

United Nations Economic and Social Commission for Asia and the Pacific

Macroeconomic Policy and Financing for Development Division

Project report

# G2P and International Digital Remittances During COVID-19

## Early Lessons from Cambodia



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## About this report

This report was commissioned by the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP) in the context a technical cooperation project on Supporting the Digital Adaptation of MSMEs During and After the COVID-19 Pandemic in Cambodia and Lao PDR. The report was prepared by consultant Nitin Madan under the direction of Alberto Isgut from ESCAP.

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## Abbreviations

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering/Countering the Financing of Terrorism
API	Application Programming Interface
ARDB	Agriculture and Rural Development Bank
CDD	Customer Due Diligence
CTF	Counter Terror Financing
DFS	Digital Financial Services
EAP	East Asia and Pacific
EGI	E-government Index
FSP	Financial Service Provider(s)
GDP	Gross Domestic Product
GNI p.c.	Gross National Income Per Capita
GSMA	Global System for Mobile Communication
G2B	Government to Business
G2P	Government to People
HCI	Human Capital Index
ID	Identity
IDPoor	Identification of Poor Households
ILO	International Labour Organisation
IOM	International Organization for Migration
IMF	International Monetary Fund
KYC	Know-Your-Customer
LDCs	Least Developed Countries
MAS	Monetary Authority of Singapore
MoLVT	Ministry of Labour and Vocational Training
MoP	Ministry of Planning
MOSAVY	Ministry of Social Affairs, Veterans and Youth Rehabilitation
MSME	Micro, Small and Medium Enterprises
NBC	National Bank of Cambodia
NIS	National Institute of Statistics
OSI	Online Service Index
OTC	Over-the-Counter
PMT	Proxy Means Testing
PSP	Payment Service Provider
P2P	Person to Person
RGC	Royal Government of Cambodia
SDD	Simplified Due Diligence
TII	Technology Infrastructure Index
TRC	Telecommunication Regulator of Cambodia
UN	United Nations
UNCDF	United Nations Capital Development Fund

## Executive Summary

Digital payments and transfers are considered a foundation for any digital economy. In Cambodia, the growth trajectory of cashless transactions has been largely mobilized by people-to-people (P2P) financial flows, which have vastly increased in the past half-decade following enabling regulations, rapid technological developments, and the steady expansion of a robust mobile money agent network.

During the COVID-19 pandemic of 2020, Cambodia rapidly scaled-up government-to-people (G2P) transfers in the form of digital social protection cash transfers. This effort — which was possible largely due to the mobile and agent infrastructure already in place and the government's intent and capacity to support financially deprived populations — has revealed critical early lessons for the further development of the digital payments and transfers ecosystem in Cambodia. These lessons relate to the lack of digital IDs and interlinked databases as well as a robust grievance redressal mechanism.

The pandemic has also put the spotlight on channels for international digital remittances, which function as a critical lifeline for millions of Cambodian households. Remittance inflows to Cambodia have been on the rise over the past decade — with the average migrant worker dispatching between 200 and 250 USD per month to families previously living at the subsistence level, according to the International Organization for Migration (IOM) — while the related cost of sending money has been decreasing. Recent initiatives by the National Bank of Cambodia, the regulatory authority, and financial institutions further support the expansion and volume of international digital remittance channels, which are expected to further drive down transaction fees for users.

# **G2P and International Digital Remittances During COVID-19 Early Lessons from Cambodia**

**Nitin Madan<sup>1</sup>**  
**December 2020**

## **Introduction**

Globally, there is an increasing trend towards the adoption of digital technologies across all sectors of a country's economy, fuelling growth and spurring innovation. The expansion of what is often referred to as the *digital* economy is critical to sustain growth at the national level and enable businesses to stay competitive in an age of robust e-commerce and social media marketing. Digital economies are built on five foundations: connectivity, digital skills, payments, logistics, and cross-cutting policies and regulation (World Bank, 2019).

Since the early 1990s, Cambodia has been making steady strides to develop the groundwork for a digital transformation in order to stimulate productivity and tap into new sources of growth. The government's efforts have increasingly gathered pace over the past decade. A range of policy measures, including the Rectangular Strategy for Growth, Employment, Equity and Efficiency, the ICT Masterplan of 2020, the Telecommunications and ICT Development Policy, the Industrial Development Policy, National Bank of Cambodia's provisions for the management of payment service providers, as well as the 2019 laws on electronic commerce and consumer protection, have helped to create an enabling ecosystem for digitisation. So far the results have been wide-ranging and favourable, including the high rate of mobile phone adoption (which is above average both regionally and globally with 124.9 mobile phones per 100 people<sup>2</sup> and 10.7 million phones with internet connectivity<sup>3</sup>) and an increasing trend towards entrepreneurship, particularly among youths under the age of 30, who comprise nearly two-thirds of the population, or some 14.8 million people.

There is an emerging consensus that the future drivers of Cambodia's economy will include the digital economy.<sup>4</sup> The country has established a basic digital infrastructure and has created an enabling environment via policy changes, though much work remains to be done in order to firmly put in place the five foundations of a digital economy, namely the establishment of cybersecurity and data protection as a means to facilitate digital payments and consumer trust in the use of online financial services.

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<sup>1</sup> This paper was prepared by Nitin Madan ([madannitin78@gmail.com](mailto:madannitin78@gmail.com)). The author would like to thank Alberto Isgut for useful comments, suggestions, and edits on previous versions of this paper. The author would also like to thank and acknowledge UNDP Cambodia, Wing (Cambodia) and ILO Cambodia for sharing their data and experience related to this paper. See Annex 1 for a complete list of those interviewed.

