have strong capabilities in providing technical integration. Several of the stakeholders interviewed praised PayGo for their sophisticated technology and easy-to-use user interface.

Respondents indicated that many new companies are considering the launch of similar services. New companies are looking to enter the market by offering additional functionality, making it easier and more convenient for Cambodian consumers to start to use cashless payments. Regional businesses contemplating expansion consider Cambodia to be a good test market because it is small, easy to get started, and a good test market for learning, before rolling out products to larger markets in the region.

Some stakeholders have questions about the role that the National Bank of Cambodia will play with new market entrants offering cashless transactions. They wonder how these will be regulated either directly or indirectly through the NBC.

**Delivery Infrastructure / Logistics**

Logistics are a challenge in Cambodia. Delivery is inefficient and expensive.

There are numerous logistics companies in Cambodia, from international companies such as DHL to local delivery services. These services help to replace the lack of a postal service. Logistics in Cambodia involves a complex web of interconnected companies, and even the largest logistics businesses rely on local MSMEs for “last mile” delivery. Some companies are asset based, (trucks, warehouses), while others offer expertise in coordination, clearance and paperwork.

Most trucking companies are small, family owned businesses. Companies such as Kerry Logistics work with them.

Getting imports through customs can be challenging, and there are agents that provide support for customs clearance. These agents work directly with importers as well as with logistics companies to provide support as needed.

There are many factors that contribute to the costs and time of deliveries. Goods can get stuck in customs. Fuel prices change frequently. Poor roadway conditions and erratic stops by government employees slow
down shipping by truck. Addresses are not in general use. Addresses are not consistent, so it is difficult to find an address. Many consumers do not know their own address.

Delivery services and their customers have found ways around these challenges. Logistics companies build in time and money to cover potential delays and additional fees they may be required to pay. Delivery services call customers to get directions on where to find them. Customers will often have a package sent to an address of a relative that is easy to find. They use local landmarks to direct the delivery to the general vicinity, then provide detailed directions in another phone call, once the deliverer is nearby.

In Phnom Penh, most packages are delivered by moto taxi. Packages can be sent to the provinces by bus for only 5,000 Riel. The sender writes the province where the package is going and the phone number of the person to receive the package. When the package arrives, someone at the bus station calls the person to come and pick it up. The sender typically sends a photo of the package to the recipient, so that they recognize it when they go to pick it up.

Customs is often cited as a bottleneck to the movement of goods in and out of the country. It is improving in efficiency, moving towards online automation. But it is still an impediment to import/export, especially for smaller companies. Getting clearance is easier for Full Container Loads (FCL) than for Less-than-Container Loads (LCL). Entire LCL shipments will be held up in customs if less than half of the shippers in a particular LCL shipment have not received clearance.

The larger logistics companies are working to automate their services. Kerry Logistics notes that they have a corporate platform in other countries that is not available in Cambodia. French shipping company CMA-CGM wants their Cambodian customers to use their international online system. Many customers are traditional businesses who are not comfortable doing business online. CMA-CGM provides support as well as incentives to get them online. Language is a challenge for them and for their customers, since their electronic forms are in English. Translation is difficult, because many of the words and concepts are not available in Khmer.

Logistics companies would like to see the government make their job easier by improving the movement of goods through customs at borders and ports, and by implementing a more rational approach to stopping

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12 Phnom Penh Post, “Smart gains on Metfone”, October 18, 2016
13 Mobile Communication Price Parity and Index, Journal of Telematics and Informatics, July 2015; Dettling, W. & Hitz, A. via OECD and ITU data. Desk research; Google
14 Based on interviews, and from Mobile Phones in Cambodia, 2015 (Asia Foundation, Open Institute, USAID), Kimchhoy Phong & Javier Sola10 Emmanuel Lallana, Rudy Quimbo, Zorayda Ruth Andam, ePrimer: An Introduction to eCommerce (Philippines: DAI-AGILÉ, 2000)
15 Based on interviews, and Phnom Penh Post, “Wing plans for more growth”, June 13, 2016
and searching trucks. It has been suggested that the government could help with language problems by developing a Khmer dictionary of relevant terms for the industry. The government requires that invoices be issued in Khmer, but have not provided the accepted translations.

**Workforce Skills**

The lack of skilled IT professionals was mentioned by many stakeholders as a challenge to the growth of eCommerce in Cambodia. Although there are increasing numbers of graduates in IT, there is a lack of hands-on practical training. It was suggested that many of the instructors are not trained on the latest technology, so can't train their students. Companies that are committed to sophisticated IT Departments have learned that they need to offer their own training to develop the talent they need.

**SOCIO-ECONOMIC AND CULTURAL FACTORS**

Cambodia is currently a cash-based society – most Cambodians conduct most of their transactions in cash, from paying bills and paying their taxes, to everyday purchases of food and goods. Even most B2B transactions are done by cash or check, rather than electronic transfer of money. The law requires physical receipts for everything; nothing can be electronic, so that businesses are required to maintain physical records including stamped receipts.

