



E-Commerce in the CAREC Region: Challenges and Opportunities

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Background of E-Commerce Development in the CAREC

- CAREC presents a strong contrast in e-commerce development. China leads the world in online retail and is cited as a role model for the future of e-commerce. E-commerce in most of the other CAREC countries is underdeveloped and way below its potential.
- E-commerce development in the CAREC region is highly heterogeneous in terms of its hardware, the e-commerce infrastructure, and its soft components including regulatory, legal and institutional framework.
- Outdated regulations, varied digital infrastructure, and fragmented governance are examples of roadblocks from realizing E-commerce in the CAREC region's potential.

Country	Number of B2C Users (millions)	User Penetration (% of population)
Azerbaijan	3.3	33
PRC	901.7	62
Georgia	1.5	37
Kazakhstan	7.3	39
Kyrgyz Republic	1.7	26
Mongolia	0.9	28
Pakistan	72.3	33
Tajikistan	1.7	17
Turkmenistan	1.0	17
Uzbekistan	9.9	30
CAREC-10^a	99.6	29
All CAREC countries	1,001.3	32
World	3,470	47

- **ICT infrastructure** – reach and quality of internet infrastructure – data on servers per population, bandwidths per user, and network coverage and speeds – vary widely
- **mobile broadband subscriptions outnumbered fixed broadband significantly for internet access**
- **E-payments** – government programs to promote expansion and use of digital payments, transparency, and reduction of cash-related transactions costs
- **Preference for cash-based transactions**
- **Delivery logistics** – postal operations reliability index (close to global average); logistics performance scores in infrastructure, logistics services and timeliness could be improved

Background of E-Commerce Development in the CAREC

Table 1: UNCTAD B2C E-commerce Index, 2020

2020 Rank	Economy	Share of individuals using the internet (2019 or latest)	Share of individuals with an account (15+, 2017)	Secure internet servers (normalized, 2019)	UPU postal reliability score (2019 or latest)	2020 index value)	Index value change (2018-19 data)
47	Georgia	71	61	64	98	73.6	0.5
55	The PRC	61	80	54	85	70.1	1.3
60	Kazakhstan	87	59	63	64	68.2	-0.4
61	Mongolia	76	93	60	31	65.0	7.6
65	Azerbaijan	81	29	49	82	60.0	-1.8
97	Kyrgyzstan	80	40	47	11	44.3	8.0
107	Uzbekistan	30	37	50	30	37.0	-8.4
116	Pakistan	24	21	35	50	32.5	-1.2
121	Tajikistan	36	47	36	1	30.0	4.3
143	Afghanistan	18	15	29	7	17.1	-1.1
	Median	66	43	49	40	52	0.1
	Average	56	48	49	46	50	0.9