<sup>2</sup> World Bank (2018), Benefitting from the Digital Economy: Cambodia Policy Note (<https://openknowledge.worldbank.org/bitstream/handle/10986/30926/128267-REVISED-Digital-Economy-web.pdf?sequence=1&isAllowed=y>)

<sup>3</sup> Startup Kingdom (2019), Cambodia's Tech Startup Ecosystem in 2018, (<https://responsiblefinanceforum.org/wp-content/uploads/2019/11/Cambodias-Vibrant-Tech-Startup-Ecosystem-2019.pdf>)

<sup>4</sup> Beschorner et al. (2018), Willem te Velde et al. (2020) and World Bank (2019)



Digital payments are both a cornerstone and a core enabler of a digital economy. The digital financial services (DFS) industry can function as a driver for increasing financial inclusion in a country.<sup>5</sup> The development of digital payment systems also has a positive impact on international digital remittances, which play an important role in poverty reduction.<sup>6</sup> In the case of Cambodia, where remittances from migrant workers overseas amounted to some 1.6 billion USD in 2019, or nearly 6 per cent of total GDP in the same year<sup>7</sup>, launching technologies to facilitate e-payments would reap widespread benefits for users and banks.

Digital payments, especially Government to People (G2P) payments, have assumed even greater significance during the COVID-19 pandemic, by enabling many countries to provide cash transfer support to citizens during lockdowns, facilitating compliance with physical distancing requirements. Cambodia, too, has relied heavily on G2P to carry out cash transfers and has made considerable efforts in a short time span to scale-up the system in terms of outreach. This has strengthened the G2P base, and the Royal Government of Cambodia (RGC) will likely capitalize on this to expand its use of digital channels for social transfer programs in the future.<sup>8</sup>

This paper reviews the digital payments and digital international remittances landscape in Cambodia and the impact that COVID-19 has had on e-transfers. It finds that policy frameworks, mobile infrastructure, and mobile money agents have helped the RGC scale-up G2P transfers during the pandemic, but the expansion process has also revealed some critical ecosystem gaps, such as digital identity and grievance redressal, which require attention. The paper suggests that there is a need for more primary research on the country's G2P scale-up experience, covering a wider range of stakeholders, to identify remaining gaps in the digital payments and international remittances ecosystem.

## 1 Digital payments and international digital remittances in Cambodia

The Global System for Mobile Communications Association (GSMA) reports that in 2019 there were over 1 billion registered mobile money accounts globally, with nearly 2 billion USD processed daily, roughly amounting to 690 billion USD in total transaction value annually — representing a 20 per cent increase since 2018 (Naghavi, 2020). The total value in circulation, 22 billion USD as of December 2019, has more than doubled since 2017. In 2019, the value of mobile money-enabled international remittances was estimated at 7.3 billion USD, compared to 5.5 billion in 2018. The International Monetary Fund (IMF) estimated that the number of global users of international digital remittance increased from 5 million in 2017 to 7 million in 2019 (Agur et al., 2020). These numbers are indicative of a strong trend towards the digitisation of financial services across the globe.

Digital payments offer multiple benefits to various stakeholders, including governments, recipients, and service providers. The more cross-cutting benefits include lower costs, increased financial inclusion, and increased women's economic empowerment and

<sup>5</sup> Better than Cash Alliance (<https://www.betterthancash.org/tools-research/reports/ten-reasons-to-be-optimistic-that-full-financial-inclusion-is-possible-through-digital-payments>); CGAP (<https://www.cgap.org/blog/digital-pathway-financial-inclusion>); and World Bank (2019)

<sup>6</sup> Better Than Cash Alliance (<https://www.betterthancash.org/why-digital-payments>) and related study ([https://btca-prod.s3.amazonaws.com/documents/180/english\\_attachments/The\\_Opportunities\\_of\\_Digitizing\\_Payments.pdf?1461956013](https://btca-prod.s3.amazonaws.com/documents/180/english_attachments/The_Opportunities_of_Digitizing_Payments.pdf?1461956013))

<sup>7</sup> Global Knowledge Partnership on Migration and Development (KNOMAD) 2020

<sup>8</sup> Based on interviews with the International Labour Organization (ILO), United Nations Development Program and Wing Cambodia Specialised Bank Ltd



participation (Klapper & Singer, 2014). There is evidence that shifting government payments to digital platforms has resulted in substantial fiscal savings. For example, in 2018, the Government of India estimated channelling social cash transfer through digital payments resulted in efficiency increases and fiscal savings of over \$12.7 billion (Pazarbasioglu et al., 2020).

There is evidence suggesting that digital payments are a starting point for the introduction of other digital financial services (DFS), and an entry point into the formal financial system for the unbanked (Klapper & Singer, 2014; Madan, 2020; Ratna Sahay et al., 2020). Several Least Developed Countries (LDC) have initiated their DFS journey with digital payments, on the foundation of basic and rapidly developing mobile connectivity and mobile money agents. IMF (2020) data reveals that digital financial inclusion tends to be higher when the “traditional banking sector is inefficient” or even basic.

## 1.1 The development trajectory of digital payments and remittances: G2P or P2P?

Some research has suggested that governments’ use of digital channels for transfers and other government-to-people (G2P) payments can spur the development of digital payments in a country, for instance by creating the need to set up a regulatory framework.<sup>9</sup> The resulting enabling environment would then create “a foundation upon which the private sector and person-to-person (P2P) payments, such as international and domestic remittances, can be built.”(Klapper & Singer, 2014). A recent World Bank assessment on DFS notes that while G2P is “seen as the primary means to promote financial inclusion”, Person to Government (P2G) transfers can also play a critical role in increasing DFS (Pazarbasioglu et al., 2020). However, the development trajectory of digital payments and remittances in many African countries shows that P2P payments and transfers have come first and paved the way for the development of digital payments (Gelb & Mukherjee, 2020). In Cambodia too, Global Findex data and feedback from digital payment and remittance providers also suggest a similar trend.<sup>10</sup>

## 1.2 P2P leads the trajectory in Cambodia

The 2018 Global Findex dataset reveals that G2P coverage is very low in Cambodia (Demirgüç-Kunt et al., 2018). As shown in Figure 1, P2P domestic remittances through an OTC service are leading the digital payments and transfers landscape, while the use of mobile phones to access accounts is low.<sup>11</sup> Data from the World Bank indicates that in 2016, less than 1 per cent of people in Cambodia accessed banking through either the internet or their mobile phones. In large part this can be attributed to the high percentage of unbanked population (78 per cent), although the paucity of e-transfers in the Cambodian context as a remittance recipient country also suggests that the use of agents is a critical enabler of the