Cambodia has a culture of distrust across many aspects of society. The role of trust and distrust impacts the functioning of society, a factor which is well documented in the field of sociology. The Cambodian culture of distrust extends to the use of financial institutions and online transactions, especially among the older generation.

**Consumer Readiness for eCommerce**

Although relatively few Cambodians use cashless payments today, this could change rapidly as new payment options become available that are easy and convenient, and a younger generation decides to adopt new technology.

Drivers of change include:

- The success of Wing, which has built trust in using a third party. Wing has built a successful business based on behavior that Cambodians were already doing. Before Wing, workers in Phnom Penh would send money to their family in the province by hiring someone to take the money and deliver it. Wing replicates that service, with a personal contact at each end of the transaction, since all transactions happen through an agent. Transactions are mainly peer-to-peer money transfers, but Wing is working to offer more functionality, including bill paying, which will expand Cambodians’ use of cashless payments.

- Wing’s success is attracting competitors into the market, who are planning to offer new features and functionality, as well as lower prices, thus potentially growing the market.

- Wing and its competitors are actively marketing their services, and it is expected that marketing spend will increase as these companies compete to gain share of customers in an increasingly crowded market. These marketing activities will educate consumers and convince more to try cashless payment services.

- The government is working to offer online payment options for taxes, registrations, driver licenses, and more. This government support for cashless payments should encourage Cambodians to trust and try cashless payment services.
There are initiatives that have made possible online payment of electric and water bills. Again, this is a significant improvement over manual payments, so should encourage usage.

The new virtual MasterCard services available allow consumers to make online purchases, and are being used for small items such as buying apps, and so are considered low risk by consumers. This experience should encourage the use of more cashless payments.

Innovative merchants such as Little Fashion and Brown Coffee have initiatives to reward loyal customers that encourage cashless transactions.

There is a new generation of digital natives who are comfortable online and can lead the way to changing consumer behavior. In many households, it is the younger, more educated generation that is educating the older generations on what products to use. Adoption of new technology is highly valued by this cohort, who look to the world outside of Cambodia for inspiration. They are eager to try new technology, including cashless payments.

Cambodia is a mobile-first country, and most people’s main access to the Internet is via a mobile phone. Smartphone ownership is increasingly dramatically as prices come down. Access to high-speed networks is on the rise, and this offers many Cambodians the ability to shop online. The behavior change is already starting with young, educated Cambodians, and could quickly spread to the broader middle-class.

And finally, Cambodians are avid consumers. They have more disposable income than in the past and are always planning their next purchase. Online shopping will give them access to information and ultimately goods that they cannot buy in local shops.

Barriers to change include:

Most Cambodians have little experience with financial institutions and do not understand the services available.

There is a high degree of distrust in online banking and payments. Even Cambodians who get paid electronically immediately take all their money out of their account. They prefer to keep their cash at home. Cambodians need education to understand the value of leaving money in a bank or other financial institution.

It is difficult for Cambodians to get a credit or debit card. Even Cambodians with good salaries can be stymied by the paperwork required.
Little Fashion started as a Facebook seller, but quickly realized the limitations of that platform. They now have a successful website and retail store, although they still actively use their Facebook page to promote new merchandise and sales. They use sophisticated technology to maintain their database, tracking inventory and customer behavior. They report that both men and women are shopping and ordering online. They would like to move to more cashless payments, and accept payments by Wing, SmartLuy, and eMoney. However, they find that most of their transactions are still cash-on-delivery. They tried to promote SmartLuy with a discount, but found that the SmartLuy agents were not trained in how to do the transaction, and some customers gave up in frustration. Their relatively large size allows them to stock inventory for most of their sales, and to allow customers to return items they decide not to purchase. The ability to stock inventory, as opposed to taking orders and fulfilling them through a purchasing agent, increases sales and conversion rates. Little Fashion is interested in expanding their business by becoming a platform seller, available to stock and fulfill goods from other merchants. They are also looking to expand regionally.

Business Readiness for eCommerce

Cambodian businesses vary widely in their readiness for eBusiness and eCommerce. Many will need significant support before they are ready to conduct business online.

Drivers to change include:

- Businesses with international clients, whether B2B or B2C, are being pushed to eBusiness. Larger companies such as CMA-CGM charge extra for merchants who do not use their online system, and work with traditional Cambodian companies to help them comply.

- Businesses that cater to international tourists need to accept credit cards. Many hotels rely on services such as booking.com or agoda, but these services charge a high fee, driving hotels to seek alternatives. BookMeBus works with traditional bus companies to allow customers to book and pay for bus tickets online. They work with the bus companies to upgrade and integrate their backend systems. While many of these companies have been reluctant to work with BookMeBus, they find that sales increase as a result.

- New cashless payment services such as SmartLuy and PayGo are working with merchants and providing the backend integration needed, so that customers can pay using those services.

- Innovative merchants such as Little Fashion are investing in mobile apps that encourage online buying and paying.