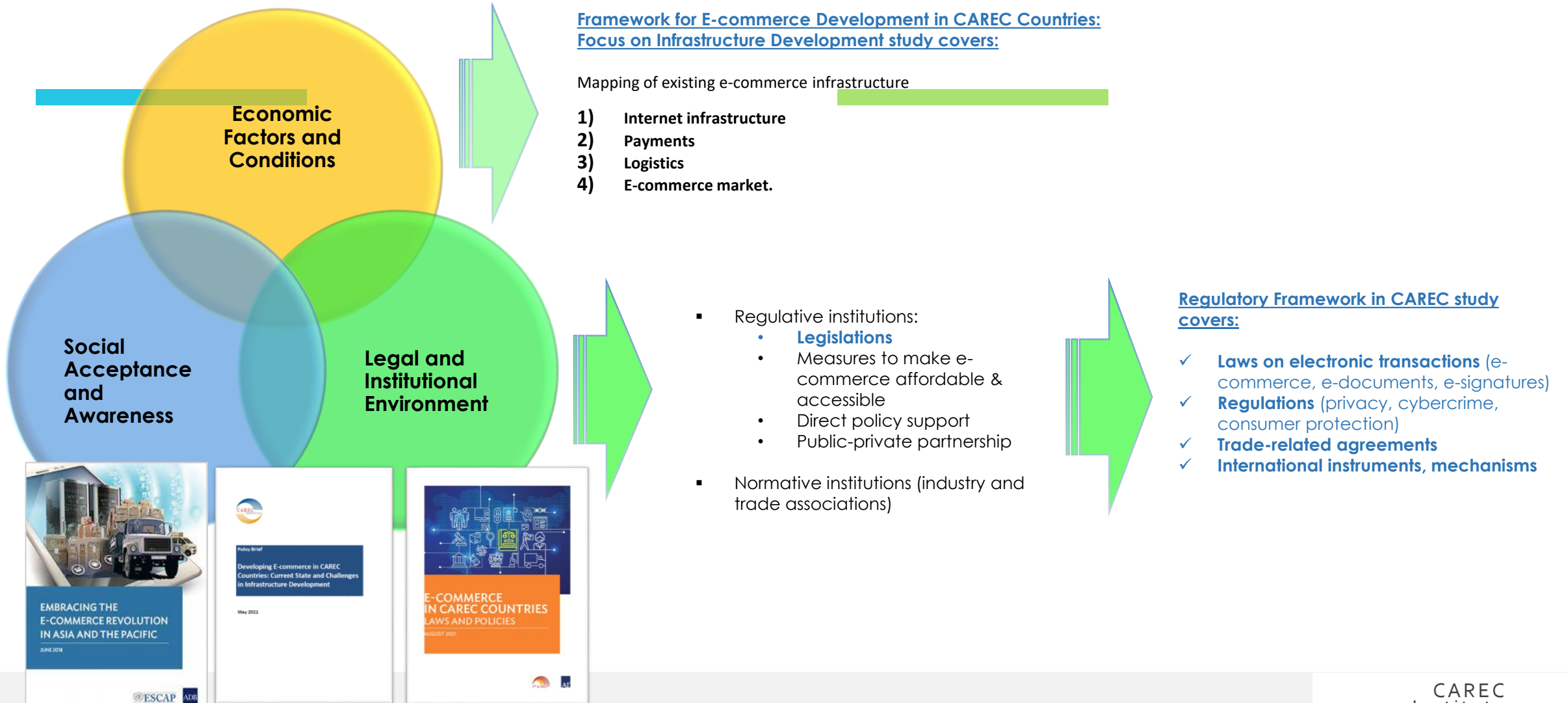
Note: No data available for Turkmenistan.

Source: UNCTAD (2021).



CAREC Institute's research projects on E-Commerce

Dimensions for e-Commerce Development and 2 phase of CI research on E-Commerce



CAREC Institute's research project on E-Commerce

CAREC Institute and ADB jointly implemented series of research project on e-commerce, namely “Regulatory Framework for E-commerce Development in CAREC Countries” in 2019 and “Framework for E-commerce Development in CAREC Countries: Focus on Infrastructure Development” 2019-2020.

- The 1st e-commerce research project examined the state of legislation and regulation of electronic commerce in the eleven member states of CAREC and recommended ways to modernize and harmonize them. [Policy brief, Regulatory Framework for e-Commerce Development in CAREC, https://www.carecinstitute.org/wp-content/uploads/2020/04/2-CI-Policy-Brief-e-Commerce-Framework-in-CAREC-25-Apr-2020.pdf](https://www.carecinstitute.org/wp-content/uploads/2020/04/2-CI-Policy-Brief-e-Commerce-Framework-in-CAREC-25-Apr-2020.pdf)
- The research has covered and reviewed the **legislative and regulatory** environment from all CAREC members relating to
 - electronic transactions,
 - electronic payments,
 - privacy and cybercrime,
 - consumer protection.

- The 2nd e-commerce research project examined the state of e-commerce infrastructure in the CAREC region.
- It examined the state of the e-commerce infrastructure viewed along their logical sequence of:
 - Accessing the internet to engage in online transactions,
 - Making and receiving payments, and
 - Delivery and logistics.
 - E-commerce market
- The different infrastructure components have also not always developed at an equal rate resulting in some countries leading in some areas and lagging in others.



