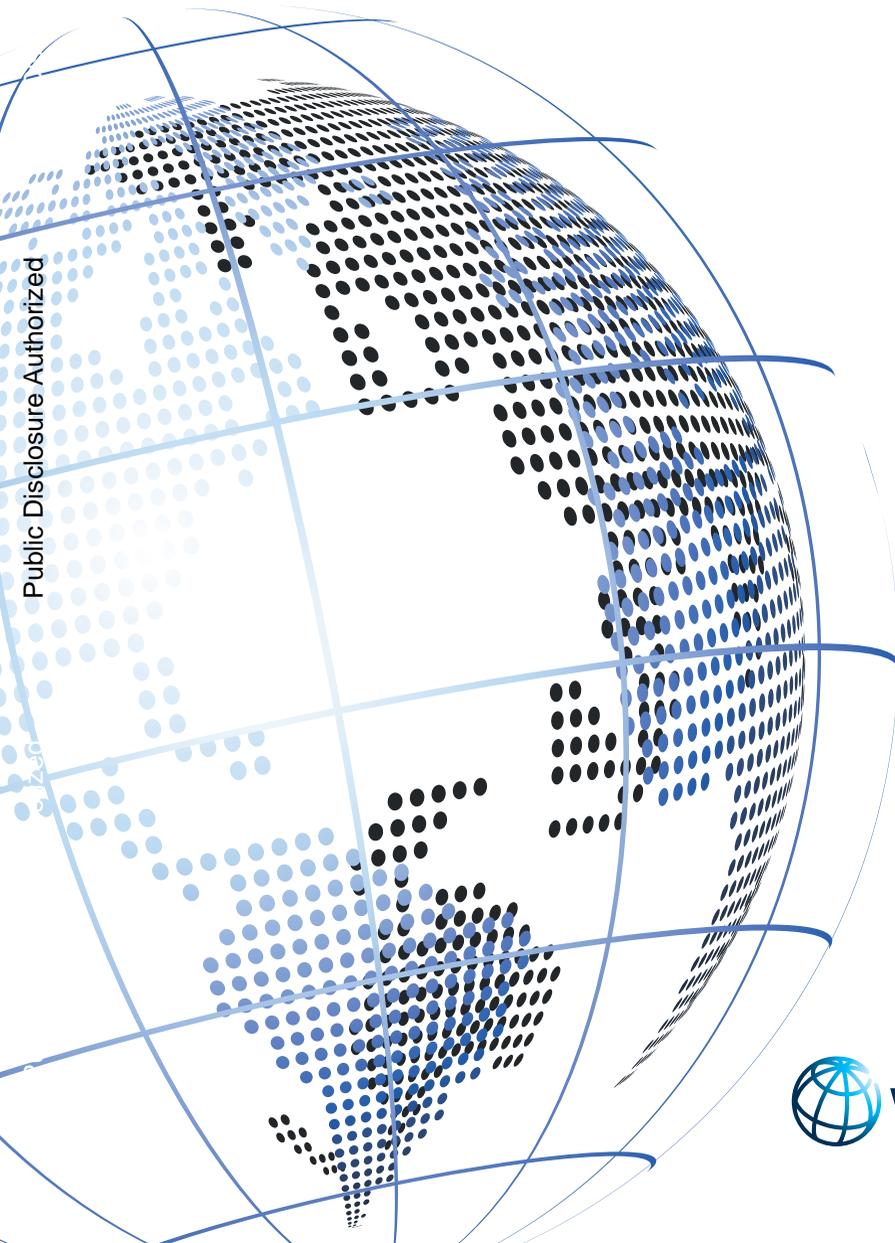


E-TRADE FOR DEVELOPMENT

Solutions from the World Bank Group



E-trade for Development

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1 E-trade and its Benefits¹

The Internet creates new opportunities for e-trade in at least two ways: by offering a global marketplace for ‘traditional’ goods and services from shoes to design services, and by providing an environment for the development of ‘new trade’ of digital goods such as e-books, streamlined music, digital services like database services, and online payment systems. By reducing communication and information costs, the Internet also contributes to lowering trade costs and expanding the variety of goods and services that can be traded internationally.