- The rise of the micro-entrepreneur is changing the eCommerce landscape in Cambodia. Young Cambodians are proving to be enterprising as entrepreneurs. There is a dramatic growth in sellers on Facebook, Instagram, and Line, who offer products such as apparel and phone accessories. Many of these sellers have little inventory in stock, and rely on customer pre-orders. They identify products on international eCommerce sites such as TaoBao or Alibaba, and then offer these products through their own “curated” online shops. There is an emerging ecosystem of agents who service these sellers, enabling them to order goods from TaoBao and Alibaba by pooling multiple sellers orders into cost-effect container or LCL shipments through ports, ultimately bringing these deliveries to Cambodia. Lead time for these orders from China is typically about one week. The consolidator agents then distribute the goods to the local Facebook or Instagram
sellers, who in turn arrange for delivery to the end customer.

• Cambodia offers support for young entrepreneurs. Organizations such as InSTEDD, WeCreate, YEAC, DAI and CWEA support young entrepreneurs, and help develop interest in careers in IT. Shared work spaces such as CommOn and ImpactHub provide workspace as well as a sense of community for start-ups. Events such as Startup Weekend, BarCamp and Hackathon bring people together, and provide guidance and mentoring. FinTech is getting more support in Cambodia, with events in the Cambodian startup community. Regional events such as the Mekong Business Challenge provide an opportunity for Cambodians to engage with a broader group of entrepreneurs and get more perspective on their ideas.

Barriers to change include:

• Most MSMEs are comfortable with being 100% cash-based and do not feel a need to change. They lack an understanding of banking services and are intimidated by the required paperwork. They do not have an IT department and do not understand why they need one. Many do not practice standard accounting and do not have any of their business information online; this lack of accurate business records makes it easy to avoid taxes. Most MSMEs consider the fees for cashless transactions to be too high, and need education on the non-balance-sheet costs of using cash, such as security, which they don’t consider. A final challenge is that these merchants typically have a tight cash flow, and do not want to wait until the end of the month to receive money for sales, which is generally the amount of time it takes when using a payment processor.

• Merchants who want to accept cashless payments find it expensive and difficult to do so because there are so many options, and the various merchant payment systems available are not inter-operable. Merchants must thus install and learn to use a different POS (“point-of-sale”) system for each payment option they offer. They need backend integration for each service, so if they want to work with Wing, SmartLuy, eMoney, TrueMoney, and PayGo they need to work with each service provider individually, and separately manage the resulting transactions.

• Most SMEs do not have access to lines of credit that would allow them to invest in their infrastructure, and in eCommerce operations, to expand their businesses.

• Few companies in Cambodia look beyond the Cambodian market, limiting their growth potential. This makes it difficult for these companies to get funding for growth, as potential market size is limited to the population of Cambodia.

• There is a shortage of trained staff who can implement eCommerce infrastructure and eBusiness processes. Larger businesses provide training programs to educate their staff. There need to be initiatives to improve skill levels.

BookMeBus

BookMeBus is a new online service for bus tickets in Cambodia. All payments must be made online – there is no cash option. They accept Visa and MasterCard through a relationship with Acleda, and have integrated with Wing, Smart Luy, TrueMoney, eMoney, and PayGo. They report that 90% of their customers are foreigners and most pay with Visa or MasterCard. Fees for Visa and MasterCard are high, 4% plus a monthly fee, and they indicated a hope that PayPal or similar alternatives with lower rates will soon enter the market.

BookMeBus has had to overcome resistance from the traditional bus companies in Cambodia, who did not understand the value in offering online purchasing, had no IT infrastructure, and did not want to invest in IT. BookMeBus provided the technology and helped these companies to sell more tickets. Although this seems like an obvious success for both parties, some of the bus companies later terminated their relationship with BookMeBus, indicating that they preferred extra sales to happen directly with their company, and not through an agent.
LEGAL AND GOVERNMENTAL FACTORS

There are three ministries responsible for regulatory issues involving eCommerce:

- The Ministry of Commerce (MoC) licenses businesses and is responsible for the implementation of the new eCommerce law and any consumer protection laws to be developed.

- The Ministry of Economy & Finance (MEF) is responsible for financial policies and tax collection. The National Bank of Cambodia (NBC), which is the nation’s central bank, as well as the General Department of Taxation both operate under the MEF.

- The Ministry of Posts and Telecommunications (MPTC) is responsible for the posts, telecommunications and ICT sectors.

Additional government bodies that impact eCommerce include:

- The National Bank of Cambodia plays a critical role in facilitating cashless payments and money transfers.

- The General Department of Customs and Excise of Cambodia is responsible for import and export laws, regulations, duties and taxes. Their role is essential for Cambodia to grow international business.

- The Electricity Authority of Cambodia regulates power services and related pricing.

The most important regulatory initiative identified by stakeholders is the establishment of an eCommerce law. There are international businesses interested in entering Cambodia, but they expect a legal framework to be in place. A new law that provides this framework could be a significant driver of eCommerce activity, and companies have indicated their concern with unknown costs associated with eCommerce law compliance. For example, PayPal is not available in Cambodia for this reason, and PayPal would be of tremendous value to SMEs, making it much easier to accept cashless payment at a lower fee structure and with less backend integration.

