



# Briefing Note

Parliamentary Research Training

## E-Banking: The Cambodian Experience in Promoting Connectivity and Inclusive Growth

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## Summary

Cambodia recognizes the crucial role of collaboration among ASEAN member states in driving socio-economic development within the region. Embracing digital innovation, particularly in the financial sector, Cambodia has witnessed significant growth in its fintech industry, contributing to enhanced connectivity and financial inclusion. The country is committed to leveraging digital banking initiatives in collaboration with other ASEAN nations to ensure widespread access to financial services, fostering inclusive growth.

Efforts to promote connectivity extend beyond the financial sector, encompassing broader domains such as infrastructure development, trade facilitation, and human capital development. Cambodia envisions a more integrated and prosperous ASEAN region through collaborative endeavors across these areas.

Policy initiatives in Cambodia prioritize the expansion of e-banking infrastructure and digital payment solutions to facilitate seamless transactions, coupled with active engagement in harmonizing regulatory frameworks regionally. However, challenges such as adapting to blockchain technology and improving access to financial services for MSMEs persist, prompting the exploration of policy options like promoting digital banking and accelerating financial inclusion through digital finance.

The proposed ASEAN Digital Connectivity Initiative aligns with Cambodia's vision for a digitally-enabled economy and a more prosperous ASEAN community. This initiative aims to enhance digital infrastructure, promote digital literacy, facilitate cross-border digital collaboration, and support digital innovation and entrepreneurship across ASEAN member states.

Cambodia's proactive stance, commitment to collaboration, embracing digital innovation, policy priorities, efforts to address challenges, and proposed initiatives underscore its dedication to promoting connectivity and inclusive growth within the ASEAN region. Through collaborative efforts, Cambodia aims to significantly contribute to regional development and prosperity.

## I. Introduction

In Cambodia, there is a growing recognition of the importance of increasing collaboration among ASEAN parliaments to promote connectivity and foster inclusive growth within the region. As a member of ASEAN, Cambodia acknowledges the significant role that enhanced cooperation among parliamentary bodies can play in advancing shared goals and driving socio-economic development.

In recent years, Cambodia has been actively embracing digital innovation, particularly in the financial sector, to promote connectivity and financial inclusion. The country has seen a flourishing fintech industry, with mobile wallet and payment providers taking the lead in providing accessible financial services to individuals and businesses across the nation[1].

To further leverage digital banking initiatives for inclusive growth, Cambodia recognizes the importance of collaborating with other ASEAN member states. By working together on policies and regulations that facilitate the expansion of digital banking services, Cambodia aims to ensure that all citizens have access to the benefits of financial inclusion and economic empowerment[2].

Moreover, Cambodia sees increased collaboration among ASEAN parliaments as an opportunity to share best practices and lessons learned in promoting connectivity and inclusive growth. By exchanging ideas and experiences with other member states, Cambodia can accelerate its efforts to achieve common goals and address shared challenges[3].

In addition to promoting connectivity within the financial sector, Cambodia is also committed to collaborating with other ASEAN nations on broader issues such as infrastructure development, trade facilitation, and human capital development. By working together across these various domains, Cambodia believes that ASEAN can create a more integrated and prosperous region that benefits all its citizens[2].

Cambodia is actively working to increase collaboration among ASEAN parliaments to promote connectivity and inclusive growth within the region. By joining forces with other member states, Cambodia is committed to harnessing the power of digital innovation to build a more connected, inclusive, and prosperous future for all.

