



## WORK PROGRAMME ON ELECTRONIC COMMERCE

### E-COMMERCE READINESS DEVELOPMENT AND CHALLENGES: THE CASE OF CAMBODIA

#### *Communication from Cambodia*

The following communication, dated 11 July 2023, is being circulated at the request of the delegation of Cambodia.

1.1. Despite the global uptick in digital activities in recent years, fuelled by the COVID-19 pandemic, the potential of e-commerce to contribute to the Sustainable Development Goals (SDGs) in least developed countries (LDCs) remains largely untapped.

- Based on data from the World Bank's Global Findex database, the picture varies for the 18 LDCs covered. By far the largest increase in the share of adults who shopped online using a mobile phone or the internet between 2017 and 2021 was observed in Myanmar, where it surged from 3 per cent to 20 per cent. Other countries with significant increases include Senegal, Liberia, Uganda and Lao PDR. For most of the countries, increases were limited, and, in some cases, the share even declined (South Sudan, Togo and Zambia). While the percentage of people (aged 15+) shopping online increased overall and across all country groups since 2017, LDCs recorded the smallest increase, meaning that gaps between other countries and the LDCs in effect have widened. And while more than 80 per cent of Internet users in Europe shop online, in many LDCs, that share is often below 10 per cent.<sup>1</sup>
- In the trade area, although global ICT goods trade has grown significantly during the pandemic, LDCs as a group saw their exports and imports of such goods fall sharply. Similarly, the increase of the share of digitally deliverable services in total services exports was smaller in LDCs than in more advanced economies.<sup>2</sup>
- In addition, LDCs in general struggle to harness data and data flows for their development objectives.

1.2. In other words, LDCs in general have fallen further behind in the digital economy during the pandemic, raising the risk of widening inequalities. As global trade is becoming increasingly digital, building the digital readiness of LDCs has become even more important for LDCs to be able to double their share in world trade – as stipulated in SDG target 17.11.

1.3. **There is an urgent need to assist LDCs in strengthening their readiness to engage in and benefit from digital trade.** Findings from UNCTAD's eTrade Readiness Assessments'

<sup>1</sup> <https://unctad.org/webflyer/digital-economy-report-2021>

<sup>2</sup> UNCTAD (2021). Impacts of the COVID-19 Pandemic on trade in the digital economy. UNCTAD Technical Notes on ICT for Development No. 19. [https://unctad.org/system/files/official-document/tn\\_unctad\\_ict4d19\\_en.pdf](https://unctad.org/system/files/official-document/tn_unctad_ict4d19_en.pdf)

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Implementation Reviews<sup>3</sup> highlight major achievements and efforts undertaken by LDCs, as well as the multifaceted challenges lying ahead for LDCs to be able to engage in and benefit from e-commerce.

1.4. There are encouraging developments in the area of **e-commerce readiness and strategy formulation**. Spurred by the COVID-19 pandemic, there is an expansion of e-government services. A growing number of countries are working towards adopting (e.g., Kenya, Tuvalu, Uganda, Zambia), or have already adopted (e.g., Bangladesh, Benin, Bhutan, Cambodia, Myanmar, Nepal, Samoa, Senegal, Solomon Islands, Togo, Tonga, Vanuatu), policies and strategies specific to e-commerce.

1.5. However, the majority of LDCs do not yet have a full-fledged policy or strategy dedicated to e-commerce, and even when a strategy is in place, the gender dimension is rather weak, if not absent. Furthermore, various countries have indicated that they have e-commerce committees or working groups to oversee and coordinate developments of the sector. But the main challenge often resides in weak institutional arrangements in place to accelerate the implementation process of e-commerce enabling reforms. Leadership conflicts and unclear responsibilities on how to drive the e-commerce sector development agenda hinder inter-agency cooperation. Understandably, this is often worsened by staff turnover and changes at the political level. Similar challenges arise in building connections with the private sector and civil society. The awareness of e-commerce among policy and law makers, consumers, and businesses should be strengthened. Another persistent gap in LDCs is the systematic measurement and development of statistics regarding e-commerce and the digital economy. As a result, e-commerce is not yet sufficiently mainstreamed in national development agendas and barriers for women and youth to engage in e-commerce is preventing the leveling of playing fields through increased inclusion.