Cambodia is planning to implement an eCommerce law in 2017, according to Cambodian Minister of Commerce Pan Sorasak, who indicated in October 2016 that the new law will be presented for parliamentary review in 2017. Cambodia is the only ASEAN nation that has not passed such a law.

Development of the law has been underway since 2009, with the input of three government ministries and the national bank. The World Bank, European Commission, United Nations and others have contributed money and expertise to the process.

The draft eCommerce law is expected to contain 12 chapters and 90 articles, and pertain to agreements that use online signatures; meet commitments to conform to international standards; and introduce provisions intended to regulate online payments and reduce the risk of fraud in online payment transactions.

Most stakeholders are aware that an eCommerce law is in development, and many express frustration that they do not know what is in it; typically the Royal Government of Cambodia has not made available draft versions of legislation. Private sector businesses have indicated they would like the opportunity to review and comment before the new law is announced. There is an expectation that the new law will make online contracts legal, but will not address dispute resolution. Some point out that in general in Cambodia, the court system is not used to settle disputes.
Many stakeholders would like to see the development of a consumer protection law. This could help build trust among consumers, if it was effective.

The General Department of Customs and Excise of Cambodia is moving towards greater transparency, but many stakeholders state that there is a need for a faster rate of change. It was pointed out that the government website is not up to date. There is no information on the website about tax rates. It is necessary to interact with individual agents, which many respondents indicated provided opportunities for the collection of unofficial fees. The frequency and amount of unofficial fees that is part of the Customs clearance process may contribute to the high level of grey market activity and parallel importing, resulting in reduced tax revenue from MSMEs, who choose (as a result of these unofficial fees) not to use official import channels and subsequently, don't pay taxes.

Some stakeholders are concerned that regulations could add more costs to doing business. They point out that security and cyber-security requirements can be expensive to implement. Some are concerned that companies will not be given enough time to comply with any new regulations. Another concern is that online merchants will pay more taxes than traditional retailers, because all of their business is recorded or “on the books”. This would make online businesses uncompetitive with traditional SMEs, who do not use standard accounting practices and many of whom do not report all of their income.

There is current regulation in place for TPPs, requiring a license, originally designed for Wing. Some express concern that the regulatory framework is not in place to allow for innovation in online payment processing. Issues around requirements such as capital reserves, Know Your Customer (KYC), AML (anti-money laundering), and cyber-security need to be addressed.

It has been suggested that the government adopt regulations to require financial institutions to provide more information to consumers to address concerns that MFIs and other institutions do not clearly educate consumers on the cost of their services, for example, the true cost of loans. More transparency would lead to greater consumer trust of new financial services.

The Royal Government of Cambodia understands the advantages of increasing eBusiness and eCommerce activities, in order to improve transparency and trust, and as a way to increase tax revenue collection. There are a number of initiatives to promote eBusiness. The Department of Taxation is developing a system to extend to all banks, to allow people to pay taxes electronically. The single window customs clearance project has been launched for containers, although not yet for LCL or individual packages. The Ministry of Economy and Finance has implemented an online financial management information system and is rolling out greater functionality.

The Ministry of Economy and Finance noted that they do not want to implement regulations that would restrict small buyers and discourage innovation. They are developing tax policies that would give SMEs a tax break, possibly for two years, to encourage startups and to encourage registration of SMEs who may be reluctant to register their business. They are planning to make it easier for SMEs to register by simplifying the process.

The Ministry of Economy and Finance acknowledged that they have received many complaints from the private sector regarding the high cost of electricity, and that there are discussions to implement a price structure that would include lower prices for nighttime use, to encourage investment and help with datacenter costs.

The Ministry of Economy and Finance has designed an eProcurement system, but did not implement it as there were concerns that it was too complex and the country was not ready. They said that eventually this will be made available.

**Impact of ASEAN Integration**

Cambodia's membership in the ASEAN Economic Community has been a driver of change in legal and regulatory matters. ASEAN requirements to build an Electronic Data Interchange (EDI) have helped automate the customs process in Cambodia, a benefit to importers and exporters.

Ambitious Cambodian companies see opportunities to expand their business regionally with ASEAN membership. They believe it will make the transfer of money easier, as well as the transfer of goods. Others don't expect much impact, since they question whether there will really be a change in tariffs. They point out that some tariffs are currently being raised, in anticipation of their being lowered later; additionally non-tariff barriers such as fees are being implemented as well, in order to offset lost revenue from tariffs.

There are some concerns about the flow of people – that Cambodians might be replaced by regional workers with better educations. Others are hopeful that there will be a skills transfer benefiting Cambodia.