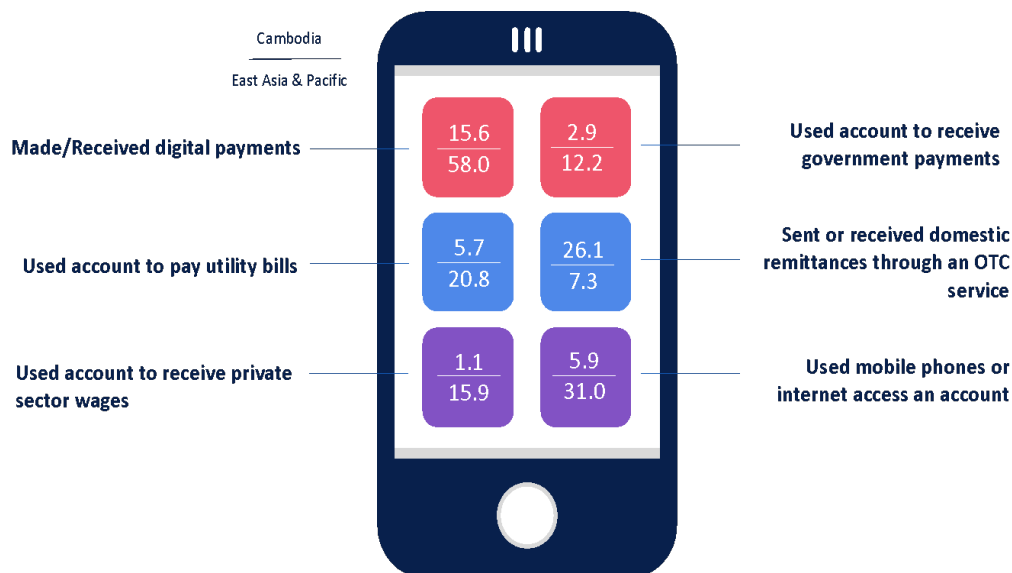
<sup>9</sup> India offers an interesting case study on how this is made possible – from the government laying the foundation to using digital payments for bulk payments. See the MicroSave Consulting blog titled *India’s enabling triangle for financial inclusion* (<http://blog.microsave.net/2018/09/26/indias-enabling-triangle-for-financial-inclusion/>)

<sup>10</sup> Interview with Wing (Cambodia) Limited Specialised Bank (“Wing”)

<sup>11</sup> OTC is defined as “a transaction that the agent conducts on behalf of a sender/recipient or both from either the sender’s or agent’s mobile money account.”. Detailed explanation can be found at [https://www.itu.int/en/ITU/focusgroups/dfs/Documents/12\\_2016/ITUFGDFS\\_REPORT%20ON%20OTC%2011-2016.pdf](https://www.itu.int/en/ITU/focusgroups/dfs/Documents/12_2016/ITUFGDFS_REPORT%20ON%20OTC%2011-2016.pdf)

digital payments and transfers ecosystem in Cambodia, a point that is further elaborated below.

**Figure 1: Digital payments and related indicators transfers, Cambodia and East Asia and the Pacific**



Source: Author compilation, adapted from Demirgüç-Kunt et al. (2018)

Note: All figures are percentages of the population age 15 or above

A shift towards a digital economy includes moving public services online, for which the government needs to scale up the use of G2P and G2B transfers. The United Nations (UN) E-Government Index (EGI) reveals that Cambodia's progress towards shifting public services online has been slow and mixed over the years (United Nations, 2020). Table 1 presents the country's EGI which shows that since 2014, Cambodia's rank dropped between 2014 and 2016 and then began improving, including a significant jump in 2020. The jump in rank and score between 2018 and 2020 is explained largely by improvements in the Telecommunication Infrastructure Index (TII) and the Online Service Index (OSI). The 2020 EGI report attributes this to improved telecommunication infrastructure and substantial mobile penetration rates in the case of the TII. In the OSI, the improvement is due to the increased engagement of citizens at multiple government levels via social media and websites (United Nations DESA, 2020). The RGC is examining ways to increase online services while decentralizing service delivery to sub-national levels (Nov, 2020). Compared to the TII and the OSI, Cambodia's Human Capital Index (HCI) rating has been the more stable and higher scoring component since 2014. However, the country's expenditure on education, which is positively correlated with the uptake of e-government services, is considered low (United Nations DESA, 2020).<sup>12</sup>

<sup>12</sup> The expenditure on education as a percentage of total government expenditure was 8.8 per cent in 2018. UN DESA considers less than 10 per cent to be low.

(<https://data.worldbank.org/indicator/SE.XPD.TOTL.GB.ZS?locations=KH>)

**Table 1: Cambodia's rank and scores in the UN's E-Government Index (EGI)**

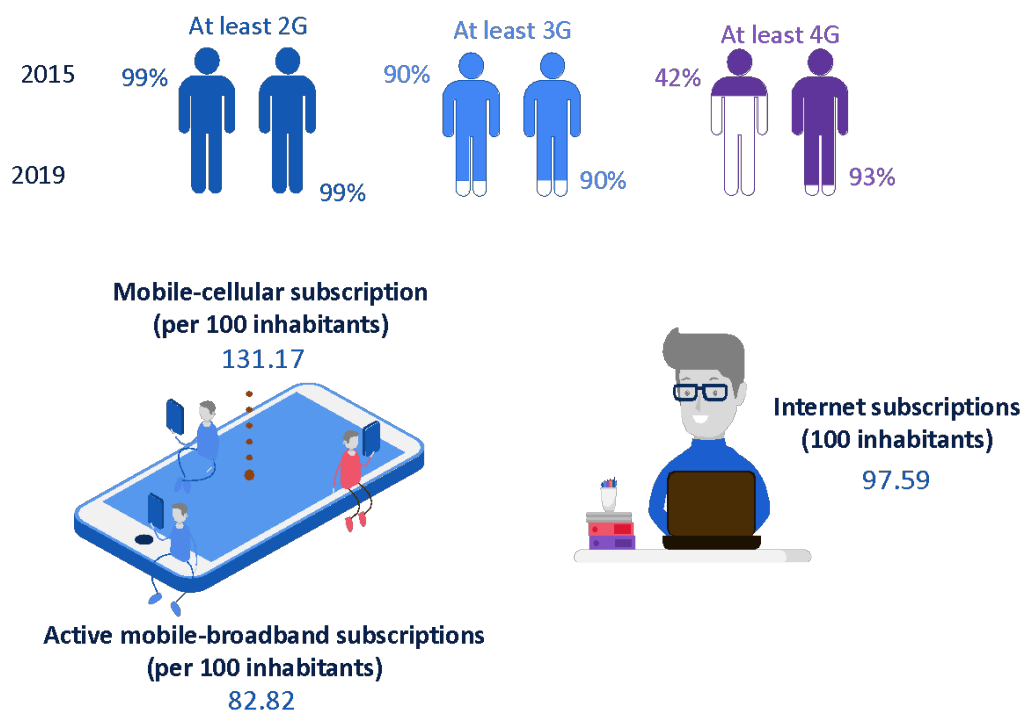
	EGI Rank	EGI Score	Telecommunication Infrastructure Index (TII)	Human Capital Index (HCI)	Online Service Index (OSI)
<b>2014</b>	139	0.2999	0.2074	0.5189	0.1732
<b>2016</b>	158	0.2593	0.2486	0.4785	0.0507
<b>2018</b>	145	0.3753	0.3132	0.5626	0.2500
<b>2020</b>	124	0.5113	0.5466	0.5344	0.4529