1.6. E-commerce development is constrained by the lack of affordable and available **ICT infrastructure and services**. A broad range of public and private initiatives are supporting the effort towards greater coverage, as well as more reliable and affordable access to the Internet and ICT. According to reviews by UNCTAD, nearly all countries are undertaking ICT infrastructure development projects, from improved fiber optic networks, expanded telecommunication tower networks to submarine connections. Countries are complementing their ICT infrastructure development by strengthening their electrical grids, shifting towards renewables and developing new sources of electricity. In Malawi, the second phase of the National Fiber Backbone Project was launched in 2021 and it will extend the existing fiber optic network by 3,000 km. Since early 2020, three of the major islands and multiple provinces in Solomon Islands have been connected to the submarine Coral Sea Cable System that connects the country to Australia. In line with the five-year ICT strategic plan 2019-2023, the Solomon Islands Government awarded contracts to private enterprise to expand its 4G network. This includes the construction of 161 towers with the aim to have half of the towers constructed before November 2023. According to the International Telecommunication Union, in 2022 an estimated 407 million people in LDCs were using the Internet, corresponding to 36 per cent of the population, compared to 66 per cent globally.<sup>4</sup> The urban/rural digital divide is globally shrinking but it still remains significant in LDCs and the gap in the quality of service is relevant. For example, average mobile broadband speed is about three times higher in developed countries than in the LDCs. And even where connectivity exists thanks to the expansion of network coverage and service options of mobile Internet are expanding, affordability is an area of concern. It is typically offered with a relatively low bandwidth and with a relatively high price tag. While more countries are moving towards the Broadband Commission for Sustainable Development's target of entry-level broadband access at prices below two per cent of monthly per capita income, the lowest income groups in a country can still be priced out of affordable service.

1.7. E-commerce strongly relies on extensive last-mile logistics and improved trade facilitation measures. Relatively few new initiatives in the area of **trade facilitation and logistics** were observed in UNCTAD's latest review, in part driven by limitations due to COVID-19 restrictions.

1.8. The lack of physical addressing systems remains a major bottleneck, with only limited progress recorded in LDCs. Some countries have made some efforts to expand the network of pick-up centers, in Malawi and Senegal, and to promote the digital transition of the national postal operators (Togo

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<sup>3</sup> <https://unctad.org/publication/fast-tracking-implementation-etrade-readiness-assessments> and <https://unctad.org/publication/fast-tracking-implementation-etrade-readiness-assessments-second-edition>. A third edition is currently ongoing.

<sup>4</sup> See e.g., [https://www.itu.int/hub/publication/d-ind-ict\\_mdd-2023/](https://www.itu.int/hub/publication/d-ind-ict_mdd-2023/)

and Zambia). However, facilities for convenient physical delivery of online purchase, e.g., pick-up centers and warehouses, are still very limited and doorstep delivery remains a costly option to be organized and not always feasible. Most of the reviewed are working on reforms to facilitate cross-border trade, such as improving or introducing single window procedures and trade portals, but the reality is that e-commerce remains mainly domestic and cross-border e-commerce in LDCs is very marginal.

1.9. Despite some scattered initiatives to improve the **legal and regulatory framework**, it is often limited in scope and trust in digital transactions remains an outstanding issue in LDCs. According to the latest update of the UNCTAD Cyberlaw Tracker 2022,<sup>5</sup> despite an increase from the previous update, LDCs are still lagging behind in terms of adoption of e-commerce laws. Cybercrime has attracted greater attention and 70 per cent of LDCs have a law in this field, followed by law on electronic transactions (63 per cent), privacy and data protection (48 per cent) and consumer protection (41 per cent).

