

## Digital Challenges and Opportunities for Agricultural Input Suppliers in Cambodia: Implications for the Cambodian Economy

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### Introduction

Business digitization has been strongly growing in Southeast-Asian countries. In Cambodia, this trend is pointing with potential impacts on job creation and improvement of markets. Digital transformation will inevitably support a new model of economic growth to realise Cambodia's long-term vision of becoming an upper-middle-income country by 2030 and a high-income country by 2050. In response to this trend, the Royal Government of Cambodia (RGC) has announced its plan to transform the country into a digital economy by 2023 by initiating and developing relevant strategies, policies, and regulations for such transformation purpose.

It is believed that rigorous digitization of the economy will drive innovations, spur entrepreneurship, create job opportunities, foster economic growth, and transform Cambodia's economic landscape. The study identified the challenges and potential benefits for the agricultural input businesses from adopting digital technologies, particularly e-payments and e-commerce for business transactions.

### Research Objective and Methodologies

The objective of the study is to assess the current challenges and opportunities for agricultural input suppliers in adopting digital payment and e-commerce for their business transactions and identification of its implications for the Cambodia economy.

The methodologies employed for this study include qualitative and quantitative methods to document challenges and opportunities for the uptakes of digital payment and e-commerce for business transactions amongst agricultural input suppliers. The approaches are: desk review of regulatory framework and relevant stakeholder mapping; Key Informant Interviews (KII); phone interviews with 40 trading firms (65% local companies, and 35% international companies); and a survey of 225 samples of agricultural input suppliers in six provinces of Cambodia including Tboung Khmum, Battambang, Kandal, Prey Veng, Takeo, and Siem Reap.

### Policy and Regulatory Framework

Key relevant laws related to e-commerce and digital payments have been implemented in Cambodia. These include the 2015 law on telecommunications, the 2019 e-commerce law, the 2019 consumer protection law, and the draft cybercrime law. To advance the digital economy agenda, the government of Cambodia has formulated a working group to draft a digital economy policy framework led by the Supreme National Economic Council (SNEC) under the direction of the Ministry of Economy and Finance (MEF) with participation by other relevant institutions.

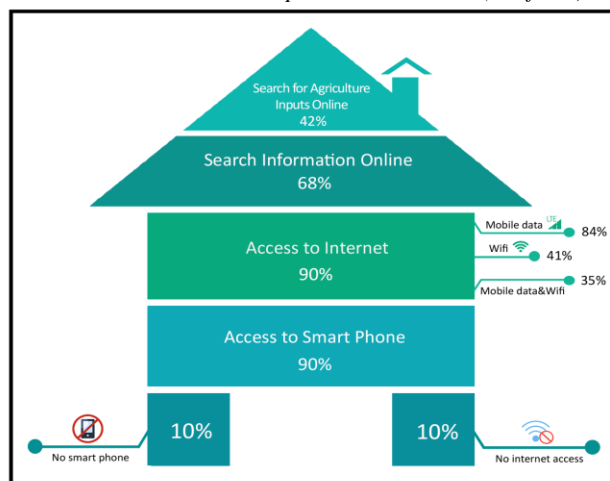
Private sector, development partners, and NGOs such as Spien, Agribuddy, AMK, Konrad Adneuer Stiftung, Oxfam, Feed the Future of Cambodia HARVEST II, IFAD, CAVAC, and USAID have implemented relevant programmes to promote the uptake of e-commerce and digital payments in agribusiness in Cambodia. Key internet actors provide quality internet services and a number of banks have facilitated gateways for digital payments and e-commerce.

## Adoption of Digital Payments

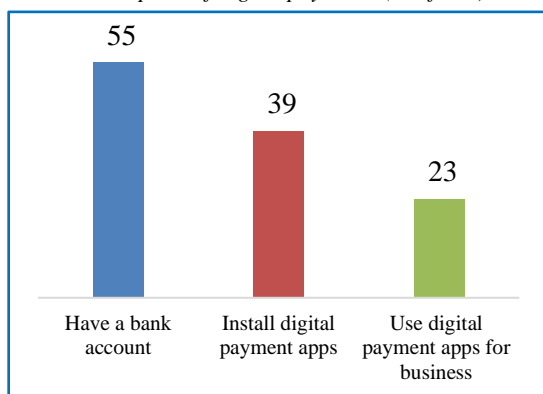
Access to financial services is identified as an enabler for poverty eradication but it also plays a critical role in promoting the uptake of digital payments in Cambodia. The result of this study indicates that despite the progressive improvement of digital infrastructure and significant support interventions in the sector, a meager percentage of surveyed AIS are implementing digital payments in business.