These multiple facets of e-trade offer the potential to boost international trade and to multiply the economic and social benefits that it entails. It does so through two main channels:

- It increases competitiveness by expanding the offer of goods and services available to domestic producers, thus increasing quality, expanding variety, and reducing costs of inputs for domestic firms. The use of digital technologies for conducting international transactions practically eliminates the distance between sellers and buyers, thus lowering trade costs and increasing export competitiveness.
- It increases exports of goods and services and promotes diversification, both in terms of size and composition of the export basket, by allowing traders to tap into new markets, expand the export basket of both traditional and digital goods and services, increase the number of exporters, and develop links with global value chains.

Most importantly, however, e-trade supports poverty reduction and promotes social inclusion—in new and existing markets, in social interaction, or in government service delivery systems. By reaching to small and medium enterprises (SMEs), microenterprises and individual sellers, it allows for excluded participants to engage in new, and offer high value added, trade. E-trade also strengthens incentives to a more inclusive society. For example, digital payment systems effectively create incentives for the formalization of businesses, including SMEs and individual traders; similarly, the highly dynamic and skilled environment of the digital transactions promotes education and development of skills, in order to participate effectively in e-trade.

1 Please refer to “E-trade for Development: Opportunities, Challenges, and Policy Considerations for Developing Countries” for an expanded analysis of e-trade, its benefits, challenges, and the conditions that enable it.

CHALLENGES FOR LEVERAGING E-TRADE

While it can open new channels for export and increase competitiveness, few countries systemically address e-trade as a matter of trade policy. A flourishing environment for e-trade must be, for starters, a conducive environment for the digital economy more broadly, where businesses and consumers can leverage digital technologies for improved competitiveness and increased welfare. The foundations of the digital economy rest on a modern telecommunications infrastructure, a favorable environment for domestic and foreign investments, and an educated population who can engage and

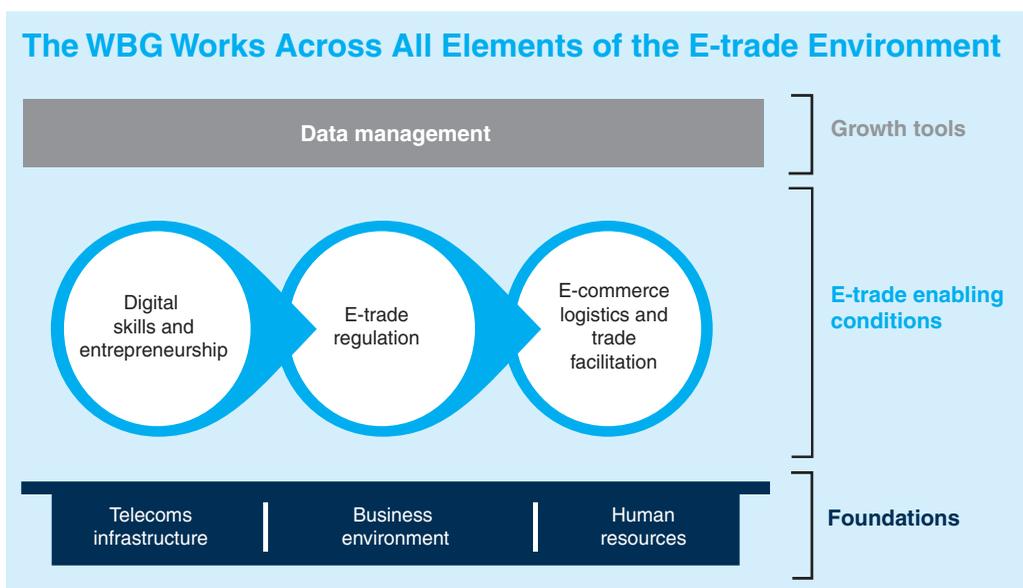
contribute to the information society. E-trade, as a specific component of the digital economy, requires specific enabling conditions that build on those foundations. Businesses require specific digital skills and entrepreneurship to engage in e-trade, as well as a sound regulatory framework that addresses challenges like digital documentation signature and data flows, and efficient trade facilitation and logistics suited to e-commerce deliveries. Finally, reaping the full benefits of e-trade requires the capacity to embrace data as a tool for growth.