1.10. In the area of **payment solutions**, nearly all countries reviewed by UNCTAD are working on improving their financial inclusion and have seen new e-payment options made available. This trend has been reinforced by COVID-19 measures to encourage contactless solutions. The National Bank of Cambodia (NBC) developed BAKONG as backbone for payment system to address the issue of interconnectivity, interoperability, attain efficiency and convenience in payment systems, promote financial inclusion and ease the use of cash payment in local currency (KHR). In addition, the NBC introduced KHQR code in 2022 and Cambodian Shared Switch (CSS) in 2023, to enhance the usage of E-payments in the country. Zambia's e-government services now integrates mobile money payments options as a means of payment. Thereby mobile money payment options become more established in the interactions of citizens with the Government and payments become more traceable. Measures to strengthen the security and trust of online transactions are a high priority, and in some countries fintech and banks are increasing working on safer technologies and stricter operational security standards. The banking sectors in Malawi and Bhutan are upgrading to ISO 20022 and ISO 27001 standards, respectively, for improved payment messaging and more secure client data. However, with regard to interoperability of e-payment solutions, some initiatives to facilitate cross-border digital payments are ongoing, but more work remains to be done because this is an area where only a few actions have been taken. Broadly speaking, the bias towards cash-based transactions hampers the development of e-commerce in LDCs. On this point, initiatives like the "Cashless Bangladesh, Smart Bangladesh" launched in January 2023 are worth being highlighted, as they promote the usage of mobile banking applications, digital financial services, and ultimately, the implementation of a compatible Bangla QR Code system among 1,200 small-scale merchants.

1.11. One persistent challenge faced by the reviewed countries has to do with **productive digital skills development**. Particularly in LDCs, most people access the Internet via mobile phones and often stay confined to the use of social media. Learning how to use a word processor or spreadsheet on a small screen is not ideal. Computers are not widely available, with just an average of eight per cent of households having one, comprising Bhutan and Senegal with the highest shares (respectively 21 and 15 per cent) and countries like Malawi and Uganda with only four per cent. Among the countries reviewed, Cambodia, Madagascar, Solomon Islands, Togo and Zambia have reported efforts to undertake skills gaps' reviews to advance their digital endeavors. Efforts to revise compulsory education curricula thoroughly to introduce ICT training starting in primary school are underway in several countries, most notably in Bhutan and Uganda. Furthermore, in a growing number of countries, private-sector initiatives are taking off and initiatives in support of start-ups and innovative digital ideas are being strengthened. The adoption of the Startup Act in Senegal in early 2020 (second African country after Tunisia) has served as a model for innovation-friendly policies in other African countries. Consistently incorporating capacity-building initiatives for women entrepreneurs remains an issue that countries must strengthen further.

1.12. **Access to financing** remains a challenge since traditional funding options, such as banks, have not yet taken this shift in business model fully onboard yet. As a result, financial mechanisms for start-up enterprises are largely unsuitable to support engagement and growth of e-commerce businesses. The Pacific Islands Forum grant (funded by the Republic of Korea) launched in 2022 aims to provide small capital support to boost e-commerce activities of Pacific MSMEs specifically in their e-commerce operations.

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<sup>5</sup> <https://unctad.org/news/least-developed-countries-still-lag-behind-cyberlaw-reforms>

1.13. Current trends towards widening inequalities in the digital realm must be reversed. UNCTAD's eTrade Readiness Assessments provide timely and relevant reviews of the state-of-play of the e-commerce enabling environment and provide specific recommendations on how to address weaknesses through concrete actions. Support for the implementation of the recommendations contained in the assessments is also provided through an Implementation Support Mechanism (ISM).

1.14. **Cambodia, among other LDCs, is committed to reverse these trends and has taken significant steps towards creating an enabling environment for e-commerce, but more support is needed from the international community to assist LDCs overcome evolving challenges and barriers.** Cambodia has acted upon the recommendations contained in the 2017 eTrade Readiness Assessment to support the efforts of businesses and consumers to thrive in the digital economy. UNCTAD's Implementation Reviews in 2019 and 2021 confirmed Cambodia as the top-performer, with an implementation rate of 92 per cent of all recommendations, followed by Bhutan, Senegal and Togo (all standing at 81 per cent). In Cambodia, the Ministry of Commerce recognizes the catalytic role played by the eTrade Readiness Assessment for several government initiatives in support of the e-commerce ecosystem.

1.15. One recommendation prioritized by the Royal Government of Cambodia was to develop a **National E-commerce Strategy** launched in 2020. Furthermore, the impetus for reforms in this area has culminated in passing several laws aimed at regulating e-commerce activities and strengthening consumer protection, complying as well with commitments made under the ASEAN Agreement on Electronic Commerce and the RCEP Electronic Commerce Chapter. In 2022, the Gross Merchandise Value reached USD 1.01 billion and E-payment transactions were worth USD 102 billion in 2021 (about 4 times Cambodia's GDP). The growing importance of digital adoption has also prompted the Government to develop a Digital Economy and Society Policy Framework 2021-2035, which sets out a long-term vision to build a vibrant digital economy and society.