This secondary research focuses on the efforts to increase collaboration among ASEAN parliaments to promote connectivity and inclusive growth. Below are some potential research questions:

1. What are the key initiatives undertaken by Cambodia's parliament to promote connectivity and inclusive growth within the ASEAN region?
2. What is the current status of digital banking and fintech adoption in Cambodia, and how does it contribute to connectivity and financial inclusion?
3. What policies and regulations has Cambodia implemented to facilitate the expansion of digital banking services and foster collaboration among ASEAN parliaments?
4. What are the challenges and opportunities faced by Cambodia in increasing collaboration with other ASEAN member states to promote connectivity and inclusive growth?
5. How does Cambodia's experience in promoting connectivity and inclusive growth through digital innovation compare with other ASEAN countries?
6. What lessons can be learned from Cambodia's efforts to leverage digital banking initiatives for inclusive growth, and how can these lessons inform future policy decisions within Cambodia and across ASEAN?
7. How do Cambodian citizens and businesses perceive the impact of increased collaboration among ASEAN parliaments on connectivity and inclusive growth, and what are their recommendations for further improvement?
8. These research questions can guide secondary research to analyze Cambodia's experiences, policies, challenges, and achievements in promoting connectivity and inclusive growth within the ASEAN context.

These research questions are used to guide a desk review to analyze Cambodia's experiences, policies, challenges, and achievements in promoting connectivity and inclusive growth within the ASEAN context.

## **II. Current development of E-Banking in Cambodia**

In Cambodia, the recent rapid growth in the banking sector is a testament to the conducive environment created by government policies that encourage investment and foster macroeconomic stability[4]. This growth not only benefits the local economy but also opens doors to new regional and international

opportunities. Digital Banking serves as a crucial tool in bridging the gap by providing seamless banking services across borders, contributing to ASEAN connectivity.

To further enhance this connectivity and ensure inclusive growth, it could be helpful for the Central Bank of Cambodia to collaborate closely with the Ministry of Finance [5]. This collaboration is pivotal in launching initiatives that align with monetary policy and currency control, laying a strong foundation for sustainable development.

The Asian Development Bank (ADB) has recognized Cambodia's potential, with a significant investment portfolio totaling \$2.4 billion[6]. The average annual lending of around \$350 million from 2016 to 2022 reflects ADB's commitment to supporting Cambodia's growth trajectory. Look ahead, the development of a new country partnership strategy for Cambodia from 2024 to 2028 underscores the importance of long-term collaboration and strategic planning.

Moreover, Cambodia's vision for the future aligns with ASEAN's broader goals of economic advancement and inclusivity. The Royal Government's ambition to transition into an upper-middle-income country by 2030 and a high-income country by 2050 emphasizes the commitment to inclusive growth. This vision includes a digital transformation agenda aimed at harnessing technological advancements while minimizing social and economic disparities [7]. By embracing this vision and fostering collaboration within ASEAN, Cambodia is poised to not only achieve its development goals but also contribute significantly to regional connectivity and inclusive growth

### **III. Policy Experience**

In the dynamic landscape of digital financial services (DFS) across the ASEAN region, Cambodia stands out for its proactive policies aimed at promoting digital transactions and e-banking development. While each ASEAN member state has implemented interventions for digital financial literacy (DFL), there is a growing recognition among them that the deepening of DFS and the associated risks demand a coordinated commitment to advance digital financial literacy in the region [3].

Cambodia has aligned its efforts with the broader trends within the ASEAN region. According to findings from the network, digital payments, including transfers and cross-border remittances, emerge as the most commonly utilized DFS products across the region. This underscores the significance of Cambodia's emphasis on fostering a robust digital transaction ecosystem[3].

Cambodia's policies prioritize the expansion of e-banking infrastructure and the adoption of digital payment solutions to facilitate seamless transactions both domestically and across borders. By leveraging technological innovations and strategic partnerships, Cambodia aims to enhance financial inclusion and promote economic growth through digital means.

Furthermore, Cambodia actively engages with regional initiatives to harmonize regulatory frameworks and promote interoperability among financial service providers. This collaborative approach not only fosters trust and confidence in digital transactions but also lays the groundwork for sustainable growth and resilience in the face of evolving challenges.

As Cambodia continues to champion digital financial literacy and e-banking development within the ASEAN region, it remains committed to fostering an inclusive and digitally-enabled economy that empowers individuals and businesses alike.

This text underscores Cambodia's proactive stance in promoting digital transactions and e-banking development within the ASEAN context, emphasizing its alignment with regional trends and collaborative efforts for advancing digital financial literacy and inclusivity.