2 WBG Offering on E-trade

The World Bank Group provides a wide range of support to help countries improve the environment for e-trade, and maximize the positive impact on growth, job creation and poverty reduction. This support is coordinated by the Trade and Competitiveness Global Practice and involves a number of different areas of the World Bank Group.

Support is provided across all aspects of the e-trade environment (see chart below), including:

- Financing for infrastructure and telecommunications sector reform to improve basic connectivity;
- Improving the fundamental business environment to ensure it is conducive for investment related to e-trade;
- Supporting digital incubators, accelerators, and early-stage funding programs to foster e-trade entrepreneurship;
- Streamlining trade facilitation and addressing logistics bottlenecks to lower e-trade costs;
- Supporting policy and regulatory reforms to enable e-trade growth.



This note focuses on providing information on support available to address the enabling conditions for e-trade. Without the right enabling environment, countries cannot realize the full potential benefits of e-trade for economic growth and development, undercutting the impact of significant infrastructure investments to improve ICT connectivity.

IMPROVING THE ENABLING CONDITIONS FOR E-TRADE

E-trade, in its dual role of promoting export diversification and reducing trade costs, can be a valuable tool for reducing poverty and fostering inclusive growth through trade and competitiveness improvements.

Basic connectivity is a requirement for participation in e-trade. This has been the focus of significant initiatives by many developing countries, often with support from the WBG and other partners. For example, the World Bank has worked on a range of projects to build the backbone fibre-optic cable infrastructure needed for lower-cost Internet in Africa. For example, a US\$424 million World Bank program supported improvements in the enabling environment and regional integration of telecommunications terrestrial networks through financing of public-private partnerships and broadband capacity purchases. The WBG has also invested directly through its private sector arm to support connectivity improvements: for example, through a US\$240 million IFC investment in the EASSy submarine cable connecting the east coast of Africa (from South Africa to Sudan) to Asia and Europe. These projects contributed to a 90 percent reduction

in wholesale capacity prices in East Africa. In Kenya, this helped in increasing the number of Internet users to 14 million in 2012 from 2 million in 2007. In the Pacific, to take another example, a regional program is helping develop fiber-optic cable links between Pacific island countries. One element of this is a new 827 km fiber-optic cable system linking Tonga to the main trans-Pacific link between Australia and the United States, which became operational in August 2013. Following the completion of the fiber-optic link, Tongans are seeing more ICT applications and services, and Internet access is growing more affordable: the household price for a month of Internet service, per gigabyte, has fallen by 60 percent. The country has opened its first call-center and many Tongan businesses, health centers, and schools are enjoying cheaper, faster connections.

These infrastructure improvements are essential for providing basic connectivity. However, without addressing the enabling conditions for e-trade, improvement to the connectivity foundations alone will not lead to significant growth in e-trade.

CLIENT-SPECIFIC SUPPORT

The World Bank Group offers developing countries practical support oriented to increasing their engagement on e-trade, and maximizing the positive impacts of e-trade. Focused in the Trade and Competitiveness Global Practice, and drawing on the expertise of a wide range of teams, the World Bank Group focuses its support on four key pillars of the e-trade enabling environment.

- First, the WBG provides diagnostics of the performance of a particular economy on e-trade, assessing the main limitations hampering the e-trade environment.
- Second, the WBG supports clients in reforming the regulatory environment for e-trade, covering issues like e-signatures and electronic documentation; privacy and consumer protection; cross-border data flows; and electronic payments. This involves conducting an assessment of the regulatory environment on e-trade based on international best practices, focusing both on the enabling regulation on e-trade as well as regulatory barriers. The

WBG also provides support for the implementation of reforms to address the barriers identified and improve the enabling environment for e-trade.

