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Recommendations and standards:

Support to capacity building and technical cooperation

Regional Report on Post-Pandemic COVID-19 Economic Recovery: E-Commerce and Trade Facilitation

Summary

The Regional Report on “Post-Pandemic COVID-19 Economic Recovery: E-Commerce and Trade Facilitation” is one of a series of studies coordinated by UNCTAD and undertaken in cooperation with the United Nations Regional Commissions. The activity is part of the project “Post Pandemic COVID-19 Economic Recovery: Enabling Developing Countries to Better Harness E-commerce” undertaken within the UNCTAD-led *e-Trade for all* initiative.

The report identifies key challenges faced by the countries in the UNECE region, with a particular focus on countries with economies in transition. The report juxtaposes these key challenges with a birds-eye impression of how some countries in the UNECE region have responded to the challenges since the onset of the COVID-19 pandemic. It also highlights the role of trade facilitation in enhancing e-commerce, and suggests policies and initiatives that could support countries to engage in and benefit from e-commerce.

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1. The pandemic and the associated restrictions caused disruptions to global trade, supply chains and labor markets, curbed consumption and investments and slowed economic activity worldwide. Countries with economies in transition of the United Nations Economic Commission for Europe (UNECE) region, in focus here, were hit hard by the economic downturn caused by the COVID-19 pandemic.

2. This paper aims to explore the impact of the pandemic on domestic and cross border e-commerce in economies in transition in the UNECE region. The paper identifies policies and initiatives that could support these economies to enhance their readiness to engage in and benefit from e-commerce as a contributor to the post-COVID-19 recovery. It is part of a wider effort part of the UNCTAD-led *e-Trade for all* initiative coordinated with some of the United Nations Regional Commissions (UNRC), to engage in a range of studies on “Post Pandemic COVID-19 Economic Recovery: Enabling Developing Countries to Better Harness E-commerce”.

3. Driven by constraints imposed by social distancing measures and restrictions on movement, businesses and consumers in the region, mirroring global trends, rapidly moved to digital channels adapting to new business models and adopting new consumption habits.

- **Adoption rates:** 36.6% of firms in Georgia, 39.5% in the Republic of Moldova, 24.3% in the Republic of North Macedonia and 18.1% in Albania started or increased online business activity in response to the pandemic.
- **E-commerce momentum:** E-commerce in Central Asia and the Caucasus remains modest but is gaining momentum. Kazakhstan is the largest B2C e-commerce market in Central Asia and the Caucasus region followed by Azerbaijan and Georgia.
- **International and local actors:** The e-commerce market in Central Asia is dominated by international players but local platforms emerged in the past few years and are gaining ground.

5. The accelerated shift to digital platforms in response to the pandemic led to an increase in online retail, but also unmasked challenges to harnessing the benefits of e-commerce. Many of these challenges existed before the pandemic; moderate levels of internet connectivity - although evolving - and a considerable digital divide among countries in the region coupled with moderate levels of financial inclusion and weak digital financial services.

6. Lockdowns, travel restrictions and quarantine requirements, especially in the early part of the COVID-19 pandemic, led to a fall in cargo and passenger traffic. These measures further impacted the availability, speed and cost of deliveries transported by road across the region, specifically, in Central Asia and the Caucasus.

7. The importance of facilitating trade through automation and digitalization of trade and border-related processes became more pronounced during the COVID-19 pandemic with social distancing requirements and restrictions on movement. Transition economies had mixed success in implementing trade facilitation measures. Measuring the implementation of trade facilitation measures contained in the World Trade Organization (WTO) Trade Facilitation Agreement provide a useful a guide here.

- **Pre-arrival processing and expedited shipments:** Central Asia and some Eastern European States have low levels of implementation of pre-arrival processing and expedited shipments which are crucial for faster clearance of parcel shipments and small packages traded through e-commerce.
- **Automated custom systems and electronic payments:** Automated custom systems are among the most implemented paperless trade-related measures in the region while electronic payments are among the least implemented especially in Eastern and South-Eastern Europe.
- **Electronic single window:** The implementation of the electronic single window - a digital gateway for single submission of regulatory and commercial documents - has been moderate to low in South-Eastern Europe.

8. More comprehensively, harnessing the benefits of e-commerce for transition economies in the UNECE region would require: the adoption and implementation of trade facilitation measures including those related to paperless trade, pre-arrival processing, expedited shipments, electronic payments and others. Addressing challenges related to connectivity, financial inclusion and digital financial services, in turn, would contribute to advancing the adoption and implementation of these measures.

9. Governments worldwide and in the region had to react to the need to accelerate digitalization and enable the shift to a digital economy. This shift started decades ago with varying levels of success, but the need for its completion became pressing during the pandemic. The need for addressing the challenges obstructing its completion became a priority.