Source: Author compilation, adapted from (United Nations, 2020)

Note: 2020 rank is out of 193 countries

### 1.3 Using technology and regulation to create an enabling environment

The improvements in the TII component of the EGI can be explained by the high rates of mobile connectivity and adoption in Cambodia (Figure 2). Mobile network coverage is substantial with nearly the entire country covered by 3G and 4G services. Mobile subscription rates are well over 100 per cent. The penetration rates of internet subscriptions (mobile and fixed) and active mobile broadband subscribers have also increased substantially over the past years and cover nearly all the population.

**Figure 2: Internet and mobile connectivity indicators**

Source: Author compilation, adapted from GSMA Mobile Money Index (<https://www.mobileconnectivityindex.com/>), TRC (<https://www.trc.gov.kh/mobile-phone-subscribers/>), UN DESA (E-Government Survey 2020)

Note: All figures are percentages of the population age 15 or above

Internet use varies by age group. For example, nearly 85 per cent of individuals between 15 and 24 years are using the internet. But this drops to 40 per cent for those between 25 and 74 years and is under 10 per cent for those below 15 years (Willem te Velde et al., 2020). On mobile phone ownership, 91 per cent of all households owned a cell phone in 2016 (National Institute of Statistics, 2018), up from 44 per cent in 2009. The increase is attributed almost entirely to an expansion of use in rural areas.<sup>13</sup>

Mobile data and fixed broadband costs have reduced since 2013 in Cambodia. ITU data shows that mobile data costs have reduced from 4.94 USD in 2013 to 2 USD in 2019 (Table 2). While fixed broadband costs increased marginally from 11.85 USD to 12 USD during the same period, in terms of Gross National Income (GNI) per capita, there was a reduction from 14.95 per cent to 10.43 per cent. Table 2 shows that mobile data costs are far lower in Cambodia compared to the regional average, although fixed broadband is costlier in Cambodia as a percentage of the per capita GNI.

**Table 2: Mobile data and fixed broadband affordability**

2013   2019			
Data-only mobile broadband basket 1.5 GB		Cambodia	Asia Pacific
US\$	4.94   2.00	23.02   9.88	
% Gross National Income (Per Capita)	6.17   1.74	7.92   2.36	
Fixed broadband basket 5GB			
US\$	11.85   12.00	26.48   21.55	
% Gross National Income (Per Capita)	14.97   10.43	9.41   5.1	

Source: Author compilation, adapted from International Telecommunication Union (b) (2020)

Notes: Mobile broadband basket - 2013 data refer to a mobile-broadband basket, post-paid computer-based with a monthly data allowance of 1 GB. 2019 data refer to a revised data-only mobile broadband basket with a monthly data allowance of 1.5 GB. Fixed broadband basket - 2013 data refer to a fixed-broadband basket with a monthly data usage of (a minimum of) 1 GB. 2019 data refer to a revised fixed-broadband basket with a monthly data usage of (a minimum of) 5 GB.

From a policy and regulatory perspective, over the past decade the RGC has made a substantial effort to put in place a range of payment systems instruments, such as the national clearing system, the shared switch, and a payments service providers (PSP) regulation. The PSP regulation allows for money transfer (including cross border), cash-in/cash-out, bill payments, retail payments, and online payments.

<sup>13</sup> 2016 Cell phone ownership (per cent): Cambodia: 91; Phnom Penh: 97; Other Urban: 95; Other rural: 89. The data does not reveal whether this is ownership of a smart phone or a feature phone.

The digital payments and remittances ecosystem, however, is characterised by restricted interoperability, which is based on individual agreements between Financial Service Providers (FSP). While the country's Fast and Secure Transfer (FAST) system allows real-time settlements, its use is still dependent on the FSP to provide its customers with the necessary interface to access the system. Most FSPs are unwilling to or financially unable to invest in the development of such an interface (National Bank of Cambodia, 2020).<sup>14</sup>

A recent development is the NBC-supported Bakong Project.<sup>15</sup> Bakong is a mobile application using blockchain in the backend that enables FSPs with existing mobile applications to integrate their backends via an open application programming interface (API). Such a system is expected to eliminate the need for FSPs to develop their digital customer interface, thus lowering costs, facilitating interoperability, allowing for digital transfers across FSPs in Cambodia and internationally, and increasing security. NBC expects that this project will further financial inclusion in Cambodia (National Bank of Cambodia, 2020).