#### IV. Challenges

The main challenges can be highlighted as follows:

1. **Adapting to Blockchain Technology:** Blockchain technology presents both challenges and opportunities for banks. This implies that banks need to overhaul their operations, business models, and strategies to effectively integrate blockchain into their processes[9].
2. **Access to Financial Services for MSMEs:** There are significant challenges faced by Micro, Small, and Medium Enterprises (MSMEs) in accessing financial services. These challenges are critical considering the importance of financial services for MSMEs in managing liquidity and expanding their businesses[5].
3. **Lack of Collateral for Small Businesses:** Small businesses, particularly Micro Enterprises (MEs), often face challenges in securing lending due to a lack of collateral. This poses a barrier to accessing traditional financing options[11].
4. **FinTech as a Solution:** FinTech presents a potential solution to the financing needs of small businesses by leveraging technology to assess creditworthiness based on digital data points rather than traditional collateral. However, the adoption of FinTech solutions may also pose its own set of challenges, such as regulatory compliance and cybersecurity[1].

These challenges underscore the evolving nature of the banking industry, particularly in the context of technological advancements and the changing needs of small businesses. Addressing these challenges requires innovative approaches and collaboration between traditional financial institutions and emerging FinTech companies.

#### V. Policy Option for Cambodia

There are several feasible approaches to address the challenges highlighted earlier as follows,

1. **Promotion of Digital Banking:**
  - o The government's initiative to promote digital banking as a new way forward in the banking industry aligns with the need to adapt to technological advancements. By encouraging greater adoption of digital banking, Cambodia can address some of the challenges faced by MSMEs and small businesses in accessing financial services[9].
  - o However, it's important to ensure that the promotion of digital banking is implemented in a conclusive and cohesive manner to achieve widespread adoption and maximize its impact.
2. **Role of Parliament in Security Sector Governance (SSG):**

- Parliament can play a crucial role in assuring an effective and accountable security sector, as highlighted by Pou Sothirak and Paul Chambers. By forming informal blocks and championing initiatives to enhance security sector governance, parliamentarians can contribute to stability and confidence in the country.
  - This approach requires active engagement from parliamentarians through activities such as hosting public seminars and publishing accessible literature to educate the public about security sector governance issues.
- 3. Accelerating Financial Inclusion through Digital Finance:**
- To address the structural issues impeding financial inclusion, action is needed from regulators, public policymaking institutions, and supply-side participants.
  - Digital finance presents an opportunity to overcome some of the challenges associated with traditional banking models, particularly in reaching underserved segments of the population.
  - Regulators and policymakers play a critical role in creating a favorable environment for innovation in digital finance by managing supply-side entry barriers, enabling suitable solution design and delivery, and fostering a shared vision for financial inclusion[11].

Overall, these policy options provide a comprehensive approach to address the challenges in the banking sector, including the adoption of digital banking, enhancing security sector governance, and accelerating financial inclusion through digital finance initiatives. Implementation of these policies requires collaboration among government agencies, regulatory bodies, and other stakeholders to ensure effectiveness and sustainability.

## **VI. ASEAN Digital Connectivity Initiative**

Recognizing the importance of digital connectivity in fostering economic growth and inclusivity across the ASEAN region, Cambodia proposes the ASEAN Digital Connectivity Initiative. This initiative aims to enhance digital infrastructure, promote digital literacy, and foster cross-border digital collaboration among ASEAN member states. Key Components:

1. Digital Infrastructure Development:
  - ASEAN member states will collaborate to improve digital infrastructure, including broadband networks, data centers, and digital communication systems. This will involve investments in physical infrastructure and regulatory frameworks to ensure seamless connectivity across borders.
  - Special focus will be given to underserved areas and rural communities to bridge the digital divide and ensure inclusive access to digital services.
2. Promoting Digital Literacy and Skills Development:
  - The initiative will prioritize programs to enhance digital literacy and skills development among ASEAN populations, particularly in rural and marginalized communities.
  - Capacity-building initiatives, such as training programs, workshops, and educational campaigns, will be implemented to equip individuals with the necessary skills to participate in the digital economy.
3. Facilitating Cross-Border Digital Collaboration:

