

Fostering an inclusive digital transformation in Cambodia

Summary Briefing July 2020

Key messages

- The Royal Government of Cambodia is developing a long-term strategic framework to support a digital economy. This centres on the following areas: digital infrastructure; digital human resources including technical, cognitive and soft skills; business ecosystems; e-government; and digital trustworthiness.
- Cambodia's digital transformation is gathering pace and can help Cambodia recover from the downturn. However, our analysis suggests there are different impacts and prospects among different groups and sectors. Managing the differential impacts of digitalisation will be crucial to maintain inclusiveness along the digital transformation path.
- Cambodia should enhance the inclusiveness of its digital transformation by: (i) radically transforming innovation in the manufacturing sector; (ii) providing skills for the future; (iii) nurturing the digital start-up economy for an inclusive economy; (iv) protecting and enabling the most vulnerable groups; v) promoting a public sector that leads by example.

Introduction

Cambodia has advanced significantly towards the digital economy. The Royal Government of Cambodia (RGC) is developing a long-term strategic framework to support it. This move towards a digital economy cannot come soon enough for Cambodia. The current corona virus outbreak, threats to withdraw trade preferences, and a ban on online gambling have laid bare the fragility of Cambodia's development success. Over the past few months, construction and gambling activities have tumbled, tourism has fallen sharply, and Cambodia's garments face \$100 million of additional duties in the EU after withdrawal of trade preferences in August 2020. Cambodia is looking for a broader base to transform and recover in an inclusive way from the coronavirus crisis.

Digital transformation is a promising area, but it does not automatically support all members of society to the same extent. Complementary measures that include skills development are critical to make digital transformation inclusive. This briefing discusses Cambodia's digital profile and policies and examples of the current and expected distributional impacts of its digital transformation; and proposes a range of policy areas to enhance a more inclusive transformation.

Cambodia's digital profile

Cambodia's digital transformation is gathering pace. Mobile phone and social media use has grown rapidly. New apps are being developed, tested and implemented. There is a budding digital start-up sector. And new sectors with new job opportunities based on digital technology are emerging.

Cambodia's digital profile is diverse. Cambodia experienced continuous growth on the World Economic Forum Networked Readiness Index between 2008 and 2016 but it remains a low-scoring country. Cambodia is the lowest-ranking country compared with its neighbours on the Global Talent Competitiveness Index 2018. While internet use has been rising rapidly (WDI data), from close to zero in 2000 to 40% of the population in 2018, it is still below that in Thailand (57%) and Vietnam (70%). Internet penetration in Cambodia is buoyant in the 15–25 age group: an impressive 85.7% of the population in this age group in Cambodia has access to the internet. It is lagging behind other Asian economies in terms of internet penetration in the below 15 age group.

There are specific gaps in the availability of digital skills in Cambodia. International Telecommunications Union data suggest that less than 30% of the population has basic digital skills such as using a spreadsheet (compared with 50% in Indonesia). Less than 3% of the population has intermediate digital skills in connecting and installing new devices and less than 1% has advanced digital skills in finding, downloading and configuring software. Only 32.4% of individuals with tertiary education are using computers and internet, as compared with 68.1% in Bangladesh, 87.8% in Indonesia, 52.6% in Pakistan and 89.7% in Thailand. Employment in agricultural occupations has decreased and that in services and clerical work has increased but there has been no marked change in professional, technical and managerial occupations.

The distributional consequences of digital transformation

Substantial digital developments are helping Cambodia advance significantly in economic and social terms. But impacts are uneven. While business and financial services have implemented more digital apps, the agriculture sector, which remains the main source of employment in the country, is catching up more slowly through blockchain or precision agriculture. The tourism sector, a major source of forex, has untapped opportunities, and, crucially, the manufacturing sector, which is a major source of female employment and foreign exchange, will be highly vulnerable unless it embraces innovation and digitalisation more fully.

There are some 50,000 tech talents working in the Cambodia's formal sector, and 300 digital start-ups, but there are more than 800,000 workers (80% of whom are women, mostly under the age of 35) in garments who may have to change jobs in the near future if further action is not taken. Our evidence gathered through firm-level case studies suggests few incentives to use more digital technologies in manufacturing firms. The evidence also brings out how payment systems significantly reduce transaction costs, benefiting urban (middle-class) consumers more than other groups. The case studies further describe how *tuk tuk* drivers can benefit from new digital technology, but those who are not part of digital platforms may lose out (if they cannot shift to other sectors). They also show that other excellent innovations help reduce transaction costs in agriculture and transport but also replace middlemen.

Cambodia's digital policies

The RGC has introduced a range of digital policy initiatives, some dating back to at least the early 2000s. These include the Rectangular Strategy Phase IV, Cambodia's ICT Masterplan 2020, the Telecom/ICT (T-ICT) Development Policy 2020, the Industrial Development Policy 2015–2025 and the e-Commerce and Consumer Protection Laws 2019, among others. The RGC is currently preparing a long-term strategy for the digital economy (for 2020–2035). There are five areas on what **RGC could do next to prepare well for the digital economy**: digital infrastructure; digital human resources including technical, cognitive and soft skills; business ecosystems; e-government; and digital trustworthiness. These areas constitute an important set of general policy areas on which there is reasonable consensus, though the details need to be discussed.

An inclusive digital transformation

Managing the differential impacts of digitalisation on sectors and groups will be crucial to maintain inclusiveness and political stability along the digital transformation path. Promoting inclusive development should be a central component of the new digital economy framework that the RGC is expected to roll out after mid-2020. Cambodia should consider **measures to foster an inclusive digital transformation**:

1. **Radically transform innovation in the manufacturing sector.** A new incentives package (offering an ecosystem that encourages digital technology) should help attract technologically more intensive investment, encourage upgrading technology in factories and promote relevant skills, for example through an enhanced Skills Development Fund and targeted technical and vocational education and training placements. It could also embrace the concept of digital small and medium enterprise clusters.
2. **Provide appropriate and good quality skills for the future.** Lack of quality skills, especially at secondary schooling levels, is well known, but new initiatives at post-secondary level are important too. Establishing and facilitating the sector skills councils (SSCs) to embrace a digital economy would be a helpful, targeted measure. The Ministry of Labour and Vocational Training needs to provide a signal that it is taking these SSCs seriously. There could also be support in promoting links between higher education institutes and the private sector, such as through placements in industry.
3. **Nurture the digital start-up economy for an inclusive economy.** The start-up economy in Cambodia is very dynamic, but a challenge lies in seeking a better link between this and how it delivers for the poorest. Several organisations already support or invest in tech start-ups. New incentives by the RGC for collective action by start-ups could redirect some efforts to develop apps with relevant applications for the poorest.
4. **Protect and enable the most vulnerable groups to take part in the digital economy.** Targeted support is required to ensure that those who lose out from new technologies can take part elsewhere in the economy. This could be rolling out digital infrastructure to those who need it most or raising digital literacy in vulnerable groupings. Promoting the formal economy is also important.
5. **Ensure a public sector that leads by example.** Digital leadership will be very important in the next few years. Managing the process towards a new framework for a digital economy in a coordinated way is essential. Institutional strengthening inside the RGC around the digital economy, and securing a lead role of the Ministry of Economy and Finance, working with others such as the recently upgraded Ministry of Industry, Science, Technology and Innovation (MISTI) is an important part of this.

References

ODI and CDRI (2020) 'Fostering an inclusive digital transformation in Cambodia'. Forthcoming SET Report. ODI

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