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OPPORTUNITIES
TO SUPPORT ECOMMERCE
DEVELOPMENT

FOR MERCHANTS
• Support adoption of online and mobile payment systems
• Provide education on the value of cashless transactions, including the hidden costs and risks for handling cash
• Improve costs, access to, and capacity of IT infrastructure
• Support education and training of IT professionals
• Improve delivery efficiency and “findability” of address locations
• Create a lexicon of eCommerce terms in Khmer, and a corresponding English / Khmer translation dictionary of these terms
• Educate on the value of inventory management

FOR CONSUMERS
• Educate consumers on the trustworthiness and advantages of cashless transactions
• Train consumers specifically how to use cashless payment systems
• Increase access to cashless payment tools such as credit, debit, and stored-value cards

WHAT THE ROYAL GOVERNMENT OF CAMBODIA CAN DO
• Pass the eCommerce law, and build awareness of its contents
• Pass the Consumer Protection law, and build awareness of the law and its protections
• Improve speed of approval, and ease requirements, for TPPs to do business in Cambodia

• Encourage banks to engage with TPPs to expand access to cashless payment systems
• Work to lower electricity costs to encourage investment in IT infrastructure
• Implement planned changes in Customs clearance, in order to make it easier and more cost-effective, especially for MSMEs
• Provide tax reduction incentives to encourage growth and investment for MSMEs
• Prevent “unwanted stops and fees” for delivery vehicles
• Encourage adoption of a national switch to process cashless transactions through a single integration, rather than multiple institutional integrations
• Encourage banks to invest in infrastructure and improve their IT systems so that they can conduct transactions in real time
• Ensure that banks plug into FAST

WHAT MBI, ADB AND SIMILAR ORGANIZATIONS CAN DO
• Support regulatory reform that can foster innovation
• Ensure that regulation of TPPs opens up the market to competition, and reduces rather than erects barriers for entry
• Create programs to education consumers on value and trustworthiness of cashless payments
• Create programs to education merchants on value of cashless payments
• Support requirements for disclosure of financial product terms and conditions, and ensure that consumers and merchants know what they mean
• Discourage regulation and licensing requirements that could hurt or curtail MSME operations
• Support the National Bank of Cambodia’s national switch
• Help to build skills to foster innovation
• Encourage the adoption of advanced technology
• Encourage a more international outlook, focusing on ASEAN, the region, and globally – beyond just a focus on the Cambodian market
APPENDIX 1

ECOMMERCE STAKEHOLDERS

INFRASTRUCTURE

TELECOMS

Top tier
Smart Axiata, Metfone, Cellcard

Second tier
qb, Seatel, CooTel

INTERNET PROVIDERS

Top tier
Ezecom, S.I.Net

Second tier
Digi, ONLINE, WiCAM, MekongNet, OpenNet, Today Communication, NTC

BANKS WITH PAYMENT GATEWAYS

Acleda, Cathay United, Canada, ABA

INTERNET PROVIDERS

Top tier
Ezecom, S.I.Net

Second tier
Digi, ONLINE, WiCAM, MekongNet, OpenNet, Today Communication, NTC

BANKS WITH PAYMENT GATEWAYS

Acleda, Cathay United, Canada, ABA

TPPS & STORED-VALUE CARDS / MONEY TRANSFER

• Wing
• Bongloy
• TrueMoney
• Emoney
• PayGo
• SmartLuy
• m-Cash
• Sabay Wallet
• Virtual MasterCard: SmartPay, ABA
• Merchant card: Brown Coffee, Tes Jor

LOGISTICS COMPANIES

(451 listed in Cambodia Yellow Pages)

• International:
  Kerry Worldbridge Logistics, CMA-CGM, RDL Logistics Co. Ltd
• Family owned trucking and warehousing businesses
• Last mile delivery: Dominated by informal operators as well as company-specific delivery services for food and merchandise delivery
• Agents that provide support for customs clearance

LEGAL AND REGULATORY

MINISTRIES AND GOVERNMENT BODIES

• Ministry of Commerce
• Ministry of Economy & Finance
• Ministry of Posts and Telecommunications
• The General Department of Customs and Excise of Cambodia
• The General Department of Taxation
• National Bank of Cambodia
• Electricity Authority of Cambodia

LAW FIRMS INVOLVED IN ECOMMERCE LAW

• DFDL
• ZicoLaw
• Sciaroni & Associates

PRIVATE SECTOR ORGANIZATIONS

• ICT Federation
• BritCham, EuroCham, AmCham
• eBusiness Working Group

DEVELOPMENT AGENCIES

• Asian Development Bank, Mekong Business Initiative
• USAID, Development Innovations
• The Asia Foundation

INTERMEDIARIES / AGENTS

ECOMMERCE MERCHANT PLATFORMS

• MyPhsar
• MAIO Mall
• Khmer24
• eCamShopping

INDEPENDENT AGENTS PROVIDING ACCESS TO IMPORTED GOODS FROM TAOBAO ALIBABA, AMAZON

• Bongloy – connect SMEs to a payment gateway

VENTURE CAPITALISTS

• Mekong Strategic Partners
• Emerging Markets Investment Advisers
• Leopard Capital
• M-Invest