- Third, the WBG builds on its long experience on trade facilitation and logistics to support the adoption of customs procedures and logistics conditions for e-trade. This includes targeting aspects of the border management regime that most affect e-trade, especially small firms and entrepreneurs, including transparency and *de minimis* regimes. It also includes working on “last-mile” logistics and internal connectivity to trade, to ensure that high domestic logistics costs do not undercut the impact of reforms to lower trade costs at the border.
- Fourth, the WBG provides support to foster digital entrepreneurship, based on experience and lessons learned working around the world in a wide variety of industries, and is tailored to the unique circumstances of our clients.

Support for Improving the E-trade Enabling Environment

	E-trade Environment Diagnostics and Strategy	Policy and Regulatory Reform	Trade Facilitation and Logistics	Digital Entrepreneurship
Objectives	<ul style="list-style-type: none"> Understand e-trade performance Identify key constraints in e-trade environment Insert e-trade in broader trade strategy 	<ul style="list-style-type: none"> Strengthen policy and regulatory framework to enable e-trade Support evidence-based policymaking by governments 	<ul style="list-style-type: none"> Reduce trade costs for e-commerce goods Streamline border procedures Upgrade logistics environment for e-commerce 	<ul style="list-style-type: none"> Expand private sector capacity for e-trade Improve small and micro-enterprise participation in e-trade
Key Issues	<ul style="list-style-type: none"> E-trade flows of goods and services; data flows Platforms and partners involved in e-trade Key constraints in the e-trade environment 	<ul style="list-style-type: none"> Enabling regulation: e.g., e-signatures, consumer protection, privacy & data protection Regulatory barriers: e.g., restrictions on data flows; localization requirements 	<ul style="list-style-type: none"> Customs and other border agency regulations for small shipments (e.g., <i>de minimis</i> threshold) Domestic logistics along e-commerce supply chain, including last-mile delivery 	<ul style="list-style-type: none"> Access to early-stage funding Digital literacy and entrepreneurship
WBG Approach	<ul style="list-style-type: none"> Indicator-based review of e-trade environment drivers Data analysis of e-trade flows Development of e-trade strategy and private sector engagement 	<ul style="list-style-type: none"> Review of laws and regulations on e-trade Gap assessment with global best practice Private sector consultations Technical support to implement reforms 	<ul style="list-style-type: none"> Field assessments of border and logistics constraints, gap assessment with WTO-TFA provisions Support to implement streamlined procedures and improve logistics environment 	<ul style="list-style-type: none"> Ecosystem support: incubation, acceleration, mentorship and early funding Ecosystem assessments

Diagnosing e-trade constraints

Despite being the fastest growing of international commerce in the last decade, e-trade remains not fully understood and, more importantly, seldom integrated with broader trade and growth strategies. Beyond its novelty,

one reason for this is the dispersion of statistics capturing e-trade flows, especially in the developing world. This limited access to e-trade data further hampers the ability of policy makers to comprehend the links and potential of e-trade as a tool of economic growth,

leading to policies that miss out on the international trade opportunities supported by the digital economy.

The WBG T&C GP builds on trade and analytical expertise to support countries to conduct a data-based, comprehensive diagnostic of its e-trade environment. The diagnostic supports policy making by assessing an economy's performance of e-trade of goods and services, and how it links to the different sectors of its economy, promoting e-trade as a key component of broader trade-based growth strategies. In particular, the e-trade environment diagnostic seeks to understand an economy's performance on e-trade, identify the key limitations affecting it, and support e-trade as a key component of trade strategies.

The main issues addressed by the e-trade diagnostic include the e-trade and data flows, including, depending on data availability types, economic sectors involved, and relevant partners. In order to capture these different elements, the assessment taps into multiple databases, both public and private, of both trade flows as well as data flows, from domestic and international sources. The joint analysis of different types of data bring about a clearer picture of e-trade that each source of (partial) information fails to deliver. Relevant data may include:

- Public trade data reviewed include balance of payments and customs data at the lowest level possible to more accurately reflect e-trade transactions.
- Private data related to data flows and, where possible, international

digital transactions through online platforms.