Challenges and Opportunities of E-commerce Development for CAREC Region

Challenges and Opportunities of E-commerce Development for CAREC Region

1. INFRASTRUCTURE: INTERNET, *Access to the Internet is essential for e-commerce*

Last mile access

- ***There are significant differences in Internet use among CAREC countries.*** Based on the latest available survey, usage ranges from almost 90% in Kazakhstan to around 20% in Afghanistan and Pakistan. The median Internet usage in CAREC is 61% while the average is 53%. There is also a notable gender disparity in some countries.

Affordability

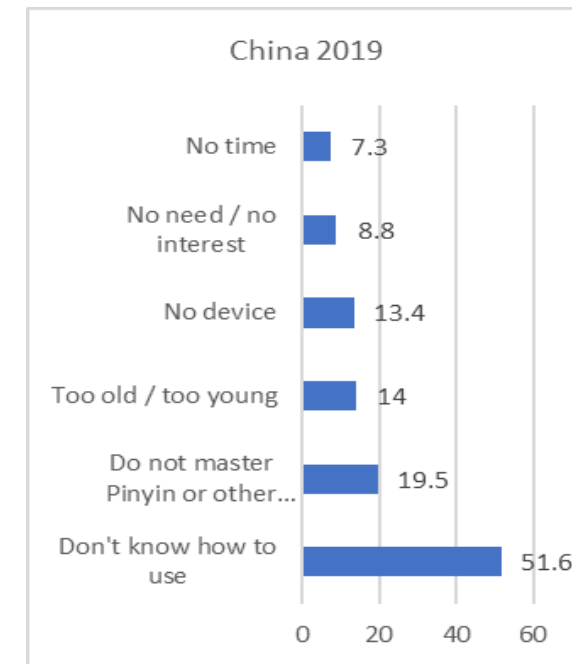
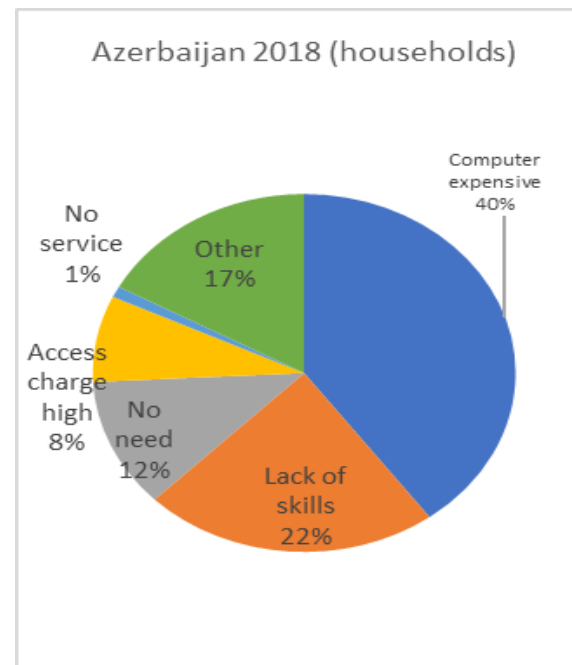
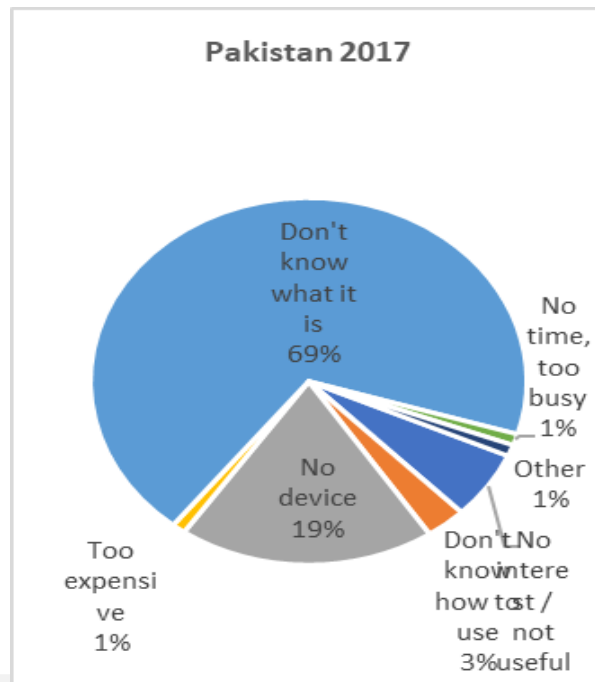
- ***Affordability is often not the major barrier to using the Internet.*** Growing evidence finds that other factors such as digital literacy are becoming more of an obstacle. In relation to e-commerce, affordability is not a major challenge since while surfing the Internet to search for prices or other details about products may use some of a user's data allowance, the actual activity of ordering a product consumes very little data. Affordability is more significant for sellers of e-commerce products with costs associated with hosting their online shop.