## 1.4 Mobile money agents are critical enablers in Cambodia

While technology and policy have created an enabling environment, or one that is highly conducive to digital financial flows, mobile money agents play a key role in the adoption of digital payments and transfers in Cambodia. The IMF's Financial Access Survey (International Monetary Fund, 2020) shows that the value of mobile money transactions in Cambodia was 131.3 per cent of the country's GDP in 2019, compared to 75.4 per cent of GDP in 2017. As of December 2019, 22 licensed companies were offering dedicated payment services in the country.<sup>16</sup> Nearly 28,000 Payment Service Provider (PSP) agents were authorized to issue e-wallets, and conduct cash-in and cash-out transactions in Cambodia.<sup>17</sup> The number of e-wallets in 2019 increased 64 per cent from 2018, reaching 5.22 million (General Directorate of Banking Supervision, 2020; Kunmakara, 2020). Data from the National Bank of Cambodia reveal that 32 per cent of digital transfers in 2018 were via PSP agents, compared to nearly 60 per cent via bank and non-bank financial institutions (General Directorate of Banking Supervision, 2019; National Bank of Cambodia, 2019).<sup>18</sup>

Despite mobile physical infrastructure being in place and data costs coming down, feedback from Wing, one of the largest dedicated payment service providers, confirms that Cambodia's digital payment and transfers market is largely driven by agents and not self-driven transactions, as shown in Figure 1 above. Wing noted that this is a common feature of markets or countries where bank penetration is low. Most transactions via its agents are P2P domestic money transfers. There are several reasons for the growth of the agent model, and these are elaborated in the Notes from the Field 1 below.

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<sup>14</sup> Especially the smaller microfinance institutions

<sup>15</sup> <https://bakong.nbc.org.kh/>

<sup>16</sup> 21 companies were licensed as PSPs and one as a Specialised Bank (WING Cambodia). This data excludes mobile money and wallets that are provided by Microfinance Deposit Taking Institution (MDI) and banks. The numbers, therefore, are likely to be higher than what is estimated here.

<sup>17</sup> WING Cambodia and TrueMoney Cambodia account for over 50 per cent with 8,000+ and 10,000+ agents respectively.

<sup>18</sup> Many of the banks and non-bank financial institutions in the country (e.g. AMK, Ly Hour) also have dedicated agents in urban and rural areas. Therefore, the use of agents in the country for digital transfers is likely to be higher than just 32 per cent.

## Notes from the field 1: Using agents for digital payments and remittances

Established in 2008, Wing today has more than 8,000 agents and 40,000 merchant points spread across all communes in Cambodia. Nearly 80 per cent of the agents are women. They mainly offer domestic and international digital remittances, as well as utility and bill payment services covering P2P, P2B, and P2G transfers. In 2019, 130 million transactions were conducted by Wing agents and merchant points. Wing has nearly 2.5 million registered users and another 5 million non-registered service users. Slightly more than half of the transactions are domestic money transfers. Between 30 per cent and 35 per cent are bill payments. Roughly 300,000 customers used Wing to make utility payments in 2019.

Wing's assessment shows that in countries where bank penetration is high, and banks have e-banking and mobile wallets developed, the reliance on agents is low, and self-made transactions are high. In markets with low bank penetration, banks have been slow to invest in the development of mobile wallets. The agent model has developed rapidly as an alternative, and there are enough use cases in Cambodia of agent-driven digital payments and remittances.<sup>19</sup> The use cases encourage others to follow as trust and confidence are key to the uptake of any digital payment system.

Client profiles, particularly the age of the client, is also a factor that drives the use of particular channels. Cambodia's median age is 25 years, while the average Wing user's age is 30 years old. There is a higher penetration of smartphones amongst lower-age groups. The older-age groups use agents as they are more comfortable with human touchpoints.

A third factor in the uptake of digital payments and remittances through agents is the convenience of conducting multiple transactions in one visit to an agent. For example, when a customer goes to an agent to either cash in or cash out, they also conduct other digital transactions like utility payments.

*Source:* Author compilation from the interview with Wing

### 1.5 International digital remittances to Cambodia are likely to increase

International remittances to Cambodia have been on the rise since 2010, and as mentioned earlier, they reached 1.52 billion USD in 2019, equivalent to 5.6 per cent of the GDP.<sup>20</sup> However, the average cost of sending and receiving funds is relatively high. According to Ratha et al. (2020), the average cost of sending 200 USD from Thailand to Cambodia dropped from 13.4 per cent in Q4 2018 to 11.8 per cent in Q4 2019, compared to an average of slightly above 7 per cent for the East Asia and Pacific region.

With regards to the channels for sending remittances, there seems to have been a shift in recent years towards the use of banks. A 2017 ILO and IOM study (Harkins et al., 2017) on South-East Asian migration outcomes found that 44 per cent of Cambodian migrants to Thailand used money transfer organisations to send money back home, compared to only 4 per cent of workers who used banks. Both channels are more likely to be used by regular migrant workers; whereas irregular migrants are more likely to hand carry and use brokers to remit money back home. The study suggested that the low bank account ownership of

<sup>19</sup> Use cases refers to people using mobile money agents to make OTC payments and conduct transfers.

<sup>20</sup> <https://data.worldbank.org/indicator/BX.TRF.PWKR.DT.GD.ZS?locations=KH> and <https://data.worldbank.org/indicator/BX.TRF.PWKR.CD.DT?locations=KH> (accessed: 27 November 2020).



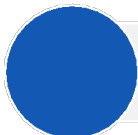


Cambodian migrants in Thailand, estimated at 18 per cent, may explain the low use of bank channels.

However, a 2019 study by the International Organization for Migration (IOM) noted that bank transfers became “the most common means of sending remittances to Cambodia, with roughly half of the migrants (...) sending money this way.”<sup>21</sup> Although the disparities in the share of remittances channelled through banks in the two studies could be due to random sample variation, another possible explanation could be the result of a 2011 sub-decree of the RGC that mandated private recruitment agencies to facilitate the opening of a bank account for migrants that they send abroad<sup>22</sup> and increased efforts by the Thai government to register migrants since 2017.

International digital remittances routes have a lower fee structure. World Bank (2020) data on international remittance prices (Table 3) show that international remittances between Thailand and Cambodia via a money transfer operator's (e.g. Western Union) website is the most cost-effective (2.14 per cent), and is below the 3-per cent globally accepted target. Use of a money transfer operator's agent is comparatively more expensive; however, the cost has dropped from 2016 to slightly less than 4 per cent in 2020. The impact on the cost of international remittances of the future use of the Bakong platform and QR codes for cross-country transfers will need to be assessed.