These data are assessed together with key indicators that represent the broader conditions of the e-trade environment, including aspects such as

- telecom infrastructure and use of IT by individuals and businesses;
- business climate, regulatory openness governance;
- literacy and digital skills; and
- logistics for e-commerce

in order to identify the main obstacles that hamper the development of e-trade.

Reforming the regulatory environment for e-trade

The legal and regulatory environment can be an enabler or a barrier to e-trade. A weak regulatory framework can create barriers to e-trade. An effective regulatory framework for e-trade must strike a balance of introducing rules that enable and promote digital commerce, while avoiding overburdening and creating unwarranted restrictions to e-trade.

With regard to e-trade, the WBG brings expertise to assess and tackle reform on laws and regulations pertaining to e-trade of goods and services, as well as horizontal disciplines that affect all sectors of the economy. Building on experiences from different regulators across the globe, the WBG can help assess regulatory options and provide advice on regulatory reform on data flows. Furthermore, by cooperating with

global stakeholders on electronic payments, the WBG can ensure that regulatory reform brings effective benefits to the domestic e-trade environment.

A stronger regulatory framework for e-trade involves promoting enabling regulation while limiting restrictions to e-trade. An enabling regulatory framework is essential to e-trade in order to promote consumer trust in digital markets. Such regulation includes, for instance,

- laws and regulations on electronic documents and e-signature;
- regulations affecting electronic payments;
- consumer protection measures such as the restriction on spam, right of withdrawal (e.g., procedures for returning products of e-commerce), and online dispute resolution;
- rules on intermediary liability, addressing the legal responsibility of digital platforms for the goods and services traded by their users;
- privacy and data protection, ensuring that reasonable safeguards exist for the use of personal information, including consent on the use by third parties, and the “right to be forgotten.”

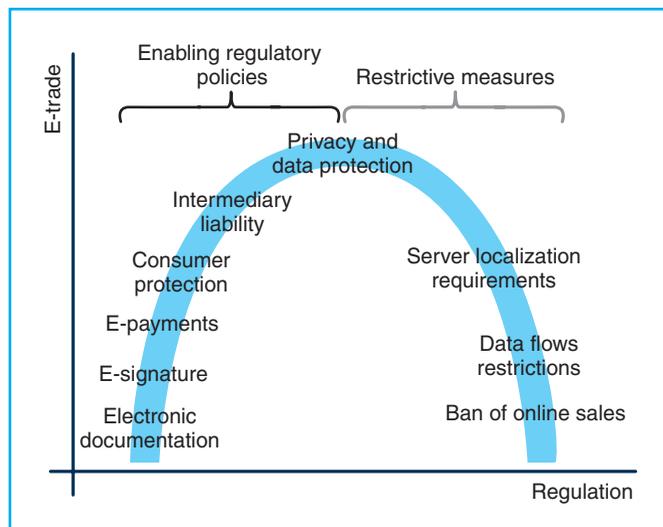
Although governments can have legitimate motives for introducing regulation in these areas,

if designed and implemented in certain ways they can introduce excessive burdens or unwarranted restrictions to e-trade. Server localization requirements and limitations on data flows are among the most common regulatory restrictions to e-trade.

Strengthening the regulatory environment must be based on a solid understanding of the existing environment, based on rigorous analysis and engagement with both public and private sectors. This involves going beyond an identification of what regulations exist on paper, to understanding how they are applied in force.

Analytical work to assess the e-trade regulatory environment focuses on laws and regulations specific to the e-trade environment. This includes an evaluation of policies in light of standards developed in international or regional bodies, including:

- APEC Privacy Framework of 2005, OECD Guidelines on Protection of Privacy, as well as lessons from the implementation of EU Data Protection Directive;



- OECD Consumer Protection Recommendation of OECD Guidelines for Consumer Protection in the Context of Electronic Commerce;
- UNCITRAL model laws for electronic signature and documents that seek to reduce regulatory divergence for e-traders.