Challenges and Opportunities of E-commerce Development for CAREC Region

1. INFRASTRUCTURE: INTERNET, Access to the Internet is essential for e-commerce

Barriers to Internet use

- CI's research has been carried out in a few CAREC countries about why individuals or households do not use the Internet. In Pakistan, 69% of respondents indicated they did not use the Internet because they did not know what it was and over half the respondents in the PRC did not know how to use it. While 40% of households in Azerbaijan reported that they did not have Internet access because computers were too expensive, over one fifth said they lacked the skills to use the Internet.



Challenges and Opportunities of E-commerce Development for CAREC Region

1. INFRASTRUCTURE: INTERNET, Access to the Internet is essential for e-commerce

Key points

- On the supply side, most CAREC countries have an adequate level of infrastructure to support the general public in accessing the Internet and using e-commerce.
- On the demand side, digital literacy is a main barrier to Internet use in CAREC countries with affordability and coverage less pressing concerns for most of the countries.
- Another demand side constraint is that the vast majority of Internet users in CAREC countries do not shop online.
- Business use of e-commerce is relatively low in CAREC among countries that disclose that information. The percentage of companies that buy (B2B) or sell online (B2B and B2C) is relatively low, ten percent or less.
- Cybersecurity is a concern in CAREC. Most of the countries rank low on various measures of cybersecurity which can increase the likelihood of incidents and add to distrust of using e-commerce.
- International Internet bandwidth is low in a number of CAREC countries, hindered by low demand and regulations. However, it is critical to note that having abundant international internet bandwidth does not necessarily reflect best performance since it could reflect a lack of domestic data infrastructure.
- Core data infrastructure such as data centers and access to cloud computing is lacking in most CAREC countries outside PRC.
- There is a notable shortage of information about ICT use among individuals and businesses in CAREC countries.

Challenges and Opportunities of E-commerce Development for CAREC Region

2. INFRASTRUCTURE: PAYMENTS, Payments options such as e-wallets and bank transfers through QR codes also provide convenience to the user while also helping to develop digital payments in countries and can reduce costs for merchants.

Key points: Recent administrative data suggest that bank account and payment card ownership in CAREC has risen sharply since the **2017 FINDEX** household survey. Part of this increase is due to policies encouraging digital payments and the COVID-19 pandemic is further stimulating governments to move rapidly to cashless payments for safety reasons.

- Most CAREC countries have experienced strong growth in cashless payment penetration, infrastructure and volume. Mobile banking and digital wallets are increasing rapidly.
- Some CAREC countries are leading not only in the region but sometimes also the world in respect to advanced digital tools such as contactless payments, e-wallets and QR codes.
- Barriers to wider use of digital payments are due less to payment infrastructure limitations and more to institutional barriers constraining market entry of disruptive fintech companies and deployment of new payment methods.
- Consideration should be given to a regional credit card and e-wallet. Many CAREC countries have issued a national payment card. However, except for PRC's Union Pay, none are used outside the country
- The digital payments revolution in CAREC is being led by innovative banks and fintech companies who are integrating their platforms with their own online shops.