- Access to smartphones and mobile internet is double of that broadband internet penetration due to cheaper set-up costs, easy access, and quality.
- Gender access to smartphones and internet, from the findings, is that 85% of females own smartphones compared to 94% of male respondents. Only 36% of female respondents know how to search for agricultural inputs information through internet compared to 47% of men.
- About 64% of the surveyed AIS have had a bank account for less than five years. Aceda Bank is the most popular among the surveyed AIS, followed by ABA Bank and Canadia Bank.

Access to smartphones and internet (% of AIS)



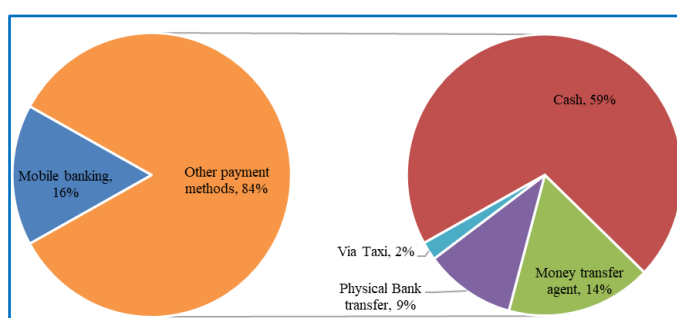
Adoption of digital payments (% of AIS)



- Approximately 55% of the surveyed AIS have had a bank account. About 39% of the surveyed AIS have installed digital payment apps. Only 23% actually have used the digital payment app for their business transactions.
- About 16% of the surveyed AIS use the mobile banking app to settle the financial transactions with their suppliers. The other 84% of the surveyed AIS reported using cash and other traditional methods.

- Payment dealing with wholesale clients: 57% of the surveyed AIS use cash payments, 38% use mobile banking, and 5% use money transfer agents.
- Payment dealing with retail clients: 83% of the surveyed AIS use cash payment and is up to 97% when dealing with farmer clients.

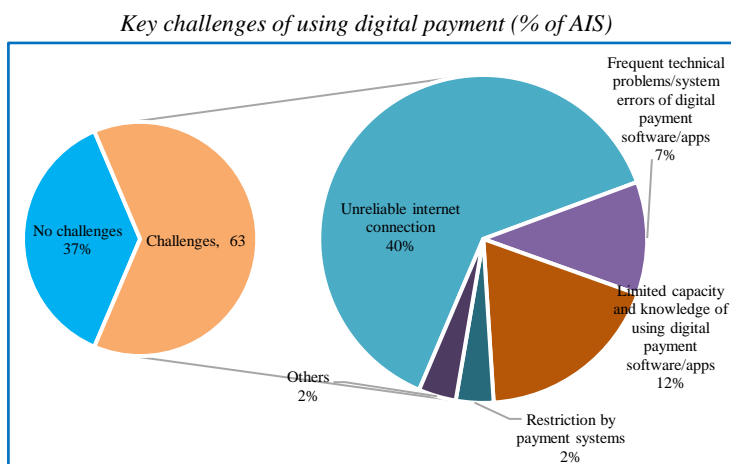
Payment methods used with the suppliers (% of AIS)



## Challenges for Adopting Digital Payments

- The use of digital apps is limited. No bank accounts and limited knowledge of digital financial transaction are the key challenges for the surveyed AIS to install digital payment apps. 18% of them don't know how to install or use the digital payment app.

- Unreliable internet connection is another challenge in using digital payments for business transactions, that existed among 63% of the surveyed 225 AIS using digital payments.



- The high convenience of cash payment is the main reason steering AIS from using digital payment for their business transactions.