1.16. The country has also made strides in digital payments, as can be noticed NBC developed BAKONG to embrace blockchain technology in modernizing its national payment system. The Ministry of Commerce-led "**CambodiaTrade.com**" online marketplace launched in 2022 particularly welcomes small businesses, women-owned businesses, and businesses in provincial areas to participate in the digital economy. It is a stepping stone for small businesses to move from offline to online, and for some of them to start selling goods across borders. Despite the impressive results, assistance is needed to ensure MSMEs are able to mobilize financial resources to grow their business, and for some of them to move into the formal sector. Moving more businesses to not only be online but also sell goods and services online and across borders, and for marketplaces to becoming sourcing platforms for Made-in-Cambodia products are but examples or where further assistance is needed.

1.17. Despite these achievements, coping with digitalization remains particularly difficult. The scale of challenges still outpaces the capacity of most LDC governments to address them. The speed at which technologies are evolving adds complexities to policymaking called to determine the most appropriate policy responses. This is where support from the international community becomes crucial. Donor countries need to increase the resources to help developing countries, particularly LDCs, meet increasing financing needs at a time when fiscal space is shrinking and debt burdens are growing, making the mobilization of domestic resources even more difficult. Current financial support from the international community is far from enough, as shown in recent Aid for Trade commitments. UNCTAD calculations, based on OECD data, show that the share of Aid for Trade resources allocated to the ICT sector increased from 1.2 per cent in 2017 to 2.7 per cent in 2019 and 2020. In 2021, however, the share increased to 4.1 per cent, corresponding in absolute terms to a rise by USD 300 million since the previous year.

1.18. **Strengthening international cooperation in the digital realm is necessary, and ongoing work under the umbrella of the World Trade Organization must support efforts towards increasing technical and financial resources to avoid LDCs trailing behind in making digitalization work for development.** The WTO provides a platform for broad participation and representation of diverse interests. This inclusivity is essential for ensuring that the rules and agreements governing digital trade reflect the needs and perspectives of both developed and developing countries with a view to establishing an inclusive framework for digital trade. As countries gradually and unevenly emerge from the pandemic, a return to business as usual is no longer an option. Work, education, and communications are likely to be more dependent on digital technologies than before. This accentuates the need for public policies that can reduce fragmentation and the emergence of uneven blocks, maximize opportunities and address challenges

and concerns related to digitalization. This includes policies and regulations that ensure that the digital economy works for the benefit of people and the planet. In this context, there will be a need for more rather than less coordination and collaboration geared towards strengthening the capacities of LDCs and creating a level-playing field.

1.19. Efforts in this area do not need to start from scratch. For example, the UNCTAD-led eTrade for all partnership is a growing global initiative of 35 partners. It seeks to connect the dots among organizations, donors and beneficiaries to foster more inclusive e-commerce development. By reaching beyond sector-by-sector silos and taking a comprehensive approach to various policy challenges that countries are facing when they develop their e-commerce ecosystems, the initiative seeks to facilitate more inclusive development outcomes. No single organization can address all the challenges that LDCs face with regard to digital transformation. Joining hands and leveraging strategic partnerships can make a great difference.

1.20. There are many examples of countries that have benefited from support provided by eTrade for all partners. At this stage, a first step could be to ensure that all LDCs, who so want, are given the opportunity to receive assistance in the form of a diagnostic of their e-commerce ecosystems and sustained support for implementation of the identified recommendations in coordination with development partners. In the framework of the WTO Work Programme on E-Commerce, capacity-building sessions drawing on the expertise of relevant partners and the solutions they offer would be welcome.

1.21. It will take time to develop and implement solutions addressing all the barriers that LDC governments face to engage in and benefit from e-commerce and the digital economy. Nevertheless, this will be essential if we are serious about creating more inclusive trade and value creation in the digital economy.

1.22. With less than seven years remaining on the 2030 timeline to achieve the SDGs, the international community must step up its efforts to accelerate progress towards the SDGs and dramatically scale up its assistance to the most vulnerable countries to enable them to recover the ground lost to the adverse socio-economic impacts of the COVID-19 pandemic and other crises. Development organizations and bilateral donors need to discuss and agree on how best to maximize their contributions and scale-up the level of resources to assist LDCs' efforts toward building inclusive and sustainable digital transformation agendas.

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