**Table 3: Cost of remitting money to Cambodia from Thailand**

		2016		2020			
		Branch		 Internet		 Agents	
	BANKS	17.33	18.96	Not Available	16.69	Not Available	Not Available
	MONEY TRANSFER OPERATORS	Not Available	Not Available	Not Available	2.14	7.04	3.82



Cambodia with international financial institutions to use NBC's Bakong platform for such remittances.<sup>24</sup> The 2019 agreement between the central banks of Thailand and Cambodia on use of QR codes is expected to promote speed and use of local currency for transfers, enabling cost reductions (Bank of Thailand, 2020).

## 2. The impact of COVID-19 on digital payments and International digital remittances

The COVID-19 pandemic has resulted in a new dynamic with the imposition of lockdowns and physical distancing rules that have negatively impacted employment and businesses across the world, particularly low-income households and micro, small and medium-sized enterprises (MSMEs). On the upside, the pandemic has spurred digital payments, and facilitated the growth of e-finance, particularly G2P transfers. Globally, 51 per cent of all social assistance measures during the pandemic were cash transfers (Davidovic et al., 2020). Countries have been able to capitalise on high penetration of mobile phones and e-wallets as well as agent access points — all of which allow for physical distancing and avoidance of long-distance travel, while not requiring ownership of a bank account for cash transfers.<sup>25</sup>

### 2.1 COVID-19 has given G2P a boost in Cambodia

The number of COVID-19 cases in Cambodia has remained in control with no large-scale community spread witnessed.<sup>26</sup> Despite this, Cambodia has not been immune to the negative impact the pandemic has had on economies globally. In response, the RGC used digital payments extensively, particularly through mobile money agents, to provide G2P cash transfer assistance. The first COVID-19 related cash transfer program was initiated in May 2020 to cover lost wages for garment factory workers and tourism sector employees who became unemployed as a result of factory closures and reduced tourist inflows.<sup>27</sup> This program was initiated and is managed by the Ministry of Labour and Vocational Training (MoLVT). In June 2020, the Ministry of Social Affairs, Veterans and Youth Rehabilitation (MOSAVY) launched a cash transfer program covering a wider set of poor households in the country.<sup>28</sup> Recipient households were identified via the Identification of Poor Households (IDPoor) program.<sup>29</sup> As of December 2020, both cash transfer programs were being implemented by the respective ministries for an estimated X people. The MOSAVY program is subject to renewal every three months.

<sup>24</sup> See for example, MoU between the NBC and Maybank ([https://www.nbc.org.kh/download\\_files/news\\_and\\_events/press\\_eng/1570MOU\\_10.10.2019\\_ENG.pdf](https://www.nbc.org.kh/download_files/news_and_events/press_eng/1570MOU_10.10.2019_ENG.pdf))

<sup>25</sup> The IMF (Davidovic et al., 2020) estimated that in terms of access points, agents outstrip Banks and ATMs. Globally, there are 228 mobile money agents per 100,000 adults as compared to 11 banks and 33 ATMs.

<sup>26</sup> As of 30 November 2020.

<sup>27</sup> The transfer amount ranges from \$15 to \$40 depending on the number of days of unemployment.

<sup>28</sup> The transfer amount varies by geography. IDPoor households in rural areas receive a fixed sum of 20 USD per month plus 6 USD per family member; in the outskirts of Phnom Penh, they receive 30 USD plus 10 USD per family member; and in Phnom Penh they receive 30 USD plus 13 USD per family member.

<sup>29</sup> The IDPoor program was established in 2006 under the Ministry of Planning. The program is used to identify poor households for targeting of pro-poor initiatives. It also aimed at avoiding duplication of effort by multiple agencies that needed to identify and target poor households for assistance. Those classified as IDPoor get an Equity Card as proof. More information can be obtained at <https://www.idpoor.gov.kh/>

These G2P transfers are also likely to positively impact micro-enterprises, which are largely individually owned and managed businesses. Notes from the Field 2 below provide an overview of how the country, despite having a very low G2P base, has extensively made use of digital payments and mobile money agents to rapidly scale-up social transfers during COVID-19.

## **Notes from the field 2: Using G2P for social transfers in Cambodia during COVID-19**

Since the adoption of the National Social Protection Policy Framework (NSPPF) in 2017, the RGC has set up a social protection program in Cambodia which included cash-based transfers delivered via digital channels or G2P. At the onset of the COVID-19 pandemic, it was obvious to the RGC that there would be a tremendous negative impact on the health sector, as well as on the economy of the country. The tourism, garments, and manufacturing sectors, that employ nearly 2 million workers (or over 20 per cent of the country's workforce), were identified as being particularly vulnerable to income deprivation. The RGC's initial response was to adopt a targeted cash transfer for the hardest-hit sectors, particularly garment factories and tourism. G2P recipients were identified via submission of a list of workers laid off by garment factories to the MoLVT. Over nine months, 22 million USD was disbursed to approximately 330,000 laid-off workers. However, realizing the widespread effect on the economy, in June 2020 the RGC expanded the transfers to include all households under its IDPoor program.

The United Nations Development Program (UNDP) had been working closely with Cambodia's Ministry of Economy and Finance on economic modelling. Their model includes a social accounting matrix that is specific to Cambodia. The model was easy to adapt to the shock of the pandemic, and it provided useful information on the positive effects of social cash transfers. Prompt delivery of such social transfers required a significant scaling-up of the RGC's existing targeted G2P work. The coordination of the implementation effort of the transfers was led by Cambodia's Ministry of Planning (MoP), which coordinated the work of multiple development agencies including the UNDP, WHO, UNICEF and GIZ, Wing, MoLVT, and MOSAVY.

In the initial round (in June 2020) of G2P transfers to the nearly 530,000 households identified by the IDPoor program received a total of 23 million USD. The recipients were able to cash out the amount at any Wing agent. However, 30,000 households did not claim the benefit despite falling under the IDPoor category. The RGC identified migration and the need to update the IDPoor database as the main causes for no claims.