- Limited digital literacy is another key challenge followed by poor internet connection. Other difficulties include having insufficient cash in the bank account, no clients/suppliers use digital payment technology, and concerns over fraud and security issues.

- Improvement in day-to-day operation was reported by 95% of those input suppliers who had adopted digital payments. The other highlighted benefits include reduction of risks, financial losses, and theft.

## Challenges and Opportunities for Adopting E-commerce

**Trust is the cross-cutting concern** in e-commerce adoption among the surveyed AIS. Adoption of e-commerce, AIS concerns about being cheated by the customers. Building and maintaining trust in products/branding was another concern for AIS due to counterfeit news and online fraud. Invasion of privacy issues on the internet remains the critical concerns for online consumers, especially those who have limited digital knowledge.

**Lack of digital literacy and proper training on new digital technology** triggers the large proportion of the surveyed AIS to use cash payment with farmers. 62% of the AIS reported of technical/operational challenges, 59% of socio-economic and cultural issues, and 5% reported of lack of law/regulation implementation.

### *Technical/operational challenges (percent of AIS)*

▪ No/lack of technical staff or knowledge of e-commerce	61
▪ Lack of trust in e-commerce	23
▪ Lack of trust in digital payment	5
▪ Development of the website/mobile app is costly	2
▪ Poor internet service	2
▪ E-commerce is not relevant to business	1
▪ Others	4

### *Socio-economic and cultural challenges (percent of AIS)*

▪ Customer and client lack of knowledge of e-commerce	36
▪ Low customer's trust in e-commerce	20
▪ Customer needs consultation service/showroom	15
▪ No time/interest in e-commerce	10
▪ Customer buys on credit	7
▪ E-commerce is extremely competitive	3
▪ Others	8

**Plan to adopt e-commerce** for the next few years is only 37% of the surveyed AIS while 63% did not have any plan to start digital business due to limited digital knowledge and a perception that e-commerce is somewhat irrelevant or impossible to be implemented given the nature of their business.

**There is a potential opportunity for investments** to enhance their business model given the fact that consumer behaviours would also change to adapt to new technologies. Social media have played a critical role in marketing communication and branding strategy among those adopting e-commerce.

## Conclusion and Recommendations

E-commerce in the agricultural input business in Cambodia is relatively in its early stage and is underdeveloped. There is a significant untapped market potential in the sector, driven by a wide use of smartphones, the improved internet infrastructure, the availability of many digital payment services, and a growing young middle class in Cambodia.

Opportunities from adopting e-payments and e-commerce include i) reducing multiple intermediaries and transaction costs (including time and travel costs), ii) improving the agricultural value chain, and iii) providing access to wider markets. E-commerce in agriculture is an emerging opportunity in Cambodia. It has the potential to generate significant social and economic benefits, improve farmers' livelihood, boost productivity, and improve digital and financial inclusion in rural areas.

However, the challenges are many. There is a need for considerable investments to improve awareness of e-commerce, to develop a rigorous e-commerce ecosystem, and to establish an enabling regulatory environment that promotes a fair playing field for all actors. These are all needed to facilitate a significant improvement in the emerging business environment.

The uptakes of digital financial services and e-commerce have been extremely limited among the surveyed AIS despite some initiatives and improvement of supporting digital infrastructure and service providers. In general, Cambodians can afford digital technologies and tools such as smartphones that were not accessible before, but this does not necessarily mean that this device availability, especially of smartphones, has been harnessed effectively to support the uptake of the digital activities for business transactions. One obvious conclusion is that the digital divide is no longer about access to technology but rather about digital literacy, technological knowledge, and business application to maximise its effective use.

Limited digital literacy among the general public, especially farmers in rural Cambodia, lack of IT and digital technology skills, and the reliance on cash-based payment are major hindrances in the adoption of digital payments and e-commerce. E-commerce in agriculture, especially agricultural input businesses, is relatively new and underdeveloped. Only a few e-commerce systems or apps (i.e. Agribuddy, Tonlesap, and CamAgriMarket) cater to agriculture. More importantly, the sector has not received attention and investments from the regional players yet. The implication has resulted in the slow adoption of e-commerce in the sector.