10. The paper offers an overview of some of the key challenges and juxtaposes these with a birds-eye impression of how some countries in the UNECE region have responded to the challenges since the onset of the COVID-19 pandemic. These challenges include:

- **Information and Communication Technology (ICT) Infrastructure and Services - ICT infrastructure and services**, the backbone of e-commerce, are relatively weak in the UNECE's transition economies.
 - A digital divide runs through the transition economies of the UNECE region, especially in Central Asia and Caucasus. A lack of reforms in the telecoms and other sectors concerned, barriers to entry, State-owned Enterprises (SoE) and inadequate regulation, and the need to improve access and affordability and security all play a role across the region.
 - In response to the pandemic, governments in the region intensified efforts towards eGovernment, moving public services online in areas such as tax and customs. Armenia offered a range of e-government services including filing of tax reports while Uzbekistan implemented a normative legal act for the development and improvement of the country's telecommunications infrastructure and electronic public services provision. In Tajikistan, the Decree of the President No. 1544 "On preventing the impact of the COVID-19 infectious disease on the social and economic spheres of the Republic of Tajikistan" is an important step towards creating an e-government platform and the development of electronic payments.
- **Trade Facilitation and Logistics** - Disruptions to trade, logistics supply chains and transport networks posed challenges to trade and e-commerce. Large volumes of parcel shipments and small packages overburdened customs and other border agencies causing delays and increasing the cost of trade.
 - Governments in the region took several measures to reduce the negative impact of disruptions to transport amidst the pandemic including, for example, exempting cargo drivers and transport service personnel as well as the aircraft/ships/train crews, from quarantine if they do not present any clinical signs of respiratory infection (the Republic of Moldova), and prioritizing the joining of the electronic TIR customs guarantee agreement (Uzbekistan).
 - Governments across the region also took measures to facilitate trade. The Government of Azerbaijan undertook several initiatives to introduce and enhance the use of paperless trade including automation and digitalization of trade-related documents. Georgia continued to issue trade documents online through the national paperless trading system and streamlined the electronic payment of customs and taxes through the introduction of simplified procedure for tax refund. Kazakhstan's single window was further developed to respond to the pandemic with automation of a number of customs and logistics services. Uzbekistan fast tracked the implementation of the Single Window customs information system. The Kyrgyz Republic adopted emergency trade facilitation measures including establishment of green corridors, provision of digital services including electronic certificates of origin, intensified the use of the electronic single window (Tulpar).

- **Legal and Regulatory Framework** - Key obstacles for e-commerce uptake are consumer concerns relating to online transactions including cyber security, data protection, security of payments, digital certificates and signatures, refunds and settlement of disputes.
 - The majority of transition economies in the UNECE region are developing the regulatory framework for a secure e-commerce environment but some still lack aspects of this framework especially consumer protection laws (e-commerce-related), cybercrime-related legislation and personal data protection legislation.
 - With the accelerated shift to online platforms amidst the pandemic, governments addressed consumer protection concerns through cyberlaws and consumer grievance redressal. In March/April 2020, the Republic of Moldova, for example, adopted measures with respect to public digital signatures. Turkmenistan adopted a law on e-documents including document flows and electronic services. Azerbaijan set up services for the verification of authenticity of digitally-signed documents, one of the earliest of its kind in their subregion. In Kazakhstan, as part of the Law on Consumer Protection, the government plans to launch a unified platform for receiving complaints from consumers based on the single window principle.
 - While several transition economies had or planned to put in place e-commerce policies and strategies, the COVID-19 pandemic provided a further boost to fast tracking the creation or implementation of these national e-commerce policies and strategies.
- **Electronic Payment Systems** - Financial inclusion and the use of digital financial services are essential for the expansion of e-commerce. Despite moderate levels of financial inclusion in some countries in the region, increased connectivity and digitalization led to growth of e-commerce over the past years. Digital financial inclusion is also on the rise although cash remains the preferred mode of payment in most countries in the region.
 - In response to the accelerated need for digital payment systems amidst the pandemic, central banks in some countries temporarily permitted companies and banks to lower or scrap transaction costs and fees on digital payments and mobile money transfers in order to encourage the use of mobile money in preference to cash.
 - The National Bank of the Kyrgyz Republic, for example, initiated developing digital payment technology in the country for 2020-2022 while Georgia streamlined the online payment of customs and tax and introduced a simplified procedure for tax refunds.
- **Skills Development** - Despite the increase in online presence, many Micro, Small, and Medium Enterprises (MSME) in the region faced challenges in penetrating the e-commerce market and harnessing the benefits of e-commerce. These challenges ranged from the lack of the required skill set and IT savviness, weak digital financial services to challenges relating to navigating export markets.
 - Recognizing the opportunity that COVID-19 provided to bring MSMEs into the e-commerce sector, several governments and private sector stakeholders put in place measures such as online platforms for e-businesses or SME-linked financing aimed at supporting business in general including in the context of e-commerce.
- **Gender Gap** - Data indicates that women entrepreneurs and workers are disadvantaged in rank and remuneration. The gender barriers need to be transcended, including the digital divide, for women in the e-commerce sector.