In July 2020, the MoP with support from the UNDP and GIZ set about updating the IDPoor database.<sup>30</sup> Since this had to be done fast, the RGC used tablets to collect data resulting in near real-time database updating. By August 2020, the list of beneficiaries identified under the ID Poor category increased to 669,000 households covering approximately 2.7 million Cambodians (16 per cent of the country's population), who started to receive a total disbursement of 30 million USD per month — nearly 45 USD per household per month. The duration of the program is not fixed though the RGC has extended it until December 2020.

*Source:* Author compilation, adapted from interviews with UNDP, ILO, Wing; Chanvirak (2020), Chheng (2020), Kunthear (2020), Prady (2020), United Nations Development Program (2020a), and Long (2020).

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<sup>30</sup> <https://www.kh.undp.org/content/cambodia/en/home/presscenter/pressreleases/2020/making-social-protection-in-cambodia-more-inclusive--effective-a.html>

## 2.2 Digital channels for international remittances are likely to be scaled up

Global international remittance flows have also diminished in the wake of Covid-19 and the rash of government policies to control its spread. The World Bank (Ratha et al., 2020) estimates that the impact of the pandemic will result in a 20 per cent decline in international remittance flows in 2020. This decline is mainly due to lockdowns and reduced or limited earnings in the sending countries, as well as migrants' concerns for health and safety risks. Nearly 70 per cent of international remittance providers report reduced transaction volumes (United Nations Capital Development Fund, 2020). International remittance flows to Cambodia have also been negatively impacted. Asian Development Bank (ADB) estimates that for Cambodia, the remittance loss under worst-case scenario conditions would be 15 per cent, or 420 million USD (Asian Development Bank et al., 2020).

However, international digital remittances are likely to gain traction with migrant populations going forward. Provider responses to a United Nations Capital Development Fund (UNCDF) survey include a major push to scale up international digital remittance channels, while improvements to agent networks were given lower priority (United Nations Capital Development Fund, 2020). In addition, new digital remittance models, including peer-to-peer models such as Transferwise, are likely to put downward pressure on cross border remittance costs and merit further examination. Given the recent efforts by the RGC and numerous financial institutions to increase formal cash transfer channels and the financial pressure exerted by the COVID-19 pandemic, it is likely that Cambodia will experience a surge in digital remittance flows.

## 3. Some emerging lessons

The successful efforts to scale up the cash transfer program through G2P digital transfers discussed in the previous section reveal the RGC capacity to implement a rapid disaster mitigation response at the national level using available resources. The effort has also helped to build a deeper understanding and more widespread buy-in from the RGC for social protection.<sup>31</sup> Although proxy means testing (PMT) has been criticized for potentially leaving out deserving beneficiaries and including households that do not need financial support, in the case of Cambodia it has allowed for the rapid deployment of support to cash-strapped households and could be a step towards building a universal social protection system in the medium to long term.

Very early into the scale-up of the G2P transfer program, it became evident to the RGC that three key enablers for an efficient G2P program – a national or citizen ID system, integrated socio-economic databases, and a digital delivery system – required significant further infrastructure investment.<sup>32</sup> Cambodia has a National Identification (ID) system in place and the second generation of IDs are biometric. While this may be considered a form of digital ID, it lacks the necessary interconnection with the country's IDPoor system, which is a proxy means testing (PMT) system that additionally requires updating. Another area that deserves attention is the establishment of a grievance redressal mechanism, which is one of the building blocks of an effective digital financial services (DFS) sector (World Bank, 2019). These issues are further discussed below.

<sup>31</sup> Interview with Nick Beresford, UNDP Cambodia Country Director.

<sup>32</sup> For a detailed explanation on the three key enablers, see Prady (2020) and Una et al. (2020).

### 3.1 Towards a digital ID framework

Digital IDs are recognised as important tools to enhance financial inclusion.<sup>33</sup> With respect to digital payments and international digital remittances, a digital ID allows for the automatization of customer due diligence (CDD) processes, commonly referred to as Electronic Know Your Customer (e-KYC) processes, leading to lowered costs to end-users (Kipkemboi et al., 2019). The Financial Action Task Force (FATF) recognises the importance of digital IDs and e-KYC for customer due diligence and to facilitate the enforcement of Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT) regulations, and it has issued a guidance for their implementation.<sup>34</sup>

In Cambodia, to open a bank account, a Simplified Due Diligence (SDD) process applies.<sup>35</sup> Stricter CDD requirements apply for wire transfers over 1,000 USD and “occasional and one-off transactions” of 10,000 USD and above (National Bank of Cambodia, 2008). However, the FATF follow-up report on Cambodia’s AML/CTF regulation and its monitoring highlighted that the CDD requirements for cross-border wire transfers are not based on the comprehensive National Risk Assessment that was undertaken in 2016 (APG, 2019). The report also highlights that there is a lack of KYC proportionality for financial inclusion products that have been identified as ‘low risk’ in the assessment.

As discussed in the Notes from the Field 2, the IMF (Prady, 2020; Una et al., 2020) has noted that universal IDs linked to socio-economic data are critical for the effective and quick delivery of G2P cash transfers.<sup>36</sup> The case of India, wherein the country credited cash transfers to the accounts of 65 million women from poor and low-income households in five days is an example of the potential of digital ID linked with socio-economic data and delivered digitally.<sup>37</sup> A digital ID also helps to remove duplication of social assistance transfers. The lack of a digital ID in Cambodia has resulted in a siloed approach to social protection with each Ministry maintaining its database of beneficiaries, which entails the risk of overlaps. For example, the beneficiaries of the cash transfer under the MoLVT for garment factory workers laid off due to factory closure may also be covered by the cash transfer program under MOSAVY for those in the IDPoor category.