With regard to increasing the adoption of digital payments and e-commerce, the study highlights the following recommendations for key stakeholders in the ecosystem.

### Government:

- **Create an enabling regulatory environment.** The government and regulators should create enabling regulations to drive the adoption of financial technology and e-commerce among AIS and farmers. An appropriate strategy would be to streamline the process of business registration and e-commerce license, provide systems or database to permit access to digital identification and verification, and to create level playing field for all players, including formal and informal enterprises, to fairly compete in the markets.
- **Increase trust in adopting digital payments and e-commerce.** When AIS better understand the related laws and policies for digital payments and e-commerce, their confidence in using e-platforms will increase. The government and relevant authorities should thoroughly implement and enforce the e-commerce and consumer protection laws and make them widely accessible to all AIS to increase their understanding of the rights and privacy, mechanisms for the online

transactions that are free from theft, and procedures for resolving any online disputes/cheatings effectively and timely. All these will gradually increase their trust.

- **Improve digital infrastructure quality and access.** The government should further invest in improving digital infrastructure, increase broadband rollout to rural areas, and ensure consistent quality of internet services. The government should support the private sector in developing a rigorous e-commerce ecosystem. Creating such an e-commerce ecosystem and building an entrepreneurship environment would create new opportunities and employment in the agricultural sector.
- **Focus on developing digital skills and improve digital literacy.** A digital literacy framework for the AIS and farmers should be developed to address the whole spectrum of digital literacy development in Cambodia. This should focus on information literacy, and competency in finding, searching, and browsing for digital content as well as filtering, and evaluating it.
- **Develop agriculture e-commerce framework.** The government should develop an agriculture e-commerce framework focusing on reshaping agriculture production, promoting trade exchange platforms, and improving marketing and sales over the internet.

#### **Private Sector and Development Partners:**

- **Invest in viable services that create impacts.** With the availability of funding, the private sector should invest in the agriculture e-commerce businesses and some start-ups including app developers that can generate both social and economic impacts. The private sector should also work directly with AIS and farmers to transfer skills, technology, experiences, and resources.
- **Invest more in incubators and accelerator programmes.** Development partners, together with the government, should work collaboratively with the private sector and other partners to invest more in incubator and accelerator programmes in order to inspire the current entrepreneurs and innovators. These programmes will nurture new start-ups in tech innovation, especially in digital financial services and e-businesses related to agricultural inputs. For instance, Tonlesap App was developed by a private micro-finance institution, AMK, with funding support from donors such as SNV and Harvest II projects. This type of initiative will support new start-ups.

#### **Agricultural Input Suppliers:**

- **Develop digital skills and improve digital literacy.** AIS should broaden their knowledge and understanding of business digitalization as a potential for business expansion and reach out to a larger customer base through digitalization in order to improve their trust and confidence in this sector. AIS should participate in digital skill development programmes initiated by relevant ministries/local authorities and private actors based on their levels of digital skills and literacy. The inclusive opportunities and specific technical skills should be given based on the actual needs. The improved digital skills and digital literacy will also contribute to increase the adoption of online transactions among AIS.
- **Participate in public awareness and increase understanding of the benefits of digital payments and e-commerce.** AIS have to improve their understanding of the potential benefits of digital payments and e-commerce together with the increased digital skills and literacy. Without knowledge of these benefits, AIS are not likely to adopt digital payments or participate in e-commerce even if they have the skills to do so. AIS should invest their time to participate in the public awareness initiatives in order to increase their understanding of the potential benefits and related existing laws and mechanisms. As a result, AIS will eventually improve their trust in digital businesses.



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### **Disclaimer**

The views expressed in this publication are the author's alone and are not necessarily the views of the Australian Government, The Asia Foundation, the Centre for International Private Enterprise, and the Centre for Policy Studies.

This Policy Brief is completely based on the study that was conducted by the Centre for Policy Studies in 2020. The Policy Brief and the Full Study Report are available at [www.cps.org.kh](http://www.cps.org.kh).

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### **Reference to the Full Study Report**

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