- ASEAN member states will facilitate cross-border digital collaboration by harmonizing regulatory frameworks, promoting interoperability, and fostering partnerships between governments, businesses, and civil society organizations.
  - Initiatives such as digital trade agreements, mutual recognition of digital signatures, and cross-border data flow mechanisms will be explored to facilitate seamless digital transactions and cooperation.
4. Supporting Digital Innovation and Entrepreneurship:
- The initiative will support digital innovation and entrepreneurship by providing funding, mentorship, and regulatory support to startups and SMEs in the digital sector.
  - Incubation programs, innovation hubs, and entrepreneurship networks will be established to nurture a vibrant digital ecosystem across ASEAN.

**Benefits:**

- Enhanced digital connectivity will facilitate trade, investment, and collaboration among ASEAN member states, leading to economic growth and prosperity.
- Improved digital literacy and skills development will empower individuals and communities to fully participate in the digital economy, reducing disparities and promoting inclusivity.
- Cross-border digital collaboration will foster innovation, knowledge sharing, and cultural exchange, strengthening ASEAN's position as a global digital hub.

**Implementation:**

- The ASEAN Digital Connectivity Initiative will be implemented through collaborative efforts among ASEAN member states, with support from regional organizations, development partners, and the private sector.
- A coordinated action plan will be developed, outlining specific targets, timelines, and responsibilities for each component of the initiative.
- Regular monitoring and evaluation mechanisms will be established to track progress and ensure the effective implementation of the initiative.

Overall, the ASEAN Digital Connectivity Initiative represents a proactive approach to leveraging digital technology to support connectivity and inclusive growth across the ASEAN region, aligning with Cambodia's vision for a digitally-enabled economy and a more prosperous ASEAN community.

**VII. Conclusion**

Cambodia is actively engaged in promoting connectivity and inclusive growth within the ASEAN region, particularly through initiatives related to digital banking, financial inclusion, and collaborative efforts among ASEAN parliaments. The conclusion drawn from this highlights several key points:

1. Cambodia acknowledges the importance of collaboration among ASEAN member states, recognizing it as essential for achieving shared goals and driving socio-economic development. This commitment is evident in Cambodia's efforts to work with other nations on policies, regulations, and initiatives aimed at promoting connectivity and inclusive growth.



2. Cambodia has embraced digital innovation, particularly in the financial sector, to promote connectivity and financial inclusion. The flourishing fintech industry, along with initiatives to expand digital banking services, underscores Cambodia's commitment to leveraging technology for inclusive growth.
3. Cambodia's policies prioritize the expansion of e-banking infrastructure, digital payment solutions, and financial literacy initiatives to facilitate seamless transactions and enhance economic growth. Moreover, Cambodia actively engages with regional initiatives to harmonize regulatory frameworks and promote interoperability among financial service providers.
4. The text highlights various challenges faced by Cambodia, including adapting to blockchain technology, improving access to financial services for MSMEs, and addressing the lack of collateral for small businesses. To tackle these challenges, Cambodia is exploring policy options such as promoting digital banking, enhancing security sector governance, and accelerating financial inclusion through digital finance initiatives.
5. Cambodia proposes the ASEAN Digital Connectivity Initiative, aimed at enhancing digital infrastructure, promoting digital literacy, facilitating cross-border digital collaboration, and supporting digital innovation and entrepreneurship across ASEAN member states. This initiative aligns with Cambodia's vision for a digitally-enabled economy and a more prosperous ASEAN community.

Cambodia's proactive stance, commitment to collaboration, embrace of digital innovation, policy priorities, efforts to address challenges, and proposed initiatives all underscore its dedication to promoting connectivity and inclusive growth within the ASEAN region. Through collaborative efforts and strategic initiatives, Cambodia aims to contribute significantly to regional development and prosperity.

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