The WBG's regulation assessment focuses on a review of actual laws and regulations, complemented with consultation with government officials and practitioners in order to identify the factual conditions of application of such measures, and an evaluation of those regulations and practices in light of international standards. Where regulatory restrictions are found, such as data flows limitations or server localization requirements, the analysis proposes regulatory alternatives that achieve the same legitimate policy objective, such as consumer protection or national security, without obstructing e-trade.

Support to implement regulatory reform and effectively implement policies is also provided. The WBG has ample experience in operational support to client countries for improving relevant trade-related policies and regulations. In Bangladesh, efforts to support exports of IT-enabled services include a comprehensive assessment of the legal and regulatory framework, including aspects such as data flows. In Albania and Kenya, the WBG assisted with the development of e-payment systems to facilitate import/export payment transactions. In order to support the enhancement of Single Window Systems, WBG teams assisted in the implementation of new regulations on electronic transactions in Ethiopia, Colombia, Kenya, and Sao Tome.

Streamlining e-commerce facilitation and logistics

Streamlining trade facilitation and upgrading the logistics environment is essential in boosting developing country participation in e-trade. In developing countries, the costs of trade are significant, given poor transport infrastructure, weak trade facilitation, and limited logistics capacity (shippers, logistics, warehousing, etc.). These costs are especially high for small businesses shipping small parcels, the hallmark of B2C online trade. Given their limited shipments, SMEs have higher fixed costs per parcel (or "per unit") in shipping their products than do large exporters shipping large volumes (Suominen 2014).

The World Bank Group supports developing countries in providing robust analysis on the trade facilitation and logistics costs most relevant for e-commerce and implementing reforms that facilitate e-commerce. Analysis tackles regulation and procedures at the border, such as *de minimis* thresholds, expedited release of those goods entered through air cargo facilities, advanced declaration mechanisms, simplified regimes, and facilitation of e-payment and enabling legal validity of electronic transactions, as well as the broader conditions for risk assessment by customs. In this analysis, relevant customs procedures and regulations are also assessed in light of the World Trade Organization (WTO) Trade Facilitation Agreement, which features a set of measures relevant to e-trade. Finally, the analysis also considers the conditions of logistics for e-commerce behind the border, in particular by assessing the ability of transport service providers,

including express delivery services, to reach individual consumers.

Support is also provided to implement the findings of this analysis. For example, the WBG is currently designing a technical assistance program for countries in Central America in order to enhance regulatory, procedural, border management, and technological challenges around general and express air cargo, involving not only customs and other control agencies, but also state-owned enterprises in charge of operating airport cargo and express terminals. In the past, the WBG has helped client countries enhance their risk management systems, in collaboration with multinational express companies that provide their own risk engines for governments to implement.

The WBG assistance to developing countries supports implementing the different ICT systems (customs automation, automation at other border control agencies, enabling e-payment, single window systems, procuring ICT equipment, cargo tracking systems, among others) and providing for interconnectivity (at borders and between agencies); supporting the back-end streamlining that is often required prior to automation; maximizing the WBG's use of convening power to bring stakeholders to the table; providing a more effective governance mechanism for enabling, implementing, and monitoring automation; and providing support and ensuring adequate attention is placed on the legal issues discussed earlier which can often hinder progress.

WBG teams have also produced a large amount of knowledge on best practices, case studies, toolkits, and

other material on trade facilitation and logistics. Toolkits for trade information portals have been developed and deployed in various countries (Laos, Lesotho, Botswana, among others) and single window development guides have been used for implementations across the world. Single window implementations, in particular, are quite complex as they require not only refining business processes and reviewing the legal environment but also the development of functional and technical architecture for systems, risk management, and governance.

