

# AVI COMMENTARY

Cambodia | 09 May 2023

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## Cambodia's Digital Currency: Initial Steps Towards a Central Bank Digital Currency (CBDC)

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### Introduction

The COVID-19 pandemic has triggered great changes in the financial sector in which online-based payment approaches have become a trend in society and, consequently, increased digital payment activities. In October 2020, the National Bank of Cambodia (NBC), in collaboration with SORAMITSU, the Japanese blockchain technology start-up, developed Bakong. NBC and SORAMITSU have taken benefit of Central Bank Digital Currency (CBDC) and launched the country's first quasi-CBDC project called "Bakong", which provides an efficient payment method and promotes the national currency domestically and regionally.

CBDC is driven by the progressive development of the digital economy, the demand for real-time monetary settlement, and fiscal policy. It uses Distributed Ledger Technology (DLT), a Blockchain system that provides an efficient means to control, access, store, record, update, and validate transaction data. Half a year later, the transaction made through Bakong reached approximately USD 500 million, with a record exceeding 1.4 million transactions.

To promote innovation and financial technology in Cambodia's banking and financial service sectors, Bakong and KHQR are needed. In this regard, launching Bakong and using KHQR help improve digital currency transactions, which is one of the initial steps toward CBDC development.

### What Drives Bakong?

Under the Rectangular Strategy Phase IV, the Royal Government of Cambodia (RGC) prioritises "Economic Diversifications", including 1) logistics and transportation enhancement, energy and digital communication, 2) digital economy and the Fourth Industrial Revolution, and 3) development of the financial sector. In addition, the RGC focuses on the modernisation, security, and efficiency of the banking system and services by promoting the development and utilisation of financial technology (FinTech) in Cambodia.

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Bakong was developed to align with the Rectangular Strategy Phase IV and respond to two underlying issues: interconnectivity and interoperability between financial institutions. Cash transaction, a conventional means of exchanging money, is comparatively inefficient and risky compared to digital platforms, whereas Real-Time Cross Settlement (RTGS) between banks is unavailable except for end-users. Consequently, Bakong uses DLT to provide a secure and resilient real-time digital payment that helps deal with the issues addressed, promotes financial inclusion, and improves local currency payment through an open Application Programming Interface (API).

### **Digital Currency Transaction System Using Blockchain Technology**

Bakong is Cambodia's first national real-time gross payment system that uses DLT, which operates on the Hyperledger Iroha platform. Operating Bakong on the Hyperledger Iroha platform ensures the safety of customers' data and transactions. So far, some 6.8 million transactions worth around \$2.9 billion have been made through the Bakong platform. Moreover, Bakong promotes financial inclusion and supports transactions in both Riel and US Dollars. Transactions through Bakong provide secure and real-time payment and help consumers reduce transaction costs.

Besides, NBC provides a convenient and wide acceptance channel for a payment method using QR codes to improve the usability of Bakong for all users. Users can download the application from the Appstore or Play Store and register with their preferred participating bank accounts.

In October 2020, NBC officially announced the launching of Bakong to the public. It was a success, with more than 270,000 users as of November. Bakong was then awarded the 2021 Nikkei Superior Products and Services Awards for its innovative digital payment systems technology and its potential for Cambodia's social and economic development.

Bakong provides currency transfer services from one account to another, accelerates financial inclusion, and ensures a cashless society where transactions can be done digitally and money transfer is accessible and affordable across the region. NBC has spent years on the Bakong project, starting as early as 2017, during which several technologies and applications within the payment system were explored and tested. Its purpose was to expand banking services to the provinces, elevate the use of Riel currency, and improve money settlement to provide more effective services at cost efficiency.

In addition, Bakong was also developed to help enhance the presence of Riel currency to preserve the country's identity and achieve de-dollarisation. As a result, according to the NBC 2020 Outlook report, the circulation of Riel currency increased by 33 per cent, and the Riel currency deposits in financial institutions increased by 37 per cent compared to the previous year. This has resulted from the implementation of various policies, while Bakong plays a facilitative role in Riel currency transactions.

On 4th July 2022, NBC officially introduced KHQR, a single standard QR code that initially enabled all the 37 financial institutions members of Bakong to connect to a faster, safer, and more convenient money settlement. KHQR was established in line with the National Strategy on Financial Environment 2019–2025 to contribute to financial technology promotion and innovation. Users can scan the KHQR code and make payments in Riel and Dollar currency across domestic financial institutions at no extra cost.

By November 2022, more than 70 financial institutions across Southeast Asia had offered mobile payment services and transactions via Bakong, making it reach another milestone with a value of 4.34 trillion Riel and US\$4.76 billion.

### **Conclusion**

NBC has invested time and effort to accelerate financial inclusion and strengthen the Riel currency. As a result, the RGC launched the first currency transaction system in Cambodia, using blockchain technology and the first large-scale quasi-CBDC, which provides better payment services with lower fees, more security, and better accessibility to the whole nation.

Digital currencies can help build a more secure and resilient world. Hence, Cambodia should consider promoting financial inclusion as one of its top priorities but take one step at a time as a smart move toward the fiat-backed digital currency.

*The views expressed are the author's own and do not reflect the views of the Asian Vision Institute.*