Cambodia currently does not have a digital ID program in place, but the National Identification system covers roughly 89 per cent of the population (World Bank, 2019). The National Strategic Plan for Identification (2017 – 2026) lays out the plan for an Integrated Population Identification System that will allow for a digital ID system accessible to institutions.<sup>38</sup> This is still a work in progress and keeping with the strategic plan, a digital identification framework/law has been drafted and is under review. But given that there is likely to be greater reliance on digital channels for social transfers and the evolution towards a digital economy assumes priority, the RGC should consider the incorporation and implementation of a digital ID as a foundational necessity. At the same time, the RGC

<sup>33</sup> See for example World Bank (2019) and Kipkemboi et al. (2019)

<sup>34</sup> <https://www.fatf-gafi.org/media/fatf/documents/recommendations/Guidance-on-Digital-Identity.pdf>

<sup>35</sup> Basic information is collected. This include full name, type and number of ID and address

<sup>36</sup> The third element in this is the digital delivery of cash transfers

<sup>37</sup> See MicroSave's panel discussion with Government of India's Niti Aayog titled *Successful Cash Support Payments to the Most Vulnerable: Lessons from India*. Available at <https://www.youtube.com/watch?v=Diim1KSOzUw&feature=youtu.be>

<sup>38</sup> <https://getinthepicture.org/sites/default/files/resources/NSPI%20ENGLISH%20VERSION%2010-01-2017.pdf>

should prioritise the integration of all socio-economic databases and link these with the digital ID.

### 3.2 A structured grievance redressal mechanism is needed

Grievance redress is part of consumer protection. It is a critical ecosystem ingredient because it fosters trust and encourages adoption, particularly amongst those who are not accustomed to digital transactions. The emergence of DFS has also led to new business models, and that in turn has meant new types of risks, including for consumers of DFS.<sup>39</sup>

In 2019, Cambodia promulgated the Law of Consumer Protection and the Law of E-commerce, which broadly cover dispute resolution mechanisms and data privacy. The regulations that are related most directly to digital payments and international digital remittances have been set up by the Management of Payment Services Institution founded in 2017 and that of Third-Party Processors enacted earlier in 2010.<sup>40</sup> Although consumer protection issues are broadly considered in these regulations, they lack the necessary details needed for an effective consumer protection regime, particularly for DFS. For example, both sets of regulations very broadly cover the behaviour of payment and remittance agents by making PSP, or the third-party processors, responsible for defining agent behaviour making them liable for agent misconduct.

Agent conduct is a focus area in DFS. Mitigation of misappropriation of client data and fraud by agents is critical to fostering trust. In the recent Cambodian experience, agent networks have been vital to the RGC's pandemic response as cash transfers have been routed through them, but little is known about the impact of the pandemic on the agents as well as on agent-driven fraud. The latter is particularly relevant since many G2P consumers are first-time users and therefore, unaware of the process. More empirical analysis is needed relating to any additional unauthorised fees or foreign exchange margin that may be charged by agents for transfers and cash out of both G2P transfers and international digital remittances. This is an important consideration given that a mature DFS ecosystem has a well-structured agent network that includes systems for risk management and client/beneficiary education.

Feedback from interviews suggests that the RGC acknowledges that the capacity currently available at various local administration levels is inadequate to manage various types of complaints regarding the inclusion of people in the IDPoor programs and cash transfers.<sup>41</sup> However, in addition to improving government capacities, there is a need for a more systematic grievance redressal mechanism. A first step would be to collect data on grievance redressal cases (e.g., causes, actions taken). This would be feasible because most payment and transfer providers offer multiple grievance channels to users. From the demand side, it is important to consider levels of awareness of redressal mechanisms and empowerment with respect to approaching service providers for redressal.

The early lessons and subsequent ones from the COVID-19 experiences should be put into the larger DFS and digital economy ecosystem context. This includes, for example, looking

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<sup>39</sup> For example, the increasing use of PSP agents by financial institutions for collection of loan repayments and disbursements puts the issue of misappropriation of client identity in the spotlight. Some common risks include network or service downtime, insufficient agent liquidity, lack of client understanding of terms and conditions, agent fraud, data leaks and thefts, no proper grievance redressal mechanism and client knowledge of the same.

<sup>40</sup> Examples of third-party processors include agencies such as Western Union or MoneyGram.

<sup>41</sup> This feedback was gathered during the UNDP workshop with the MoP on emerging lessons and issues with regard to the pandemic related G2P transfers



at developing a grievance redressal mechanism for G2P, but framing it under a larger consumer protection effort that includes all providers and allied agencies and different types of DFS services. Such an effort can be aligned with global best practices that are engendered in the work of the Smart Campaign and the Alliance for Financial Inclusion.<sup>42</sup>

On the detailing of regulation for digital payments and remittances, the Monetary Authority of Singapore (MAS) offers an interesting example (Box 1) of the level of detail needed for protecting consumers of digital payments and remittances. This could be used by the RCG to further build on the consumer protection base they have set for digital payments and transfers.

### **Box 1: Monetary Authority of Singapore's E-payment user protection guidelines**

The MAS enacted the Payment Services Act in 2019. While the Act is broad in terms of client protection, the MAS subsequently issued details in its Guidelines for E-Payments User Protection. The Guidelines and related amendments detail the responsibilities and duties of e-payment providers and account holders. It also provides guidance on liabilities related to unauthorised and erroneous transactions.

The Guidelines are divided into five areas which are as follows:

- (a) Application of the Guidelines: Provides definitions of the various terms used as well as applicability to which types of financial institutions and individuals.
- (b) Duties of account holders and account users: This section details the respective duties of account holders and users of e-payment accounts. Of note are the duties of the holder to ensure non-disclosure of their access codes and reporting of unauthorised transactions.
- (c) Duties of the responsible financial institution: Transparency pertaining to transactions, informing account holders of the institution's and account holder duties, grievance reporting channels and claims process are the key areas covered under this section of the Guidelines.
- (d) Liability for loss arising from unauthorised transaction: This section details the liabilities for losses but provides consideration on this for account holders and financial institutions separately.
- (e) Specific duties in relation to erroneous transactions: Efforts required on part of the account holder and the financial institution to resolve erroneous transactions are detailed in this last section of the Guidelines.

*Source:* Author compilation, adapted from Monetary Authority Singapore (2019)

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<sup>42</sup> <https://www.smartcampaign.org/> - The Smart Campaign is a global initiative to develop and build buy-in on principles and implementation tools that support efforts by financial service providers and regulators to ensure 'do no harm' to users of financial services particularly low income and poor households.

For more on initiatives by the AFI, see their Consumer Empowerment and Market Conduct Working Group (<https://www.afi-global.org/working-groups/consumer-empowerment-and-market-conduct-working-group>). For DFS related issues see the following link: <https://www.afi-global.org/working-groups/digital-financial-services-working-group>

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