11. Against the background of the trends, challenges and policy responses, the paper sets out some areas for consideration for the further development of e-commerce in the UNECE region. These considerations are:

- **Develop ICT Infrastructure and Services:** addressing the digital divide by ensuring accessible, efficient and affordable information and communications technology services, such as telecommunication, computer and other IT services and emerging technologies. A key aspect of addressing the digital divide is ensuring high speed, consistent and affordable internet connectivity, including to rural areas, by way of enhanced ICT infrastructure. As internet penetration and infrastructure for delivery and payment improves, B2C e-commerce in the Central Asian and Caucasus countries is expected to grow further.
- **Support Use of Advanced Technologies:** in light of the fast and ongoing evolution of the e-commerce market(s) in the UNECE transition economies and the fast paced technological developments, it will be useful to ensure regulation and policy is wherever possible technologically neutral to enable adaptation to emerging technologies.
- **Develop Appropriate Legal and Regulatory Frameworks:** in order to create an enabling and secure environment for e-commerce, there is a need to address consumer concerns relating to online transactions including security of payments, protection of data, privacy, cybercrimes, e-payments, dispute settlement and elements relating to e-transactions such as digital certificates and signatures, refunds, etc. These issues have to be incorporated in law and implemented in practice. Much remains to be done in the region although UNECE transition economies are pressing ahead with significant successes already to show for.
 - In this context the compatibility of cross-border legislation and standards as well as harmonization on a regional or global level is important for the dynamic development of regional e-commerce in particular.
- **Develop Digital Financial Inclusion and Electronic Payment:** one factor that can contribute to better digital financial inclusion is building consumer confidence by addressing concerns to consumer trust which hold back the uptake of online payment. This can be advanced through the consequent enactment and enforcement of legislation/regulation relating to e-commerce relevant data protection and privacy issues, cybercrime, data localization, e-transactions, dispute settlement, consumer redressal.
 - In addition, in UNECE countries where there is a high cash dependence, enhancement of digital payments including through digital and financial literacy would result in multiple modes of payment beyond cash, benefitting the larger financial system. Finally, encouraging greater and secure competition in the online payment system, including by developing local payment applications where there is none would create more choice and potentially reduce costs.
- **Improve Trade Facilitation and Logistics:** some of the challenges that the COVID-19 pandemic has brought to the forefront can be resolved through the continued implementation of the WTO Trade Facilitation Agreement, and where appropriate even pursuing advanced digital solutions that are not part of the Agreement. This would involve, first, identification and prioritization of ‘low-hanging fruits’ in digital service provisions while at the same time working towards longer-term policy objectives (e.g. exchange of electronic certificate of origin or SPS certificates etc.).
 - International standards are a key enabler for exchanging trade-related information between parties. The UN/CEFACT electronic-business standards can support countries in enhancing readiness for e-commerce and, consequently, to sustainable post COVID-19 recovery. UN/CEFACT supports countries by developing available, harmonized, and inter-operable e-business standards to help facilitate cross-border data exchange. The World Customs Organization’s (WCO) SAFE framework of standards is another example in this context.
- **Increase Access to E-commerce for MSMEs & Address Gender Gaps:** awareness raising, assisting MSMEs to build up their online presence and developing their skill

set are important steps while enhancing access to finance and develop the enabling environment. By way of incentives, encouraging MSMEs to go digital MSMEs and addressing the gender gap are another step in the right direction.

- ***Address and Measure E-commerce:*** enhanced understanding of e-commerce and the ecosystem that nurtures e-commerce including the linter-linkages with trade facilitation and the larger trade in services ecosystem is essential for policy makers. This understanding could help to devise appropriate policies to enhance e-commerce and harness its benefits and lead to developing suitable to measuring e-commerce. In this context the work of international organizations in their different spheres on e-commerce, trade in services, trade facilitation and electronic business standards provides a great starting point that needs to be brought together.
- ***Strengthen Regulatory Cooperation and Coordination:*** without international cooperation at global, regional or sub-regional levels, it is literally impossible to address the digital divide. Other areas which could benefit from international collaboration are addressing differing standards and evolving systems (US, Europe, China) within the e-commerce sphere, as well as areas of cybersecurity, consumer confidence, market access and ICT infrastructure.
 - The ongoing e-commerce discussions at the WTO could benefit from cross fertilization and input at the national and regional levels while ongoing e-commerce-related initiatives, model legislations, standards and best practices could be leveraged by national governments to enhance and improve their e-commerce landscape.