Entrepreneurship support

The Trade and Competitiveness Global Practice's Digital Entrepreneurship Program provides diagnostic support on the entrepreneurship environment through a Digital Entrepreneurship Diagnostic Toolkit, as well as supporting reforms and practical initiatives like digital incubators, accelerators, and early-stage funding programs. The support builds on experience and lessons learned working around the world in a wide variety of industries, and it is tailored to the unique circumstances of our clients. Assistance can be provided at the level of national governments as well as subnationally, for example to city governments.

The Digital Entrepreneurship Program assists clients in assessing the entrepreneurship environment, through a Digital Entrepreneurship Diagnostic Toolkit. The toolkit combines quantitative indicators with qualitative protocols across six entrepreneurship domains (markets, policy, human capital, finance, culture, and infrastructure) to identify opportunity areas. This diagnostic tool can be tailored to focus

specifically on trade-related barriers faced by entrepreneurs in the digital economy, and can be used to provide policy and project guidance on removing such barriers or otherwise easing digital trade for start-ups.

The WBG also provides support for practical initiatives intended to boost entrepreneurship in the digital economy, like incubators, accelerators, and

early-stage funding programs. For example, the Digital Entrepreneurship Program supports the growth of competitive mobile applications industries in emerging and frontier markets. The program is scaling Mobile Application Labs (mLabs)—incubation facilities and innovation hubs for digital entrepreneurs—in Kenya, South Africa, and Senegal.

3

Global Engagements

Complementing and informing our support to developing countries on e-trade, the World Bank also plays an important role as a source of global knowledge as an advocate for trade and as an engine of inclusive growth.

KNOWLEDGE GENERATION

One important area where the WBG has a strong leadership role is that of metrics-based assessments. On e-commerce, the Trade and Competitiveness Global Practice has developed methodologies, such as the Digital Entrepreneurship Toolkit, to assesses the conditions for digital business to flourish, based on a set of quantitative indicators that capture key elements of the digital ecosystem. These methodologies complement the indicators with a methodology for collecting qualitative information and identifying the main challenges to digital business, and designing appropriate country-specific operations.

In addition, the World Bank Group is developing quantitative indicators meant to assess the performance and to identify the challenges of the different types of e-trade, with a view to supporting country-specific analytical work and policy advice.

The WBG has also organized a number of research conferences to deepen understanding of the analytical aspects of e-trade, and what methods exist to provide better policy advice and implementation support to developing countries.

ADVOCACY AND THOUGHT LEADERSHIP

T&C engages with international partners to advance research and knowledge on e-trade and to promote the benefits of e-trade across the globe, in particular to developing countries and least developed countries. The World Bank Group is currently partnering with multiple international agencies, donors, and stakeholders interested in e-trade.

The World Bank Group has been actively engaged in discussions at the multilateral level on e-trade, helping contribute evidence and ideas as an increasing number of WTO Members express interest in more intensive work on e-trade in the WTO. WTO Members are drawing their attention to the role of the multilateral framework on e-trade

rules and promotion. As a key international organization in the G20 Trade and Investment Working Group, the WBG is also well positioned to contribute to discussion in the G20 on e-trade, which was featured in 2016 during China's Presidency and is expected to intensify in 2017 under the German Presidency.

To take another example, the WBG is collaborating with UNCTAD and other international partners in establishing "E-trade for All," a demand-driven mechanism for leading development partners, together with the private sector, into bringing a comprehensive set of tools for developing countries to engage further on e-trade. This initiative will try to achieve common goals for e-trade in developing countries, make actions by international partners more coherent, and pool expertise and resources from the different international actors in these fields. The World Bank Group, as one of the main institutions active in this area, has a central role to play in this initiative.

Finally, the WBG is also working closely with multiple private entities, leading the global thinking on e-trade. These include key stakeholders like PayPal, eBay and McKinsey Global Institute, academic institutions like the George Washington University, and think tanks like the Brookings Institution. In collaboration with these and other partners, T&C has organized multiple conferences on e-trade in Washington D.C. and Geneva, bringing together policy makers, international organizations, and the private sector.

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