MERCHANTS

PURE ECOMMERCE

• BookMeBus
• Sabay Coins

PARTIAL ECOMMERCE – HAVE ONLINE STORE BUT ACCEPT COD

• Clothing:
  - Have a retail store plus online store: Little Fashion, One Fashion
  - Online only: Juicy K Shop, L&L Online Fashion
• Food:
  - Grocery delivery: Pengpos, Linkingfood
  - Restaurant delivery: MealTemple, Door2Door, YourPhnomPenh
• Beauty:
  - Have a retail store plus online store: Pan Korean Cosmetics
  - Online only: Roserb, Merrez’ca. Cambodia
• Electronics:
  - K-Tech, Nika Phone Shop (both have a retail store)

CONSUMERS

• With access to technology
• With access to cashless payments

This list includes examples and not all categories are exhaustive. Please contact MangoTango for additions or corrections.
APPENDIX 2

BACKGROUND

ECommerce has been identified as a key driver of economic growth in developing markets. The eBusiness Group of BritCham and EuroCham identified a need for a market evaluation of the opportunities and barriers to eCommerce in Cambodia, in order to encourage investment. The Asia Development Bank’s Mekong Business Initiative has sponsored this research. This report covers findings from Phase 1 of the research, providing an overview of the market and identifying issues for further research.

RESEARCH OBJECTIVES

The overall objective is to develop an in-depth understanding of Cambodia’s eCommerce market landscape:

• Describe the drivers of eCommerce, barriers to growth, and opportunities for eCommerce in Cambodia

• Identify opportunities for the private sector, development agencies, and government policies to encourage eCommerce development.

RESEARCH OBJECTIVES BY PHASE

Phase 1: Overview of the eCommerce market, map of stakeholders and participants, and identification of issues for further research

Phase 2: Understanding of which segments of the consumer market are ready for eCommerce and what are the opportunities to encourage growth

Phase 3: Profile of Cambodian SMEs’ eCommerce readiness - What segments of the private sector are ready for eCommerce and what support do they need to be successful

IDENTIFICATION OF ISSUES FOR FURTHER RESEARCH

Consumer Research:

The key informant interviews raised many questions about the changing behavior of Cambodians regarding eCommerce and cashless payments. Further research will uncover opportunities and barriers to eCommerce development by understanding issues around:

• Their interest in online shopping

• Smartphone usage

• Bank/financial service usage

• Payment options interest and usage

MSME Research:

The interviews also raised many questions about the challenges facing SMEs as they work to engage in eCommerce. Further research will identify the barriers they face and opportunities to provide support by understanding issues around:

• Their interest in eCommerce

• Whether they perceive a need for moving to cashless payments

• Their current level of IT usage and support

• Their accounting practices

METHODOLOGY

The Phase 1 methodology used for developing the findings presented in this report included both primary and secondary research.

Secondary research involved extensive desk research including the use of Internet search tools and academic and periodical databases.

Primary research included interviews with senior executives to provide insights into the opportunities and barriers identified by stakeholders including: Banking institutions and payment systems providers, Logistics and delivery enterprises, Legal and taxation specialists, Telecommunications and Internet service providers, Entrepreneurs and technology consultants, Merchants engaged in online selling, Government representatives. A mix of Khmer (10), expats (15), and Khmer-Americans (2), were interviewed.
List of key informants interviewed for Phase 1:

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<thead>
<tr>
<th>COMPANY</th>
<th>PERSON</th>
<th>POSITION</th>
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</thead>
<tbody>
<tr>
<td>1. Mekong Bank</td>
<td>Paul Clements</td>
<td>EVP</td>
</tr>
<tr>
<td>2. Sabay Group</td>
<td>Mike Gaertner</td>
<td>CTO</td>
</tr>
<tr>
<td>3. RDL Logistics Co. Ltd.</td>
<td>Phouy Keo Ratanak</td>
<td>Business Development</td>
</tr>
<tr>
<td>4. Kerry Worldbridge Logistics</td>
<td>Sonic Duran</td>
<td>Sales &amp; Marketing Manager</td>
</tr>
<tr>
<td>5. CMA-CGM</td>
<td>Kagnarin Chea</td>
<td>Sales Manager</td>
</tr>
<tr>
<td>6. DFDL</td>
<td>Daniel Wein</td>
<td>Attorney</td>
</tr>
<tr>
<td>7. EuroCham</td>
<td>Blaise Kilian</td>
<td>Advocacy Manager</td>
</tr>
<tr>
<td>8. Cellcard/WING</td>
<td>Ian Watson</td>
<td>CEO</td>
</tr>
<tr>
<td>9. S.I Net</td>
<td>Meta Sy</td>
<td>CEO</td>
</tr>
<tr>
<td>10. EZECOM</td>
<td>Yves Schaeffer</td>
<td>CEO</td>
</tr>
<tr>
<td>11. Smart Axiata</td>
<td>Jonathan Yap</td>
<td>Specialist Regulatory</td>
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<td>Chandara Veung</td>
<td>Head of Digital Transformation</td>
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<td>12. Brown Coffee</td>
<td>Bunleang Chang</td>
<td>Founder</td>
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<td>13. ICT Federation</td>
<td>Steven Path</td>
<td>CEO</td>
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<td>14. ICT Electronics</td>
<td>Len Tan</td>
<td>CEO</td>
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<td>15. Mekong Strategic Partners</td>
<td>Stephen Higgins</td>
<td>Managing Partner</td>
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<td>16. InSTEDD Innovation Lab</td>
<td>Channe Suy Lan</td>
<td>Regional Lead</td>
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<td>17. IT and Payment Consultant</td>
<td>Rithy RAY</td>
<td>Startup advisor</td>
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<td>18. Little Fashion</td>
<td>Vichet In</td>
<td>CEO</td>
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<td>19. Clik Asia; M-Invest</td>
<td>Matthew Tippetts</td>
<td>Founder &amp; CEO</td>
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<td>20. Online Linkingfood</td>
<td>Giuseppe Bottiglieri</td>
<td>Founder &amp; Managing Director</td>
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<td>21. Today Communication</td>
<td>Steve Miller</td>
<td>General Manager</td>
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<td>22. Ministry of Economy &amp; Finance</td>
<td>Dr. Phan Phalla</td>
<td>Under-Secretary of State of MEF</td>
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<td>23. WING</td>
<td>Jojo Malolos</td>
<td>CEO</td>
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<td>24. Consultant</td>
<td>Glenn Miller</td>
<td>Technology and Operations</td>
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<td>25. PayGo</td>
<td>Evgeniy Kagay (Jim)</td>
<td>General Manager</td>
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<td>26. Bongloy Payment Gateway</td>
<td>David Wilkie</td>
<td>Managing Director</td>
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<tr>
<td>27. Book Me Bus</td>
<td>Langda Chea</td>
<td>CEO</td>
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Planned research includes qualitative and quantitative research with consumers for Phase 2, and in-depth interviews with SMEs for Phase 3.
**SURVEY INSTRUMENT**

**eCommerce Interview Questions**
The purpose of the study is to provide information on eCommerce opportunities and challenges to the private sector and to government ministries, to encourage investment and development in eCommerce and eBusiness in Cambodia.

*You have been selected to be interviewed because of your knowledge and experience here.*

**Can you tell me about your role at ____?**
Probe: How are you involved in eCommerce related activities?

**Overall, how would you describe the potential for eCommerce in Cambodia?**
Probe: why do you say that?

**What trends are you observing?**

**What do you see as the opportunities for eCommerce activities to help grow your business in Cambodia?**

**What about challenges?**
Probe:
- Payment issues – infrastructure
- Payment issues – consumer related
- Local preferences and shopping habits
- Delivery logistics
- Other infrastructure challenges
- Import/export challenges
- Implications of ASEAN development
- Security/cyber security
- Skills gaps/availability

**What regulatory and legal issues need to be addressed to improve opportunities for eCommerce?**
Probe:
- Issues of licensing/authorization to do business;
- Regulatory compliance in the course of eBusiness life cycle
- Any challenges an eCommerce business may have when trying to secure government contracts, i.e. in the procurement area.

**What needs to happen to improve the opportunities for eCommerce in Cambodia?**
Probe: What can the government do to help?
What can the private sector do to help?
APPENDIX 3

MICRO-ENTREPRENEUR ONLINE SELLER JOURNEY

GETTING STARTED
Skills: Identify a market opportunity
• Develop a concept and select a name for the store
• Decide what platform to use: Facebook, Instagram, LINE, other online platform
• Decide what language should be used -- Khmer or English or both
• Determine how much inventory to stock vs. order upon customer request
• Decide on delivery: free or charge
• Determine payment options: cashless options vs. cash-on-delivery

ONLINE STORE SETUP & PRICING
Skills: Knowledge of how to manage online store
• Set up processes to manage inventory and selling, reply to fan (shopper) questions, schedule posts
• Select items to sell from sites like TaoBao, Alibaba, others
• Select photos for the products to offer, write descriptions, provide order information and contact details, and post these

SALES & MARKETING
Skills: Understand digital marketing
• Determine how to promote the online shop
• Need promotional plan to use personal social network to increase the reach of the store page
• Consider how to make people “like” the page to increase visibility and engagement

ORDER FULFILLMENT, PAYMENT & SHIPPING
Skills: Implement business practices
• Manage customer interactions, including questions about product, price, delivery
• Arrange for payment in advance or cash-on-delivery
• Place the order with your agent if product not in stock
• Acquire product
• Arrange for delivery by meeting customer, by moto taxi, or by bus delivery

CUSTOMER SERVICE
Skills: Manage customer complaints
• Communicate your policies for customers who do not accept delivery or want to return the item
• Returns are a problem for micro-entrepreneurs who may not be able to find another buyer for the item
• Some resort to “shaming” the customer who changes their mind by posting on Facebook
APPENDIX 4

INITIAL ECOMMERCE ISSUE IDENTIFICATION AND GROUPING

Issues, opportunities and challenges to the adoption of eCommerce in Cambodia, developed and presented to the public by the eBusiness Group at the Intercontinental Hotel Phnom Penh, October 2015 in the session "eCommerce in ASEAN Emerging Markets: Cambodia".