Challenges and Opportunities of E-commerce Development for CAREC Region

3. INFRASTRUCTURE: LOGISTICS, Fulfilment and delivery are critical parts of the e-commerce process

Key points:

- The majority of CAREC countries have universal postal coverage, a key enabler of e-commerce. At the same time, at least before the COVID-19 crisis, buyers want more diversity in package delivery options. Postal operators need to adapt to more diverse delivery choices, increase efficiency and digitize operations.
- Some CAREC countries aspire to be e-commerce delivery or logistics hubs. This is problematic given the state of cross border trade efficiency and except for Kazakhstan and the Kyrgyz Republic, lack of customs agreements among neighbors. Focus might be better placed on enhancing delivery and logistics within the country so that domestic online shops can scale.
- Fulfilment is inadequate in most CAREC countries. Delivery and warehousing need to be integrated and third party fulfillment providers encouraged. In PRC and Pakistan, e-commerce companies have taken the lead but in most of CAREC online shops lack scale and funding to invest in logistics.
- Despite efforts made by all CAREC countries to streamline trade through submission of electronic documents and single windows, performance in international benchmarks has not shown significant improvements. This is partly due to functionality, quality and participation differences in the implementation of paperless documents and single windows.

Challenges and Opportunities of E-commerce Development for CAREC Region

4. LEGAL AND REGULATORY ENVIRONMENT: *Electronic Transactions*

Key points:

- Some CAREC members have a single law on e-transactions, often called “law on electronic signature and electronic document.” Such a law often makes an e-document legally effective only if it has a secure form of e-signature.
- Other states have two laws, one on e-documents and one on e-signatures. They may give some scope for an e-document to stand on its own, legally, though they usually still need some form of e-signature associated with the document for it to be valid.

Challenges and Opportunities of E-commerce Development for CAREC Region

5. LEGAL AND REGULATORY ENVIRONMENT: *Privacy*



Key points:

- Most of CAREC members have some form of privacy legislation. The laws tend to reflect the main points of the international standards: personal data should be collected only with the consent the data subject and only for the purpose for which the consent was obtained.
- All CAREC members should have privacy legislation consistent with international best practices.

Challenges and Opportunities of E-commerce Development for CAREC Region

6. LEGAL AND REGULATORY ENVIRONMENT: *Cybercrime*



Key points:

- Most CAREC members have very consistent provisions on cybercrime. Those do not, should enact them.

Challenges and Opportunities of E-commerce Development for CAREC Region

6. LEGAL AND REGULATORY ENVIRONMENT: Consumer Protection

Key points:

- Many CAREC members have no consumer protection laws under that name, though provisions against fraud or misrepresentation would be relevant to consumers as well as to businesses. The laws in place in the countries that do have them are quite varied, some modern, some out of date or partial.
- CAREC members should adopt consumer protection legislation consistent with the UN and OECD models, with particular attention to the ability of the state to offer reliable enforcement of consumer rights given by the legislation.

Recommendations for E-commerce Development for CAREC Region

Infrastructure

- CAREC countries need for improving **internet infrastructure**—such as, expanding last-mile coverage; launching 5G networks; enhancing digital literacy; promoting enterprise e-commerce use; developing business-oriented infrastructure; and establishing backbone networks, internet exchange points, data centers, and cloud.
- There is a need to widen financial inclusion, enhance **payment system** capacity and speed, increase the availability and use of smartphones, and enable merchant accounts or payment procedures and consider regional payment cards to improve payment systems.
- **Logistics** require the expansion of home delivery coverage, increasing the quality of delivery networks, improving logistics services, addressing cross-border trade constraints and, as much as possible, the adoption of a uniform minimum value.
- In developing the **e-commerce market**, it is important to develop an e-commerce strategy, improve the measurement of e-commerce markets, and support the establishment of e-commerce associations and funding for startups and small business ecosystems.

Recommendations for E-commerce Development for CAREC Region

Laws and Regulation

- To facilitate implementation of recommendations, all CAREC members should collectively decide as a priority to ensure that their laws support electronic commerce, including rules on privacy, cybercrime and consumer protection, both domestically and among themselves.
- •Towards this goal, each state should take the following steps: Establish a dedicated multi-ministry task force with support at the highest levels.
 - Include private-sector representation on some version of this group.
 - Coordinate legal advice across government. Different departments or agencies must end up with consistent opinions on key matters.
 - Ensure that all parts of the government and other players have the right and capacity to communicate electronically.
 - Replicate the national work at the international level, and coordinate the both national and international levels.
 - Work closely with ESCAP technical and legal working groups, if not already doing so. This can be done even before becoming a member of the Framework Agreement.



**Thank You
for attention**