Issues were grouped into overarching categories:

• Technical and Operational Factors of eCommerce
• Socio-Economic and Cultural Factors of eCommerce
• Legal and Governmental Factors of eCommerce

Technical and Operational Factors of eCommerce

Telecommunications / Internet Infrastructure

• Require Internet speed and reliability
• High access costs and operating costs
• Lack of unified protocol/standards development process
• Lack of locally hosted servers and content because of costs and reliability
• Concerns about restrictions via licenses and regulations
• Need mobile versions of ecommerce websites

Financial Services / Payment Mechanisms

• Not enough payment gateways
• Need appropriate localized payment methods, for various social economic levels
• Buyers lack debit/credit cards; current eCommerce settled in COD
• Promote payment through banking system
• Make sure new payment entities are licensed
• Security compliance – PCI DSS, 3D secure
• Impact of de-dollarization / requirements for accepting KHR
• Internal policy/procedure – risk management/control and customer protection
• 24/7 uptime and support service
• Currently, no national shared switch for accepting banks’ proprietary card and interbank settlement

Delivery Infrastructure / Logistics

• Lack of a reliable system to deliver goods to customers
• High costs of customs and duty, including physical paperwork
• Customs favors one large shipment over many small shipments
• Handling of returns a problem

Socio-Economic and Cultural Factors of eCommerce

Requirements for Business Investment in eCommerce

• Questions about the potential size of the market and the investment required
• Market acceptance and trust of online payments / non cash payments
• Confidence in ability to conduct business (deliver goods, get payment)
• Need access to accurate information on eCommerce rules, understanding law and how to operate
• Expectation for graft/corruption in which international players cannot participate
• Concerns about dispute resolution procedures
• Infrastructure requirements to conduct ecommerce
• Trained staff required to conduct ecommerce

Requirements for Consumer Use of eCommerce

• Market acceptance and trust of online payments / non cash payments
• Transactional Trust (ordered goods will arrive; payment will be made)
• Language and culture barriers
• Preference for cash transactions
• Preference for physical shopping experience
• Access to Internet
• Understanding of how to make an online purchase
• Ability to pay for an online purchase (in advance by credit card or COD)
• Concerns about returning products

Legal and Governmental Factors of eCommerce

General Business Law

• Fast-changing eCommerce environment makes it difficult for law-making to keep up; this can impact competitiveness
• Industry guidelines, codes of conduct/practice and sector regulations can be put in place faster than law-making, could fill gaps if public sufficiently aware
• Concern about promotion of awareness of laws
• Not enough information about progress of the draft law
• Questions about dispute resolution and enforcement
• Guidance on consumer protection law plans and privacy laws
• No regulation for warranty and disputes are on an “as seen” basis
• Online shopping taxes
• Political interference in data

Government Factors

• Government willingness to invest in IT
• Government has a plan to automate parts of eCommerce activities, working with Japan, Korea -- Need information about this
• Concern that government is focused on big companies for law-making vs smaller firms
• Lack of previous law or practices allows latest generation approach to be a starting point
• Concern about relevant government ministries needing sufficient expertise and knowledge for both law-making and issue / dispute resolution.
• Role of Government is the key, especially for Cambodia. Is there any way Government promotes the eCommerce ecosystem in the near future?
• IPR protection
• Prevent proliferation of counterfeit goods
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MANGOTANGO

MangoTango Asia
271 Sisowath Quay, corner of Street 148, Phnom Penh Cambodia
+855 (0) 12 317 174
contact@mangotango.asia
www.mangotango.asia

The authors:

Christopher McCarthy
CEO, Head of Experience Design
chris@mangotango.asia

Chris McCarthy is co-chair of the BritCham eBusiness Working Group in Cambodia. Chris has been based in South East Asia for five years, and works in technology and with venture-backed startups throughout the region, helping to innovate business change. He is CEO of creative technology & marketing agency MangoTango Asia. He has an undergraduate degree in Anthropology from Columbia University and studied entrepreneurship at the Columbia University School of Business.

Nancy Jaffe
Director, Head of Strategy
nancy@mangotango.asia

Nancy Jaffe is a brand strategist and market researcher with extensive experience in South East Asia, New York and San Francisco. She is a frequent speaker on the changing behavior of Asian consumers. Nancy is Director of Strategy at MangoTango Asia. She has a master’s degree in Social Psychology from Columbia University and undergraduate degree from Wellesley College.

Report design by Jerome Hivert

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Tony Hor, Sothea Ung, Sokhuy Key, Jun Chen, Sivkimm Yim, PhichNay Tang

The sole responsibility for the content of this document lies with the authors.